

## INNOVATION ACT

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DECEMBER 2, 2013.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

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Mr. GOODLATTE, from the Committee on the Judiciary,  
submitted the following

## R E P O R T

together with

## DISSENTING VIEWS AND ADDITIONAL VIEWS

[To accompany H.R. 3309]

[Including cost estimate of the Congressional Budget Office]

The Committee on the Judiciary, to whom was referred the bill (H.R. 3309) to amend title 35, United States Code, and the Leahy-Smith America Invents Act to make improvements and technical corrections, and for other purposes, having considered the same, reports favorably thereon with an amendment and recommends that the bill as amended do pass.

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## The Amendment

The amendment is as follows:

Strike all after the enacting clause and insert the following:

### SECTION 1. SHORT TITLE; TABLE OF CONTENTS.

(a) SHORT TITLE.—This Act may be cited as the “Innovation Act”.

(b) TABLE OF CONTENTS.—The table of contents for this Act is as follows:

- Sec. 1. Short title; table of contents.
- Sec. 2. Definitions.
- Sec. 3. Patent infringement actions.
- Sec. 4. Transparency of patent ownership.
- Sec. 5. Customer-suit exception.
- Sec. 6. Procedures and practices to implement and recommendations to the Judicial Conference.
- Sec. 7. Small business education, outreach, and information access.
- Sec. 8. Studies on patent transactions, quality, and examination.
- Sec. 9. Improvements and technical corrections to the Leahy-Smith America Invents Act.
- Sec. 10. Effective date.

### SEC. 2. DEFINITIONS.

In this Act:

(1) DIRECTOR.—The term “Director” means the Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office.

(2) OFFICE.—The term “Office” means the United States Patent and Trademark Office.

### SEC. 3. PATENT INFRINGEMENT ACTIONS.

(a) PLEADING REQUIREMENTS.—

(1) AMENDMENT.—Chapter 29 of title 35, United States Code, is amended by inserting after section 281 the following:

#### “§ 281A. Pleading requirements for patent infringement actions

“(a) PLEADING REQUIREMENTS.—Except as provided in subsection (b), in a civil action in which a party asserts a claim for relief arising under any Act of Congress relating to patents, a party alleging infringement shall include in the initial complaint, counterclaim, or cross-claim for patent infringement, unless the information is not reasonably accessible to such party, the following:

“(1) An identification of each patent allegedly infringed.

“(2) An identification of each claim of each patent identified under paragraph

(1) that is allegedly infringed.

“(3) For each claim identified under paragraph (2), an identification of each accused process, machine, manufacture, or composition of matter (referred to in this section as an ‘accused instrumentality’) alleged to infringe the claim.

“(4) For each accused instrumentality identified under paragraph (3), an identification with particularity, if known, of—

“(A) the name or model number of each accused instrumentality; or

“(B) if there is no name or model number, a description of each accused instrumentality.

“(5) For each accused instrumentality identified under paragraph (3), a clear and concise statement of—

“(A) where each element of each claim identified under paragraph (2) is found within the accused instrumentality; and

“(B) with detailed specificity, how each limitation of each claim identified under paragraph (2) is met by the accused instrumentality.

“(6) For each claim of indirect infringement, a description of the acts of the alleged indirect infringer that contribute to or are inducing the direct infringement.

“(7) A description of the authority of the party alleging infringement to assert each patent identified under paragraph (1) and of the grounds for the court’s jurisdiction.

“(8) A clear and concise description of the principal business, if any, of the party alleging infringement.

“(9) A list of each complaint filed, of which the party alleging infringement has knowledge, that asserts or asserted any of the patents identified under paragraph (1).

“(10) For each patent identified under paragraph (1), whether a standard-setting body has specifically declared such patent to be essential, potentially essential, or having potential to become essential to that standard-setting body, and whether the United States Government or a foreign government has imposed specific licensing requirements with respect to such patent.

“(b) INFORMATION NOT READILY ACCESSIBLE.—If information required to be disclosed under subsection (a) is not readily accessible to a party, that information may instead be generally described, along with an explanation of why such undisclosed information was not readily accessible, and of any efforts made by such party to access such information.

“(c) CONFIDENTIAL INFORMATION.—A party required to disclose information described under subsection (a) may file, under seal, information believed to be confidential, with a motion setting forth good cause for such sealing. If such motion is denied by the court, the party may seek to file an amended complaint.

“(d) EXEMPTION.—A civil action that includes a claim for relief arising under section 271(e)(2) shall not be subject to the requirements of subsection (a).”.

(2) CONFORMING AMENDMENT.—The table of sections for chapter 29 of title 35, United States Code, is amended by inserting after the item relating to section 281 the following new item:

“281A. Pleading requirements for patent infringement actions.”.

(b) FEES AND OTHER EXPENSES.—

(1) AMENDMENT.—Section 285 of title 35, United States Code, is amended to read as follows:

**“§ 285. Fees and other expenses**

“(a) AWARD.—The court shall award, to a prevailing party, reasonable fees and other expenses incurred by that party in connection with a civil action in which any party asserts a claim for relief arising under any Act of Congress relating to patents, unless the court finds that the position and conduct of the nonprevailing party or parties were reasonably justified in law and fact or that special circumstances (such as severe economic hardship to a named inventor) make an award unjust.

“(b) CERTIFICATION AND RECOVERY.—Upon motion of any party to the action, the court shall require another party to the action to certify whether or not the other party will be able to pay an award of fees and other expenses if such an award is made under subsection (a). If a nonprevailing party is unable to pay an award that is made against it under subsection (a), the court may make a party that has been joined under section 299(d) with respect to such party liable for the unsatisfied portion of the award.

“(c) COVENANT NOT TO SUE.—A party to a civil action that asserts a claim for relief arising under any Act of Congress relating to patents against another party, and that subsequently unilaterally extends to such other party a covenant not to sue for infringement with respect to the patent or patents at issue, shall be deemed to be a nonprevailing party (and the other party the prevailing party) for purposes of this section, unless the party asserting such claim would have been entitled, at the time that such covenant was extended, to voluntarily dismiss the action or claim without a court order under Rule 41 of the Federal Rules of Civil Procedure.”.

(2) CONFORMING AMENDMENT AND AMENDMENT.—

(A) CONFORMING AMENDMENT.—The item relating to section 285 of the table of sections for chapter 29 of title 35, United States Code, is amended to read as follows:

“285. Fees and other expenses.”.

(B) AMENDMENT.—Section 273 of title 35, United States Code, is amended by striking subsections (f) and (g).

(3) EFFECTIVE DATE.—The amendments made by this subsection shall take effect on the date of the enactment of this Act and shall apply to any action for which a complaint is filed on or after the first day of the 6-month period ending on that effective date.

(c) JOINDER OF INTERESTED PARTIES.—Section 299 of title 35, United States Code, is amended by adding at the end the following new subsection:

“(d) JOINDER OF INTERESTED PARTIES.—

“(1) JOINDER.—In a civil action arising under any Act of Congress relating to patents in which fees and other expenses have been awarded under section 285 to a prevailing party defending against an allegation of infringement of a patent claim, and in which the nonprevailing party alleging infringement is unable to pay the award of fees and other expenses, the court shall grant a motion by the prevailing party to join an interested party if such prevailing party shows that the nonprevailing party has no substantial interest in the subject matter other than asserting such patent claim in litigation.

“(2) LIMITATION ON JOINDER.—

“(A) DISCRETIONARY DENIAL OF MOTION.—The court may deny a motion to join an interested party under paragraph (1) if—

“(i) the interested party is not subject to service of process; or

“(ii) joinder under paragraph (1) would deprive the court of subject matter jurisdiction or make venue improper.

“(B) REQUIRED DENIAL OF MOTION.—The court shall deny a motion to join an interested party under paragraph (1) if—

“(i) the interested party did not timely receive the notice required by paragraph (3); or

“(ii) within 30 days after receiving the notice required by paragraph (3), the interested party renounces, in writing and with notice to the court and the parties to the action, any ownership, right, or direct financial interest (as described in paragraph (4)) that the interested party has in the patent or patents at issue.

“(3) NOTICE REQUIREMENT.—An interested party may not be joined under paragraph (1) unless it has been provided actual notice, within 30 days after the date on which it has been identified in the initial disclosure provided under section 290(b), that it has been so identified and that such party may therefore be an interested party subject to joinder under this subsection. Such notice shall be provided by the party who subsequently moves to join the interested party under paragraph (1), and shall include language that—

“(A) identifies the action, the parties thereto, the patent or patents at issue, and the pleading or other paper that identified the party under section 290(b); and

“(B) informs the party that it may be joined in the action and made subject to paying an award of fees and other expenses under section 285(b) if—

“(i) fees and other expenses are awarded in the action against the party alleging infringement of the patent or patents at issue under section 285(a);

“(ii) the party alleging infringement is unable to pay the award of fees and other expenses;

“(iii) the party receiving notice under this paragraph is determined by the court to be an interested party; and

“(iv) the party receiving notice under this paragraph has not, within 30 days after receiving such notice, renounced in writing, and with notice to the court and the parties to the action, any ownership, right, or direct financial interest (as described in paragraph (4)) that the interested party has in the patent or patents at issue.

“(4) INTERESTED PARTY DEFINED.—In this subsection, the term ‘interested party’ means a person, other than the party alleging infringement, that—

“(A) is an assignee of the patent or patents at issue;

“(B) has a right, including a contingent right, to enforce or sublicense the patent or patents at issue; or

“(C) has a direct financial interest in the patent or patents at issue, including the right to any part of an award of damages or any part of licensing revenue, except that a person with a direct financial interest does not include—

“(i) an attorney or law firm providing legal representation in the civil action described in paragraph (1) if the sole basis for the financial interest of the attorney or law firm in the patent or patents at issue arises from the attorney or law firm’s receipt of compensation reasonably related to the provision of the legal representation; or

“(ii) a person whose sole financial interest in the patent or patents at issue is ownership of an equity interest in the party alleging infringement, unless such person also has the right or ability to influence, direct, or control the civil action.”.

(d) DISCOVERY LIMITS.—

(1) AMENDMENT.—Chapter 29 of title 35, United States Code, is amended by adding at the end the following new section:

**“§ 299A. Discovery in patent infringement action**

“(a) DISCOVERY IN PATENT INFRINGEMENT ACTION.—Except as provided in subsection (b), in a civil action arising under any Act of Congress relating to patents, if the court determines that a ruling relating to the construction of terms used in a patent claim asserted in the complaint is required, discovery shall be limited, until such ruling is issued, to information necessary for the court to determine the meaning of the terms used in the patent claim, including any interpretation of those terms used to support the claim of infringement.

“(b) DISCRETION TO EXPAND SCOPE OF DISCOVERY.—

“(1) TIMELY RESOLUTION OF ACTIONS.—If, under any provision of Federal law (including the amendments made by the Drug Price Competition and Patent Term Restoration Act of 1984 (Public Law 98–417)), resolution within a speci-

fied period of time of a civil action arising under any Act of Congress relating to patents will necessarily affect the rights of a party with respect to the patent, the court shall permit discovery, in addition to the discovery authorized under subsection (a), before the ruling described in subsection (a) is issued as necessary to ensure timely resolution of the action.

“(2) RESOLUTION OF MOTIONS.—When necessary to resolve a motion properly raised by a party before a ruling relating to the construction of terms described in subsection (a) is issued, the court may allow limited discovery in addition to the discovery authorized under subsection (a) as necessary to resolve the motion.

“(3) SPECIAL CIRCUMSTANCES.—In special circumstances that would make denial of discovery a manifest injustice, the court may permit discovery, in addition to the discovery authorized under subsection (a), as necessary to prevent the manifest injustice.”.

(2) CONFORMING AMENDMENT.—The table of sections for chapter 29 of title 35, United States Code, is amended by adding at the end the following new item:

“299A. Discovery in patent infringement action.”.

(e) SENSE OF CONGRESS.—It is the sense of Congress that it is an abuse of the patent system and against public policy for a party to send out purposely evasive demand letters to end users alleging patent infringement. Demand letters sent should, at the least, include basic information about the patent in question, what is being infringed, and how it is being infringed. Any actions or litigation that stem from these types of purposely evasive demand letters to end users should be considered a fraudulent or deceptive practice and an exceptional circumstance when considering whether the litigation is abusive.

(f) DEMAND LETTERS.—Section 284 of title 35, United States Code, is amended—

(1) in the first undesignated paragraph, by striking “Upon finding” and inserting “(a) IN GENERAL.—Upon finding”;

(2) in the second undesignated paragraph, by striking “When the damages” and inserting “(b) ASSESSMENT BY COURT; TREBLE DAMAGES.—When the damages”;

(3) by inserting after subsection (b), as designated by paragraph (2) of this subsection, the following:

“(c) WILLFUL INFRINGEMENT.—A claimant seeking to establish willful infringement may not rely on evidence of pre-suit notification of infringement unless that notification identifies with particularity the asserted patent, identifies the product or process accused, and explains with particularity, to the extent possible following a reasonable investigation or inquiry, how the product or process infringes one or more claims of the patent.”; and

(4) in the last undesignated paragraph, by striking “The court” and inserting

“(d) EXPERT TESTIMONY.—The court”.

(g) EFFECTIVE DATE.—Except as otherwise provided in this section, the amendments made by this section shall take effect on the date of the enactment of this Act and shall apply to any action for which a complaint is filed on or after that date.

#### SEC. 4. TRANSPARENCY OF PATENT OWNERSHIP.

(a) AMENDMENTS.—Section 290 of title 35, United States Code, is amended—

(1) in the heading, by striking “suits” and inserting “suits; disclosure of interests”;

(2) by striking “The clerks” and inserting “(a) NOTICE OF PATENT SUITS.—The clerks”; and

(3) by adding at the end the following new subsections:

“(b) INITIAL DISCLOSURE.—

“(1) IN GENERAL.—Except as provided in paragraph (2), upon the filing of an initial complaint for patent infringement, the plaintiff shall disclose to the Patent and Trademark Office, the court, and each adverse party the identity of each of the following:

“(A) The assignee of the patent or patents at issue.

“(B) Any entity with a right to sublicense or enforce the patent or patents at issue.

“(C) Any entity, other than the plaintiff, that the plaintiff knows to have a financial interest in the patent or patents at issue or the plaintiff.

“(D) The ultimate parent entity of any assignee identified under subparagraph (A) and any entity identified under subparagraph (B) or (C).

“(2) EXEMPTION.—The requirements of paragraph (1) shall not apply with respect to a civil action filed under subsection (a) that includes a cause of action described under section 271(e)(2).

“(c) DISCLOSURE COMPLIANCE.—

“(1) PUBLICLY TRADED.—For purposes of subsection (b)(1)(C), if the financial interest is held by a corporation traded on a public stock exchange, an identification of the name of the corporation and the public exchange listing shall satisfy the disclosure requirement.

“(2) NOT PUBLICLY TRADED.—For purposes of subsection (b)(1)(C), if the financial interest is not held by a publicly traded corporation, the disclosure shall satisfy the disclosure requirement if the information identifies—

“(A) in the case of a partnership, the name of the partnership and the name and correspondence address of each partner or other entity that holds more than a 5-percent share of that partnership;

“(B) in the case of a corporation, the name of the corporation, the location of incorporation, the address of the principal place of business, and the name of each officer of the corporation; and

“(C) for each individual, the name and correspondence address of that individual.

“(d) ONGOING DUTY OF DISCLOSURE TO THE PATENT AND TRADEMARK OFFICE.—

“(1) IN GENERAL.—A plaintiff required to submit information under subsection (b) or a subsequent owner of the patent or patents at issue shall, not later than 90 days after any change in the assignee of the patent or patents at issue or an entity described under subparagraph (B) or (D) of subsection (b)(1), submit to the Patent and Trademark Office the updated identification of such assignee or entity.

“(2) FAILURE TO COMPLY.—With respect to a patent for which the requirement of paragraph (1) has not been met—

“(A) the plaintiff or subsequent owner shall not be entitled to recover reasonable fees and other expenses under section 285 or increased damages under section 284 with respect to infringing activities taking place during any period of noncompliance with paragraph (1), unless the denial of such damages or fees would be manifestly unjust; and

“(B) the court shall award to a prevailing party accused of infringement reasonable fees and other expenses under section 285 that are incurred to discover the updated assignee or entity described under paragraph (1), unless such sanctions would be unjust.

“(e) DEFINITIONS.—In this section:

“(1) FINANCIAL INTEREST.—The term ‘financial interest’—

“(A) means—

“(i) with regard to a patent or patents, the right of a person to receive proceeds related to the assertion of the patent or patents, including a fixed or variable portion of such proceeds; and

“(ii) with regard to the plaintiff, direct or indirect ownership or control by a person of more than 5 percent of such plaintiff; and

“(B) does not mean—

“(i) ownership of shares or other interests in a mutual or common investment fund, unless the owner of such interest participates in the management of such fund; or

“(ii) the proprietary interest of a policyholder in a mutual insurance company or of a depositor in a mutual savings association, or a similar proprietary interest, unless the outcome of the proceeding could substantially affect the value of such interest.

“(2) PROCEEDING.—The term ‘proceeding’ means all stages of a civil action, including pretrial and trial proceedings and appellate review.

“(3) ULTIMATE PARENT ENTITY.—

“(A) IN GENERAL.—Except as provided in subparagraph (B), the term ‘ultimate parent entity’ has the meaning given such term in section 801.1(a)(3) of title 16, Code of Federal Regulations, or any successor regulation.

“(B) MODIFICATION OF DEFINITION.—The Director may modify the definition of ‘ultimate parent entity’ by regulation.”

(b) TECHNICAL AND CONFORMING AMENDMENT.—The item relating to section 290 in the table of sections for chapter 29 of title 35, United States Code, is amended to read as follows:

“290. Notice of patent suits; disclosure of interests.”

(c) REGULATIONS.—The Director may promulgate such regulations as are necessary to establish a registration fee in an amount sufficient to recover the estimated costs of administering subsections (b) through (e) of section 290 of title 35, United States Code, as added by subsection (a), to facilitate the collection and maintenance of the information required by such subsections, and to ensure the timely disclosure of such information to the public.

(d) **EFFECTIVE DATE.**—The amendments made by this section shall take effect upon the expiration of the 6-month period beginning on the date of the enactment of this Act and shall apply to any action for which a complaint is filed on or after such effective date.

**SEC. 5. CUSTOMER-SUIT EXCEPTION.**

(a) **AMENDMENT.**—Section 296 of title 35, United States Code, is amended to read as follows:

**“§ 296. Stay of action against customer**

“(a) **STAY OF ACTION AGAINST CUSTOMER.**—Except as provided in subsection (d), in any civil action arising under any Act of Congress relating to patents, the court shall grant a motion to stay at least the portion of the action against a covered customer related to infringement of a patent involving a covered product or process if the following requirements are met:

“(1) The covered manufacturer and the covered customer consent in writing to the stay.

“(2) The covered manufacturer is a party to the action or to a separate action involving the same patent or patents related to the same covered product or process.

“(3) The covered customer agrees to be bound by any issues that the covered customer has in common with the covered manufacturer and are finally decided as to the covered manufacturer in an action described in paragraph (2).

“(4) The motion is filed after the first pleading in the action but not later than the later of—

“(A) the 120th day after the date on which the first pleading in the action is served that specifically identifies the covered product or process as a basis for the covered customer’s alleged infringement of the patent and that specifically identifies how the covered product or process is alleged to infringe the patent; or

“(B) the date on which the first scheduling order in the case is entered.

“(b) **APPLICABILITY OF STAY.**—A stay issued under subsection (a) shall apply only to the patents, products, systems, or components accused of infringement in the action.

“(c) **LIFT OF STAY.**—

“(1) **IN GENERAL.**—A stay entered under this section may be lifted upon grant of a motion based on a showing that—

“(A) the action involving the covered manufacturer will not resolve a major issue in suit against the covered customer; or

“(B) the stay unreasonably prejudices and would be manifestly unjust to the party seeking to lift the stay.

“(2) **SEPARATE MANUFACTURER ACTION INVOLVED.**—In the case of a stay entered based on the participation of the covered manufacturer in a separate action involving the same patent or patents related to the same covered product or process, a motion under this subsection may only be made if the court in such separate action determines the showing required under paragraph (1) has been met.

“(d) **EXEMPTION.**—This section shall not apply to an action that includes a cause of action described under section 271(e)(2).

“(e) **CONSENT JUDGMENT.**—If, following the grant of a motion to stay under this section, the covered manufacturer seeks or consents to entry of a consent judgment relating to one or more of the common issues that gave rise to the stay, or declines to prosecute through appeal a final decision as to one or more of the common issues that gave rise to the stay, the court may, upon grant of a motion, determine that such consent judgment or unappealed final decision shall not be binding on the covered customer with respect to one or more of such common issues based on a showing that such an outcome would unreasonably prejudice and be manifestly unjust to the covered customer in light of the circumstances of the case.

“(f) **RULE OF CONSTRUCTION.**—Nothing in this section shall be construed to limit the ability of a court to grant any stay, expand any stay granted under this section, or grant any motion to intervene, if otherwise permitted by law.

“(g) **DEFINITIONS.**—In this section:

“(1) **COVERED CUSTOMER.**—The term ‘covered customer’ means a party accused of infringing a patent or patents in dispute based on a covered product or process.

“(2) **COVERED MANUFACTURER.**—The term ‘covered manufacturer’ means a person that manufactures or supplies, or causes the manufacture or supply of, a covered product or process or a relevant part thereof.

“(3) COVERED PRODUCT OR PROCESS.—The term ‘covered product or process’ means a product, process, system, service, component, material, or apparatus, or relevant part thereof, that—

“(A) is alleged to infringe the patent or patents in dispute; or

“(B) implements a process alleged to infringe the patent or patents in dispute.”.

(b) CONFORMING AMENDMENT.—The table of sections for chapter 29 of title 35, United States Code, is amended by striking the item relating to section 296 and inserting the following:

“296. Stay of action against customer.”.

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect on the date of the enactment of this Act and shall apply to any action for which a complaint is filed on or after the first day of the 30-day period that ends on that date.

**SEC. 6. PROCEDURES AND PRACTICES TO IMPLEMENT RECOMMENDATIONS OF THE JUDICIAL CONFERENCE.**

(a) JUDICIAL CONFERENCE RULES AND PROCEDURES ON DISCOVERY BURDENS AND COSTS.—

(1) RULES AND PROCEDURES.—The Judicial Conference of the United States, using existing resources, shall develop rules and procedures to implement the issues and proposals described in paragraph (2) to address the asymmetries in discovery burdens and costs in any civil action arising under any Act of Congress relating to patents. Such rules and procedures shall include how and when payment for document discovery in addition to the discovery of core documentary evidence is to occur, and what information must be presented to demonstrate financial capacity before permitting document discovery in addition to the discovery of core documentary evidence.

(2) RULES AND PROCEDURES TO BE CONSIDERED.—The rules and procedures required under paragraph (1) should address each of the following issues and proposals:

(A) DISCOVERY OF CORE DOCUMENTARY EVIDENCE.—Whether and to what extent each party to the action is entitled to receive core documentary evidence and shall be responsible for the costs of producing core documentary evidence within the possession or control of each such party, and whether and to what extent each party to the action may seek nondocumentary discovery as otherwise provided in the Federal Rules of Civil Procedure.

(B) ELECTRONIC COMMUNICATION.—If the parties determine that the discovery of electronic communication is appropriate, whether such discovery shall occur after the parties have exchanged initial disclosures and core documentary evidence and whether such discovery shall be in accordance with the following:

(i) Any request for the production of electronic communication shall be specific and may not be a general request for the production of information relating to a product or business.

(ii) Each request shall identify the custodian of the information requested, the search terms, and a time frame. The parties shall cooperate to identify the proper custodians, the proper search terms, and the proper time frame.

(iii) A party may not submit production requests to more than 5 custodians, unless the parties jointly agree to modify the number of production requests without leave of the court.

(iv) The court may consider contested requests for up to 5 additional custodians per producing party, upon a showing of a distinct need based on the size, complexity, and issues of the case.

(v) If a party requests the discovery of electronic communication for additional custodians beyond the limits agreed to by the parties or granted by the court, the requesting party shall bear all reasonable costs caused by such additional discovery.

(C) ADDITIONAL DOCUMENT DISCOVERY.—Whether the following should apply:

(i) IN GENERAL.—Each party to the action may seek any additional document discovery otherwise permitted under the Federal Rules of Civil Procedure, if such party bears the reasonable costs, including reasonable attorney’s fees, of the additional document discovery.

(ii) REQUIREMENTS FOR ADDITIONAL DOCUMENT DISCOVERY.—Unless the parties mutually agree otherwise, no party may be permitted additional document discovery unless such a party posts a bond, or provides other security, in an amount sufficient to cover the expected costs of such additional document discovery, or makes a showing to the court

that such party has the financial capacity to pay the costs of such additional document discovery.

(iii) LIMITS ON ADDITIONAL DOCUMENT DISCOVERY.—A court, upon motion, may determine that a request for additional document discovery is excessive, irrelevant, or otherwise abusive and may set limits on such additional document discovery.

(iv) GOOD CAUSE MODIFICATION.—A court, upon motion and for good cause shown, may modify the requirements of subparagraphs (A) and (B) and any definition under paragraph (3). Not later than 30 days after the pretrial conference under Rule 16 of the Federal Rules of Civil Procedure, the parties shall jointly submit any proposed modifications of the requirements of subparagraphs (A) and (B) and any definition under paragraph (3), unless the parties do not agree, in which case each party shall submit any proposed modification of such party and a summary of the disagreement over the modification.

(v) COMPUTER CODE.—A court, upon motion and for good cause shown, may determine that computer code should be included in the discovery of core documentary evidence. The discovery of computer code shall occur after the parties have exchanged initial disclosures and other core documentary evidence.

(D) DISCOVERY SEQUENCE AND SCOPE.—Whether the parties shall discuss and address in the written report filed pursuant to Rule 26(f) of the Federal Rules of Civil Procedure the views and proposals of each party on the following:

(i) When the discovery of core documentary evidence should be completed.

(ii) Whether additional document discovery will be sought under subparagraph (C).

(iii) Any issues about infringement, invalidity, or damages that, if resolved before the additional discovery described in subparagraph (C) commences, might simplify or streamline the case, including the identification of any terms or phrases relating to any patent claim at issue to be construed by the court and whether the early construction of any of those terms or phrases would be helpful.

(3) DEFINITIONS.—In this subsection:

(A) CORE DOCUMENTARY EVIDENCE.—The term “core documentary evidence”—

(i) includes—

(I) documents relating to the conception of, reduction to practice of, and application for, the patent or patents at issue;

(II) documents sufficient to show the technical operation of the product or process identified in the complaint as infringing the patent or patents at issue;

(III) documents relating to potentially invalidating prior art;

(IV) documents relating to any licensing of, or other transfer of rights to, the patent or patents at issue before the date on which the complaint is filed;

(V) documents sufficient to show profit attributable to the claimed invention of the patent or patents at issue;

(VI) documents relating to any knowledge by the accused infringer of the patent or patents at issue before the date on which the complaint is filed;

(VII) documents relating to any knowledge by the patentee of infringement of the patent or patents at issue before the date on which the complaint is filed;

(VIII) documents relating to any licensing term or pricing commitment to which the patent or patents may be subject through any agency or standard-setting body; and

(IX) documents sufficient to show any marking or other notice provided of the patent or patents at issue; and

(ii) does not include computer code, except as specified in paragraph (2)(C)(v).

(B) ELECTRONIC COMMUNICATION.—The term “electronic communication” means any form of electronic communication, including email, text message, or instant message.

(4) IMPLEMENTATION BY THE DISTRICT COURTS.—Not later than 6 months after the date on which the Judicial Conference has developed the rules and procedures required by this subsection, each United States district court and the

United States Court of Federal Claims shall revise the applicable local rules for such court to implement such rules and procedures.

(5) AUTHORITY FOR JUDICIAL CONFERENCE TO REVIEW AND MODIFY.—

(A) STUDY OF EFFICACY OF RULES AND PROCEDURES.—The Judicial Conference shall study the efficacy of the rules and procedures required by this subsection during the 4-year period beginning on the date on which such rules and procedures by the district courts and the United States Court of Federal Claims are first implemented. The Judicial Conference may modify such rules and procedures following such 4-year period.

(B) INITIAL MODIFICATIONS.—Before the expiration of the 4-year period described in subparagraph (A), the Judicial Conference may modify the requirements under this subsection—

(i) by designating categories of “core documentary evidence”, in addition to those designated under paragraph (3)(A), as the Judicial Conference determines to be appropriate and necessary; and

(ii) as otherwise necessary to prevent a manifest injustice, the imposition of a requirement the costs of which clearly outweigh its benefits, or a result that could not reasonably have been intended by the Congress.

(b) JUDICIAL CONFERENCE PATENT CASE MANAGEMENT.—The Judicial Conference of the United States, using existing resources, shall develop case management procedures to be implemented by the United States district courts and the United States Court of Federal Claims for any civil action arising under any Act of Congress relating to patents, including initial disclosure and early case management conference practices that—

(1) will identify any potential dispositive issues of the case; and

(2) focus on early summary judgment motions when resolution of issues may lead to expedited disposition of the case.

(c) REVISION OF FORM FOR PATENT INFRINGEMENT.—

(1) ELIMINATION OF FORM.—The Supreme Court, using existing resources, shall eliminate Form 18 in the Appendix to the Federal Rules of Civil Procedure (relating to Complaint for Patent Infringement), effective on the date of the enactment of this Act.

(2) REVISED FORM.—The Supreme Court may prescribe a new form or forms setting out model allegations of patent infringement that, at a minimum, notify accused infringers of the asserted claim or claims, the products or services accused of infringement, and the plaintiff’s theory for how each accused product or service meets each limitation of each asserted claim. The Judicial Conference should exercise the authority under section 2073 of title 28, United States Code, to make recommendations with respect to such new form or forms.

(d) PROTECTION OF INTELLECTUAL-PROPERTY LICENSES IN BANKRUPTCY.—

(1) IN GENERAL.—Section 1520(a) of title 11, United States Code, is amended—

(A) in paragraph (3), by striking “; and” and inserting a semicolon;

(B) in paragraph (4), by striking the period at the end and inserting “; and”; and

(C) by inserting at the end the following new paragraph:

“(5) section 365(n) applies to intellectual property of which the debtor is a licensor or which the debtor has transferred.”.

(2) TRADEMARKS.—

(A) IN GENERAL.—Section 101(35A) of title 11, United States Code, is amended—

(i) in subparagraph (E), by striking “or”;

(ii) in subparagraph (F), by striking “title 17;” and inserting “title 17; or”; and

(iii) by adding after subparagraph (F) the following new subparagraph:

“(G) a trademark, service mark, or trade name, as those terms are defined in section 45 of the Act of July 5, 1946 (commonly referred to as the ‘Trademark Act of 1946’) (15 U.S.C. 1127);”.

(B) CONFORMING AMENDMENT.—Section 365(n)(2) of title 11, United States Code, is amended—

(i) in subparagraph (B)—

(I) by striking “royalty payments” and inserting “royalty or other payments”; and

(II) by striking “and” after the semicolon;

(ii) in subparagraph (C), by striking the period at the end of clause (ii) and inserting “; and”; and

(iii) by adding at the end the following new subparagraph:

“(D) in the case of a trademark, service mark, or trade name, the trustee shall not be relieved of a contractual obligation to monitor and control the quality of a licensed product or service.”.

(3) EFFECTIVE DATE.—The amendments made by this subsection shall take effect on the date of the enactment of this Act and shall apply to any case that is pending on, or for which a petition or complaint is filed on or after, such date of enactment.

**SEC. 7. SMALL BUSINESS EDUCATION, OUTREACH, AND INFORMATION ACCESS.**

(a) SMALL BUSINESS EDUCATION AND OUTREACH.—

(1) RESOURCES FOR SMALL BUSINESS.—Using existing resources, the Director shall develop educational resources for small businesses to address concerns arising from patent infringement.

(2) SMALL BUSINESS PATENT OMBUDSMAN.—The Patent Ombudsman Program established under section 28 of the Leahy-Smith America Invents Act (Public Law 112–29; 125 Stat. 339; 35 U.S.C. 2 note) shall coordinate with the existing small business outreach programs of the Office, and the relevant offices at the Small Business Administration and the Minority Business Development Agency, to provide education and awareness on abusive patent litigation practices. The Director may give special consideration to the unique needs of small firms owned by disabled veterans, service-disabled veterans, women, and minority entrepreneurs in planning and executing the outreach efforts by the Office.

(b) IMPROVING INFORMATION TRANSPARENCY FOR SMALL BUSINESS AND THE UNITED STATES PATENT AND TRADEMARK OFFICE USERS.—

(1) WEB SITE.—Using existing resources, the Director shall create a user-friendly section on the official Web site of the Office to notify the public when a patent case is brought in Federal court and, with respect to each patent at issue in such case, the Director shall include—

(A) information disclosed under subsections (b) and (d) of section 290 of title 35, United States Code, as added by section 4(a) of this Act; and

(B) any other information the Director determines to be relevant.

(2) FORMAT.—In order to promote accessibility for the public, the information described in paragraph (1) shall be searchable by patent number, patent art area, and entity.

**SEC. 8. STUDIES ON PATENT TRANSACTIONS, QUALITY, AND EXAMINATION.**

(a) STUDY ON SECONDARY MARKET OVERSIGHT FOR PATENT TRANSACTIONS TO PROMOTE TRANSPARENCY AND ETHICAL BUSINESS PRACTICES.—

(1) STUDY REQUIRED.—The Director, in consultation with the Secretary of Commerce, the Secretary of the Treasury, the Chairman of the Securities and Exchange Commission, the heads of other relevant agencies, and interested parties, shall, using existing resources of the Office, conduct a study—

(A) to develop legislative recommendations to ensure greater transparency and accountability in patent transactions occurring on the secondary market;

(B) to examine the economic impact that the patent secondary market has on the United States;

(C) to examine licensing and other oversight requirements that may be placed on the patent secondary market, including on the participants in such markets, to ensure that the market is a level playing field and that brokers in the market have the requisite expertise and adhere to ethical business practices; and

(D) to examine the requirements placed on other markets.

(2) REPORT ON STUDY.—Not later than 1 year after the date of the enactment of this Act, the Director shall submit a report to the Committee on the Judiciary of the House of Representatives and the Committee on the Judiciary of the Senate on the findings and recommendations of the Director from the study required under paragraph (1).

(b) STUDY ON PATENTS OWNED BY THE UNITED STATES GOVERNMENT.—

(1) STUDY REQUIRED.—The Director, in consultation with the heads of relevant agencies and interested parties, shall, using existing resources of the Office, conduct a study on patents owned by the United States Government that—

(A) examines how such patents are licensed and sold, and any litigation relating to the licensing or sale of such patents;

(B) provides legislative and administrative recommendations on whether there should be restrictions placed on patents acquired from the United States Government;

(C) examines whether or not each relevant agency maintains adequate records on the patents owned by such agency, specifically whether such

agency addresses licensing, assignment, and Government grants for technology related to such patents; and

(D) provides recommendations to ensure that each relevant agency has an adequate point of contact that is responsible for managing the patent portfolio of the agency.

(2) REPORT ON STUDY.—Not later than 6 months after the date of the enactment of this Act, the Director shall submit to the Committee on the Judiciary of the House of Representatives and the Committee on the Judiciary of the Senate a report on the findings and recommendations of the Director from the study required under paragraph (1).

(c) STUDY ON PATENT QUALITY AND ACCESS TO THE BEST INFORMATION DURING EXAMINATION.—

(1) GAO STUDY.—The Comptroller General of the United States shall conduct a study on patent examination at the Office and the technologies available to improve examination and improve patent quality.

(2) CONTENTS OF THE STUDY.—The study required under paragraph (1) shall include the following:

(A) An examination of patent quality at the Office.

(B) An examination of ways to improve patent quality, specifically through technology, that shall include examining best practices at foreign patent offices and the use of existing off-the-shelf technologies to improve patent examination.

(C) A description of how patents are classified.

(D) An examination of procedures in place to prevent double patenting through filing by applicants in multiple art areas.

(E) An examination of the types of off-the-shelf prior art databases and search software used by foreign patent offices and governments, particularly in Europe and Asia, and whether those databases and search tools could be used by the Office to improve patent examination.

(F) An examination of any other areas the Comptroller General determines to be relevant.

(3) REPORT ON STUDY.—Not later than 6 months after the date of the enactment of this Act, the Comptroller General shall submit to the Committee on the Judiciary of the House of Representatives and the Committee on the Judiciary of the Senate a report on the findings and recommendations from the study required by this subsection, including recommendations for any changes to laws and regulations that will improve the examination of patent applications and patent quality.

(d) STUDY ON PATENT SMALL CLAIMS COURT.—

(1) STUDY REQUIRED.—

(A) IN GENERAL.—The Director of the Administrative Office of the United States Courts, in consultation with the Director of the Federal Judicial Center and the United States Patent and Trademark Office, shall, using existing resources, conduct a study to examine the idea of developing a pilot program for patent small claims courts in certain judicial districts within the existing patent pilot program mandated by Public Law 111–349.

(B) CONTENTS OF STUDY.—The study under subparagraph (A) shall examine—

(i) the number of and qualifications for judges that could serve on such small claims courts;

(ii) how such small claims courts would be designated and the necessary criteria for such designation;

(iii) the costs that would be incurred for establishing, maintaining, and operating such a pilot program; and

(iv) the steps that would be taken to ensure that the courts in the pilot program are not misused for abusive patent litigation.

(2) REPORT ON STUDY.—Not later than 1 year after the date of the enactment of this Act, the Director of the Administrative Office of the United States Courts shall submit a report to the Committee on the Judiciary of the House of Representatives and the Committee on the Judiciary of the Senate on the findings and recommendations of the Director of the Administrative Office from the study required under paragraph (1).

(e) STUDY ON DEMAND LETTERS.—

(1) STUDY.—The Director, in consultation with the heads of other appropriate agencies, shall conduct a study of the prevalence of the practice of sending patent demand letters in bad faith and the extent to which that practice may, through fraudulent or deceptive practices, impose a negative impact on the marketplace.

(2) REPORT TO CONGRESS.—Not later than 1 year after the date of the enactment of this Act, the Director shall submit a report to the Committee on the Judiciary of the House of Representatives and the Committee on the Judiciary of the Senate on the findings and recommendations of the Director from the study required under paragraph (1).

(3) PATENT DEMAND LETTER DEFINED.—In this subsection, the term “patent demand letter” means a written communication relating to a patent that states or indicates, directly or indirectly, that the recipient or anyone affiliated with the recipient is or may be infringing the patent.

(f) STUDY ON BUSINESS METHOD PATENT QUALITY.—

(1) GAO STUDY.—The Comptroller General of the United States shall conduct a study on the volume and nature of litigation involving business method patents.

(2) CONTENTS OF STUDY.—The study required under paragraph (1) shall focus on examining the quality of business method patents asserted in suits alleging patent infringement, and may include an examination of any other areas that the Comptroller General determines to be relevant.

(3) REPORT TO CONGRESS.—Not later than 6 months after the date of the enactment of this Act, the Comptroller General shall submit to the Committee on the Judiciary of the House of Representatives and the Committee on the Judiciary of the Senate a report on the findings and recommendations from the study required by this subsection, including recommendations for any changes to laws or regulations that the Comptroller General considers appropriate on the basis of the study.

**SEC. 9. IMPROVEMENTS AND TECHNICAL CORRECTIONS TO THE LEAHY-SMITH AMERICA INVENTS ACT.**

(a) REPEAL OF CIVIL ACTION TO OBTAIN A PATENT.—

(1) REPEAL.—Section 145 of title 35, United States Code, is repealed.

(2) CONFORMING AMENDMENTS.—

(A) FEDERAL CIRCUIT JURISDICTION.—Section 1295(a)(4) of title 28, United States Code, is amended—

(i) in subparagraph (A), by striking “except that an applicant or a party” and all that follows through the end of the subparagraph and inserting the following: “except that a party to a derivation proceeding may also have remedy by civil action under section 146 of title 35; an appeal under this subparagraph of a decision of the Board with respect to a derivation proceeding shall waive the right of such party to proceed under section 146 of title 35;” and

(ii) in subparagraph (C), by striking “section 145, 146, or” and inserting “section 146 or”.

(B) FEDERAL CIRCUIT APPEAL.—Section 141(a) of title 35, United States Code, is amended—

(i) by striking “may appeal the Board’s decision to” and inserting “may appeal the Board’s decision only to”; and

(ii) by striking the second sentence.

(C) ADJUSTMENT OF PATENT TERM.—Section 154(b)(1)(A)(iii) of title 35, United States Code, is amended by striking “section 141, 145, or 146” and inserting “section 141 or 146”.

(D) CLERICAL AMENDMENT.—The table of sections for chapter 13 of title 35, United States Code, is amended by repealing the item relating to section 145.

(3) EFFECTIVE DATE.—The amendments made by this subsection shall take effect on the date of the enactment of this Act and apply to any proceeding in which a decision is made by the Patent Trial and Appeal Board on or after such date of enactment.

(b) POST-GRANT REVIEW AMENDMENT.—Section 325(e)(2) of title 35, United States Code is amended by striking “or reasonably could have raised”.

(c) USE OF DISTRICT-COURT CLAIM CONSTRUCTION IN POST-GRANT AND INTER PARTES REVIEWS.—

(1) INTER PARTES REVIEW.—Section 316(a) of title 35, United States Code, is amended—

(A) in paragraph (12), by striking “; and” and inserting a semicolon;

(B) in paragraph (13), by striking the period at the end and inserting “; and”; and

(C) by adding at the end the following new paragraph:

“(14) providing that for all purposes under this chapter—

“(A) each claim of a patent shall be construed as such claim would be in a civil action to invalidate a patent under section 282(b), including construing each claim of the patent in accordance with the ordinary and cus-

tomary meaning of such claim as understood by one of ordinary skill in the art and the prosecution history pertaining to the patent; and

“(B) if a court has previously construed the claim or a claim term in a civil action in which the patent owner was a party, the Office shall consider such claim construction.”.

(2) POST-GRANT REVIEW.—Section 326(a) of title 35, United States Code, is amended—

(A) in paragraph (11), by striking “; and” and inserting a semicolon;

(B) in paragraph (12), by striking the period at the end and inserting “; and”; and

(C) by adding at the end the following new paragraph:

“(13) providing that for all purposes under this chapter—

“(A) each claim of a patent shall be construed as such claim would be in a civil action to invalidate a patent under section 282(b), including construing each claim of the patent in accordance with the ordinary and customary meaning of such claim as understood by one of ordinary skill in the art and the prosecution history pertaining to the patent; and

“(B) if a court has previously construed the claim or a claim term in a civil action in which the patent owner was a party, the Office shall consider such claim construction.”.

(3) TECHNICAL AND CONFORMING AMENDMENT.—Section 18(a)(1)(A) of the Leahy-Smith America Invents Act (Public Law 112–29; 126 Stat. 329; 35 U.S.C. 321 note) is amended by striking “Section 321(c)” and inserting “Sections 321(c) and 326(a)(13)”.

(4) EFFECTIVE DATE.—The amendments made by this subsection shall take effect upon the expiration of the 90-day period beginning on the date of the enactment of this Act, and shall apply to any proceeding under chapter 31 or 32 of title 35, United States Code, as the case may be, for which the petition for review is filed on or after such effective date.

(d) CODIFICATION OF THE DOUBLE-PATENTING DOCTRINE FOR FIRST-INVENTOR-TO-FILE PATENTS.—

(1) AMENDMENT.—Chapter 10 of title 35, United States Code, is amended by adding at the end the following new section:

**“§ 106. Prior art in cases of double patenting**

“A claimed invention of a patent issued under section 151 (referred to as the ‘first patent’) that is not prior art to a claimed invention of another patent (referred to as the ‘second patent’) shall be considered prior art to the claimed invention of the second patent for the purpose of determining the nonobviousness of the claimed invention of the second patent under section 103 if—

“(1) the claimed invention of the first patent was effectively filed under section 102(d) on or before the effective filing date of the claimed invention of the second patent;

“(2) either—

“(A) the first patent and second patent name the same inventor; or

“(B) the claimed invention of the first patent would constitute prior art to the claimed invention of the second patent under section 102(a)(2) if an exception under section 102(b)(2) were deemed to be inapplicable and the claimed invention of the first patent was, or were deemed to be, effectively filed under section 102(d) before the effective filing date of the claimed invention of the second patent; and

“(3) the patentee of the second patent has not disclaimed the rights to enforce the second patent independently from, and beyond the statutory term of, the first patent.”.

(2) REGULATIONS.—The Director shall promulgate regulations setting forth the form and content of any disclaimer required for a patent to be issued in compliance with section 106 of title 35, United States Code, as added by paragraph (1). Such regulations shall apply to any disclaimer filed after a patent has issued. A disclaimer, when filed, shall be considered for the purpose of determining the validity of the patent under section 106 of title 35, United States Code.

(3) CONFORMING AMENDMENT.—The table of sections for chapter 10 of title 35, United States Code, is amended by adding at the end the following new item:

“106. Prior art in cases of double patenting.”.

(4) EXCLUSIVE RULE.—A patent subject to section 106 of title 35, United States Code, as added by paragraph (1), shall not be held invalid on any non-statutory, double-patenting ground.

(5) EFFECTIVE DATE.—The amendments made by this subsection shall take effect on the date of the enactment of this Act and shall apply to a patent or pat-

ent application only if both the first and second patents described in section 106 of title 35, United States Code, as added by paragraph (1), are patents or patent applications that are described in section 3(n)(1) of the Leahy-Smith America Invents Act (35 U.S.C. 100 note).

(e) PTO PATENT REVIEWS.—

(1) CLARIFICATION.—

(A) SCOPE OF PRIOR ART.—Section 18(a)(1)(C)(i) of the Leahy-Smith America Invents Act (35 U.S.C. 321 note) is amended by striking “section 102(a)” and inserting “subsection (a) or (e) of section 102”.

(B) EFFECTIVE DATE.—The amendment made by subparagraph (A) shall take effect on the date of the enactment of this Act and shall apply to any proceeding pending on, or filed on or after, such date of enactment.

(2) AUTHORITY TO WAIVE FEE.—Subject to available resources, the Director may waive payment of a filing fee for a transitional proceeding described under section 18(a) of the Leahy-Smith America Invents Act (35 U.S.C. 321 note).

(f) CLARIFICATION OF LIMITS ON PATENT TERM ADJUSTMENT.—

(1) AMENDMENTS.—Section 154(b)(1)(B) of title 35, United States Code, is amended—

(A) in the matter preceding clause (i), by striking “not including—” and inserting “the term of the patent shall be extended 1 day for each day after the end of that 3-year period until the patent is issued, not including—”;

(B) in clause (i), by striking “consumed by continued examination of the application requested by the applicant” and inserting “consumed after continued examination of the application is requested by the applicant”;

(C) in clause (iii), by striking the comma at the end and inserting a period; and

(D) by striking the matter following clause (iii).

(2) EFFECTIVE DATE.—The amendments made by this subsection shall take effect on the date of the enactment of this Act and apply to any patent application or patent that is pending on, or filed on or after, such date of enactment.

(g) CLARIFICATION OF JURISDICTION.—

(1) IN GENERAL.—The Federal interest in preventing inconsistent final judicial determinations as to the legal force or effect of the claims in a patent presents a substantial Federal issue that is important to the Federal system as a whole.

(2) APPLICABILITY.—Paragraph (1)—

(A) shall apply to all cases filed on or after, or pending on, the date of the enactment of this Act; and

(B) shall not apply to a case in which a Federal court has issued a ruling on whether the case or a claim arises under any Act of Congress relating to patents or plant variety protection before the date of the enactment of this Act.

(h) PATENT PILOT PROGRAM IN CERTAIN DISTRICT COURTS DURATION.—

(1) DURATION.—Section 1(c) of Public Law 111–349 (124 Stat. 3674; 28 U.S.C. 137 note) is amended to read as follows:

“(c) DURATION.—The program established under subsection (a) shall be maintained using existing resources, and shall terminate 20 years after the end of the 6-month period described in subsection (b).”.

(2) EFFECTIVE DATE.—The amendment made by paragraph (1) shall take effect on the date of the enactment of this Act.

(i) TECHNICAL CORRECTIONS.—

(1) NOVELTY.—

(A) AMENDMENT.—Section 102(b)(1)(A) of title 35, United States Code, is amended by striking “the inventor or joint inventor or by another” and inserting “the inventor or a joint inventor or another”.

(B) EFFECTIVE DATE.—The amendment made by subparagraph (A) shall be effective as if included in the amendment made by section 3(b)(1) of the Leahy-Smith America Invents Act (Public Law 112–29).

(2) INVENTOR’S OATH OR DECLARATION.—

(A) AMENDMENT.—The second sentence of section 115(a) of title 35, United States Code, is amended—

(i) by striking “Except as otherwise provided” and inserting “Except for an application filed under section 118 or as otherwise provided”; and

(ii) by striking “shall execute” and inserting “may be required by the Director to execute”.

(B) EFFECTIVE DATE.—The amendments made by subparagraph (A) shall be effective as if included in the amendment made by section 4(a)(1) of the Leahy-Smith America Invents Act (Public Law 112–29).

(3) ASSIGNEE FILERS.—

(A) BENEFIT OF EARLIER FILING DATE; RIGHT OF PRIORITY.—Section 119(e)(1) of title 35, United States Code, is amended, in the first sentence, by striking “by an inventor or inventors named” and inserting “that names the inventor or a joint inventor”.

(B) BENEFIT OF EARLIER FILING DATE IN THE UNITED STATES.—Section 120 of title 35, United States Code, is amended, in the first sentence, by striking “names an inventor or joint inventor” and inserting “names the inventor or a joint inventor”.

(C) EFFECTIVE DATE.—The amendments made by this paragraph shall take effect on the date of the enactment of this Act and shall apply to any patent application, and any patent issuing from such application, that is filed on or after September 16, 2012.

(4) DERIVED PATENTS.—

(A) AMENDMENT.—Section 291(b) of title 35, United States Code, is amended by striking “or joint inventor” and inserting “or a joint inventor”.

(B) EFFECTIVE DATE.—The amendment made by subparagraph (A) shall be effective as if included in the amendment made by section 3(h)(1) of the Leahy-Smith America Invents Act (Public Law No. 112–29).

(5) SPECIFICATION.—Notwithstanding section 4(e) of the Leahy-Smith America Invents Act (Public Law 112–29; 125 Stat. 297), the amendments made by subsections (c) and (d) of section 4 of such Act shall apply to any proceeding or matter that is pending on, or filed on or after, the date of the enactment of this Act.

(6) TIME LIMIT FOR COMMENCING MISCONDUCT PROCEEDINGS.—

(A) AMENDMENT.—The fourth sentence of section 32 of title 35, United States Code, is amended by striking “1 year” and inserting “2 years”.

(B) EFFECTIVE DATE.—The amendment made by this paragraph shall take effect on the date of the enactment of this Act and shall apply to any action in which the Office files a complaint on or after such date of enactment.

(7) PATENT OWNER RESPONSE.—

(A) CONDUCT OF INTER PARTES REVIEW.—Paragraph (8) of section 316(a) of title 35, United States Code, is amended by striking “the petition under section 313” and inserting “the petition under section 311”.

(B) CONDUCT OF POST-GRANT REVIEW.—Paragraph (8) of section 326(a) of title 35, United States Code, is amended by striking “the petition under section 323” and inserting “the petition under section 321”.

(C) EFFECTIVE DATE.—The amendments made by this paragraph shall take effect on the date of the enactment of this Act.

(8) INTERNATIONAL APPLICATIONS.—

(A) AMENDMENTS.—Section 202(b) of the Patent Law Treaties Implementation Act of 2012 (Public Law 112–211; 126 Stat. 1536) is amended—

(i) by striking paragraph (7); and

(ii) by redesignating paragraphs (8) and (9) as paragraphs (7) and (8), respectively.

(B) EFFECTIVE DATE.—The amendments made by subparagraph (A) shall be effective as if included in title II of the Patent Law Treaties Implementation Act of 2012 (Public Law 112–21).

**SEC. 10. EFFECTIVE DATE.**

Except as otherwise provided in this Act, the provisions of this Act shall take effect on the date of the enactment of this Act, and shall apply to any patent issued, or any action filed, on or after that date.

## **Purpose and Summary**

The Leahy-Smith America Invents Act (AIA), signed into law just over 2 years ago, was a landmark Act that made fundamental changes to American patent law. Its principal provisions, such as its adoption of the first-inventor-to-file system of establishing a patent’s priority date, its simplified definition of prior art, and its creation of a limited prior user right, are reforms that were literally decades in the making. Other provisions, such as the AIA’s comprehensive revision of existing administrative proceedings for post-issuance review of patents, and its creation of several new administrative proceedings, will ensure that such proceedings are efficient alternatives to civil litigation that are fair to both patent owners

and accused infringers. The AIA addressed scores of matters both large and small, updating or abrogating statutory provisions and judicial constructions from as recently as the last few years to as far back as the first half of the 19th century.

Despite the breadth and depth of the AIA’s reforms, however, it was apparent even before the Act was signed into law that further legislative work remained to be done. The harm inflicted on American innovation and manufacturing by various abusive patent-enforcement practices has been widely known and acknowledged for most of the last decade. Some of these problems clearly have grown worse even since the AIA’s enactment. What has been absent in the past, however, is a consensus among different American industrial and technological sectors as to how to cure these abuses without undermining the patent system’s purpose of encouraging research and innovation.

The present bill—the Innovation Act—represents the emergence of a new consensus. As reflected in hearings held before this Committee and the Subcommittee on Courts, Intellectual Property, and the Internet earlier this year,<sup>1</sup> industry leaders from different sectors have reached broad agreement on a common set of reforms that will address the most serious abuses currently afflicting the patent-enforcement system. Some of these reforms reflect new thinking about ways of addressing the burden and expense of litigation. Others are variants of proposals that were included in preliminary versions of the AIA itself or its various precursors, but which were omitted from the final public law. Still others address problems that have arisen only in the time since the AIA’s enactment. Finally, the Innovation Act corrects several important technical problems that have become apparent during the course of the implementation of the AIA.

Every member of this Committee wishes to see the patent system fulfill its constitutional mandate to “promote the progress of science and the useful arts.” As one industry leader noted during the Subcommittee on Courts, Intellectual Property, and the Internet’s hearings earlier this year, the proper goal of reform legislation

is to ensure that the patent system fairly rewards those who contribute to our society through the invention and development of new and useful products and processes. A fair, efficient, and reliable patent system will continue to stimulate the investment in innovation that is necessary in today’s technologically complex world to create the new products and processes that will lead to better lives for Americans and the rest of the world. In addition, the best promise for preserving and enhancing our place in an increasingly competitive global marketplace will be to stimu-

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<sup>1</sup>See *Abusive Patent Litigation: The Impact on American Innovation and Jobs, and Potential Solutions: Hearing Before the Subcomm. on Courts, Intellectual Property, and the Internet of the H. Comm. on the Judiciary*, 113th Cong. (2013) [hereinafter *March hearing*]; *Abusive Patent Litigation: The Issues Impacting American Competitiveness and Job Creation at the International Trade Commission and Beyond: Hearing Before the Subcomm. on Courts, Intellectual Property, and the Internet of the H. Comm. on the Judiciary*, 113th Cong. (2013) [hereinafter *April hearing*]; *H.R. 3309: Improving the Patent System to Promote American Innovation and Competitiveness: Hearing Before the H. Comm. on the Judiciary*, 113th Cong. (2013) [hereinafter *October hearing*].

late U.S. investment in research by universities and small and large companies.<sup>2</sup>

While the particular focus of the Innovation Act is to cure the misuse of various patent-enforcement mechanisms, the Committee remains mindful of the importance of preserving a strong and efficient patent system. As the same witness noted,

Research based companies are rational decision makers when it comes to deciding whether and how much to invest in R&D. . . . In determining the expected return on investment, a critical element is the likelihood that meaningful patent protection will be accorded to deserving inventions resulting from the project, the degree and duration of exclusivity that resulting products or processes will enjoy, and the likelihood that the involved patents will either be respected by competitors, or can be promptly and successfully enforced in the event of infringement. When such projections indicate that the return on investment exceeds a threshold commensurate with the risk involved, the investment is, or continues to be, made. When it does not, the project is not begun, or is cancelled.<sup>3</sup>

It is the goal of this Committee to ensure that American manufacturing, small businesses, and start ups are protected against patent-enforcement abuse, while also ensuring that the patent system continue to protect and encourage American ingenuity. The Innovation Act, which has earned the support of a broad coalition of America's most innovative companies, recalibrates the Nation's patent-enforcement mechanisms in a manner that strikes a balance between these overlapping and sometimes conflicting goals, and ensures that the Nation's patent system continues to drive technological innovation and economic growth.

### **Background and Need for the Legislation**

Testimony before this Committee and the Subcommittee on Courts, Intellectual Property, and the Internet has established that misuse of various patent-enforcement mechanisms is a serious problem—and one that has grown worse in recent years. One witness who appeared before this Committee noted how the processes and the expense of patent litigation often make pursuit of even meritorious defenses or claims a difficult business decision. He commented on

the sad state of affairs that exists under current U.S. patent law and practice—enforcement of a valid patent, or pursuit of a winning defense to a manifestly invalid patent, can each be an economically irrational choice on account of the delays, costs, and unpredictability of doing so

<sup>2</sup>*March hearing* at 61 (Statement of Philip S. Johnson, Chief Intellectual Property Counsel, Johnson & Johnson, on behalf of the 21st Century Coalition for Patent Reform).

<sup>3</sup>*Id.*; see also *March hearing* at 81 (Statement of Dana Rao, Vice President of Intellectual Property and Litigation, Adobe Systems) (“the patent system gives us the freedom to invest in R&D, knowing that our key differentiating innovations can be protected and that the patent system will be there to help us earn a return on that investment.”).

under the rules and procedures defining the conduct of patent litigation.<sup>4</sup>

Another witness described how the cost of patent litigation—due to its technical nature and complexity—can lead to settlements driven by the economics of litigation rather than the merits of the case. He noted the “common complaint” that in patent litigation,

too many specious claims or defenses are filed solely for the purpose of forcing an unjust settlement, typically at a cost that is less than the cost of successfully completing the litigation. While this type of abuse no doubt exists in other types of litigation, it may be more effective in patent litigation, where the subject matter is complex, extensive document discovery is available, a large number of potential witnesses may be deposed, and expert testimony is a practical necessity. Coupled with the difficulty in patent cases of distinguishing specious from meritorious claims and defenses, many parties choose to settle rather than litigate to a final conclusion.<sup>5</sup>

Other witnesses noted that the volume and character of patent litigation has grown worse in the last several years. One witness described his company’s recent experience:

Growing and systematic abuse has led to increasing waste, inefficiency, and unfairness. The historical trend of litigation illustrates the problem well. . . . [F]rom 1995, when Yahoo was founded, through 2006, Yahoo had between two to four defensive patent cases on its active docket at any given time. In stark contrast, since the beginning of 2007, Yahoo has had between 20 to 25 cases on its active docket at any given time. That is a tenfold increase in patent litigation.<sup>6</sup>

Similarly, a witness testifying on behalf of a major retailer described the growth in patent litigation and misuse that her company has seen:

When I joined the company 4 years ago, JCPenney had no patent cases. Over the last 4 years, the company has had to defend or settle over two dozen patent infringement lawsuits that have nothing to do with the products JCPenney actually sells. . . . [T]his number does not include those claims that are settled upon receipt of demand letters.<sup>7</sup>

The fact that a representative of a major retailer testified before the Subcommittee about patent-litigation abuses is illustrative of another recent phenomenon: problems with the patent-enforcement

<sup>4</sup>*October hearing*, Statement of Robert A. Armitage, Former General Counsel, Eli Lilly & Co., at \*1. Because the record of the October 29 hearing has not been published as of the publication of this report, citations to the testimony and other material in that record are to the material as submitted, rather than to the pages of the GPO print, and are identified by asterisks.

<sup>5</sup>*March hearing* at 64 (Statement of Philip S. Johnson, Chief Intellectual Property Counsel, Johnson & Johnson, on behalf of the 21st Century Coalition for Patent Reform).

<sup>6</sup>*October hearing*, Statement of Kevin Kramer, Vice President and Deputy General Counsel for Intellectual Property, Yahoo! Inc., at \*2; *see also id.* at \*3 (“Along with the increase in numbers, Yahoo has seen a decrease in the substantive merits of the cases filed against it.”).

<sup>7</sup>*March hearing* at 39 (statement of Janet L. Dhillon, Executive Vice President, General Counsel and Corporate Secretary, JCPenney).

system have reached beyond the industrial sectors that are directly involved in technological innovation. Increasingly, patent lawsuits have affected businesses that one ordinarily does not expect to be involved with the patent system. Concerns about abusive litigation practices have been expressed to this Committee by constituencies as diverse as the National Retail Federation,<sup>8</sup> the Food Marketing Institute (which conducts programs on food safety for food retailers and wholesalers),<sup>9</sup> the National Association of Realtors,<sup>10</sup> and the American Bankers Association.<sup>11</sup>

Witnesses who appeared before the Subcommittee also described how recent trends in patent litigation have negatively affected small businesses:

In response to the wave of patent troll cases, we have changed our business practices. [F]or example, in the past, . . . we might have considered licensing technology from a small inventor, . . . [a] few guys in a garage who are putting together a very exciting idea about technology. . . . [But now,] we are taking a second look at that. . . . [W]e [often] do not license that technology because we are concerned that that young inventor, that startup, may not have the wherewithal to defend and indemnify us in a patent troll case. And I think that that is a very unfortunate thing for innovation in general.<sup>12</sup>

Others have noted that “[c]ompanies that make \$10 million or less in revenue are the majority of unique defendants”—and that “[s]tartups are particularly vulnerable. Although startups are a crucial source of new jobs, [patent-troll] demands have impacted their ability to hire and meet other milestones, caused them to change their products, and shut down lines of business.”<sup>13</sup>

Finally, one witness with deep experience of the patent system offered the following stark warning about the risks posed by these problems to the system as a whole:

Absent resolution, the concerns over the existing patent litigation rules and procedures—producing litigation consequences that often bedevil both plaintiffs and defendants alike—seem certain to doom the broad public support for the patent system.<sup>14</sup>

The inefficiencies and inequities currently afflicting the Nation’s patent-enforcement system are a problem that calls for this Committee’s attention.<sup>15</sup>

<sup>8</sup>*Id.* at 122 (“In recent years, over 200 retailers have contacted NRF about this issue because they have been, or are currently, the target of patent trolls’ abusive practices.”).

<sup>9</sup>*Id.* at 163.

<sup>10</sup>*March hearing* at 160.

<sup>11</sup>*Id.* at 220–221.

<sup>12</sup>*March hearing* at 140–141 (statement of Janet L. Dhillon, Executive Vice President, General Counsel and Corporate Secretary, JCPenney); *see also April hearing* at 46 (Statement of Colleen V. Chien, Assistant Professor, Santa Clara University Law School) (“Allowing suits against customers as we currently do puts small suppliers in a difficult position— . . . they make small suppliers unattractive, because of their inability to indemnify large companies.”).

<sup>13</sup>*April hearing* at 42 (Statement of Colleen V. Chien, Assistant Professor, Santa Clara University Law School).

<sup>14</sup>*October hearing*, Statement of Robert A. Armitage, Former General Counsel, Eli Lilly & Co., at \*12.

<sup>15</sup>The Committee notes, but declines to rely on, the oft-cited—and surprisingly specific—figure that patent-troll litigation costs United States businesses \$29 billion annually. The study upon which that figure is based has been questioned. *See, e.g., March hearing* at 111 (statement of Graham Gerst, Partner, Global IP Law Group). It appears to be derived from the survey re-

## *Patent Infringement Actions*

### *1. Attorney's Fees*

Witnesses who appeared before this Committee and the Subcommittee on Courts, Intellectual Property, and the Internet repeatedly described how the high cost of mounting a defense to a complaint of patent infringement can force a defendant to settle the case and pay the plaintiff—even when the defendant has good reason to believe that it would have prevailed at trial on a defense of noninfringement or invalidity. Witnesses also predicted that allowing more liberal shifting of attorney's fees against losing parties would reduce the frequency of such nuisance settlements, and would allow more defendants to challenge patents that are invalid or that have been asserted beyond what their claims reasonably allow. As one witness stated at the March 14 Subcommittee hearing:

Given that it costs \$5 million to defend [against] a patent through trial, and the average settlement demand is less than \$1 million, the [patent-assertion entities] have an economic advantage over the targeted defendants. If, however, the PAEs faced the real possibility that the \$5 million would be shifted to them if they were unsuccessful, I believe they would think twice about bringing lawsuits based on meritless patents. And it would just take one defendant out of the hundreds of targets to challenge them to take the profit out of the aggressive litigation model.<sup>16</sup>

Witnesses appearing before the Subcommittee also urged that any new fee-shifting standard be applied evenhandedly to plaintiffs and defendants, and recommended that the law not attempt to discriminate among patent business models. As one witness noted, “non-meritorious litigation positions are no more acceptable coming in the form of specious infringement defenses or counterclaims pled by an accused infringer, and no more acceptable coming from a patent owner that practices its patent than from a non-practicing entity.”<sup>17</sup>

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sponses of just 82 companies, a sample that would not appear to be statistically significant, and that would appear to be prone to selection bias. Legislation cannot be permitted to be based on academic pseudoscience. The counsel of trusted industry leaders with direct experience of the patent-enforcement system, and views expressed by respected trade associations representing diverse industrial sectors, are thus the principal “data” on which the Committee places reliance.

<sup>16</sup>*March hearing* at 89 (Statement of Dana Rao, Vice President of Intellectual Property and Litigation, Adobe Systems); *see also October hearing*, Statement of Kevin Kramer, Vice President and Deputy General Counsel for Intellectual Property, Yahoo! Inc., at \*6 (“Without that threat of fees, there is no disincentive for plaintiffs to file weak cases or, worse yet, bring weak cases to trial. Congress’s providing clarity as to when courts should shift fees will force patent plaintiffs to act more responsibly during litigation and when contemplating whether to file suit at all.”); *March hearing* at 105 (Statement of John Boswell, Senior Vice President and General Counsel, SAS) (“If Congress did something to [expand the availability of fee awards], then we would have less incentive to settle. We would be inclined to take the cases until you got a decision. As soon as you do that, the entire business model of the patent trolls changes, because they use early settlements to fund litigation. And as soon as people stop settling, the whole paradigm shifts.”).

<sup>17</sup>*April hearing* at 14 (Statement of Kevin H. Rhodes, Vice President and Chief Intellectual Property Counsel of 3M Company); *see also March hearing* at 74 (Statement of Philip S. Johnson, Chief Intellectual Property Counsel, Johnson & Johnson, on behalf of the 21st Century Coalition for Patent Reform) (“abusive litigation behavior should be targeted regardless of the party that engages in it. With respect to patent owners, there is no basis to single out [non-practicing entities] for special treatment as opposed to patent owners who practice their inventions—if either type of patent owner takes an unjustified litigation position, fee shifting is warranted.”).

Another industry witness urged the Committee to adopt a clear standard for fee awards, rather than leaving such matters to the whim of the district judge. He noted that “patent trolls file cases in jurisdictions where judges are disinclined to award attorney fees. Providing greater discretion to judges who are not using the discretion they currently have does not seem to be particularly helpful.”<sup>18</sup>

Finally, one leading industry coalition urged the Committee to enact a rule that shifts fees and costs to the losing party unless its litigation position was “substantially justified” or special circumstances would make a fee award unjust.<sup>19</sup> This standard is the same as that of the Equal Access to Justice Act,<sup>20</sup> which has been applied since 1980 to allow awards of attorney’s fees against the Federal Government.

## 2. Heightened Pleading Standards

An industry witness who testified before the Committee on October 29 described the scope of the problem of vague, uninformative patent infringement complaints that has confronted his company:

More often than not, when a complaint is filed against Yahoo, we are left guessing as to the scope of the case. Since 2007, 70 patent cases have been filed against Yahoo. A review of those complaints reveals that only 11 of these cases—just 16%—identified the asserted claims of the patents. Because patent claims are what is infringed, and not patents, it is insufficient to identify only the asserted patent and not the asserted claims of that patent. Furthermore, although 52 of the complaints against us identified at least one accused product, only 21 identified the accused feature within the product that was alleged to have infringed. Because asserted patents are typically much narrower in scope than one of our products, . . . the relevant information is the accused feature, and that is only provided about 30% of the time. Finally, only three patent complaints against us since 2007 provided both asserted claims and accused features of products. Thus, only in about 4% of our cases do we have genuine insight at the pleading stage into what those cases are about. In the other 96% of cases, we must guess.<sup>21</sup>

The same witness also described the problems that such complaints—which fail to identify the asserted claims or explain how they are infringed by the accused products and features—pose for

<sup>18</sup> *March hearing* at 241 (Answer of John G. Boswell, Senior Vice President, Chief Legal Officer, and Corporate Secretary, SAS, to Questions for the Record from Ranking Member Melvin Watt). Such concerns militate against adoption of the standard employed by the Copyright Act, which one Court of Appeals has interpreted to provide that “[a] district court has discretion to decline to award attorney’s fees even when the plaintiff’s copyright infringement case is quite weak.” *Airframe Sys., Inc. v. L-3 Commcns*, 658 F.3d 100, 109 (1st Cir. 2011).

<sup>19</sup> *March hearing* at 74 (Statement of Philip S. Johnson, Chief Intellectual Property Counsel, Johnson & Johnson, on behalf of the 21st Century Coalition for Patent Reform) (“[S]ince 2006, the 21st Century Coalition has supported amending 35 U.S.C § 285 to require fee awards to prevailing parties, unless the court makes a finding that the losing party’s position was ‘substantially justified’ or that ‘special circumstances’ make the fee award ‘unjust.’ Similar language to amend 35 U.S.C § 285 was proposed first in the Patent Reform Act of 2006, S. 3818, 109th Cong., 2d Sess. (introduced August 3, 2006).”).

<sup>20</sup> 28 U.S.C. sec. 2412(d).

<sup>21</sup> *October hearing*, Statement of Kevin Kramer, Vice President and Deputy General Counsel for Intellectual Property, Yahoo! Inc., at \*7–8 (emphasis in original).

defendants. The lack of such information undermines a defendant's ability to prepare a defense, and leads to unnecessary delays and expenses:

Without knowing the asserted claims and the accused features of products, it is very difficult for us to begin to defend ourselves. For example, it is difficult to identify potentially relevant witnesses in order to institute hold notices to prevent inadvertent document destruction. It is difficult to determine what the potential non-infringement arguments might be in any given case. Without knowing, we need to wait months down the road until . . . discovery when plaintiffs are required to provide infringement contentions or expert reports in order to learn what the case is really about. Accordingly, not providing the necessary information at the beginning of a case in the complaint slows down the litigation and makes it inefficient and expensive for both parties.<sup>22</sup>

Another industry witness who testified at the October 29 hearing explained that enhanced pleading standards will not impose a greater burden on patent plaintiffs than that already created by the duty to conduct an investigation and develop a reasonable, good-faith case before filing a complaint for infringement:

While current law does not require the disclosure of infringement theories in a plaintiff's complaint, Rule 11 does require that the plaintiff have conducted due diligence and arrived at a tenable, good-faith theory of infringement before filing suit. The [Innovation Act's] heightened pleading requirement, therefore, imposes no new burden on diligent plaintiffs; they merely need to disclose the results of their required analysis. But [§281A] will have a real effect on those plaintiffs who are not as diligent, barring them at the outset from filing suit where they have conducted no proper due diligence and ensuring that the plaintiff has in fact conducted an analysis, and that the plaintiff has a real basis for filing suit.<sup>23</sup>

### 3. *Limiting Discovery to Claim Construction*

Testimony presented before the Committee explained the need for limiting discovery in patent cases to issues concerning claim construction during the period before a necessary claim construction has been entered:

In patent cases, an early ruling by the judge construing the claims of the asserted patent often is case-dispositive.

<sup>22</sup>*Id.*

<sup>23</sup>*October hearing*, Statement of Krish Gupta, Senior Vice President and Deputy General Counsel, EMC Corporation, at \*9. During the course of the consideration of this Act, some have questioned Congress's authority to legislate with regard to pleading standards for patent-infringement actions and other matters of Federal judicial procedure. "From almost the founding days of this country," however, "it has been firmly established that Congress, acting pursuant to its authority to make all laws 'necessary and proper' to the establishment [of the lower Federal courts], also may enact laws regulating the conduct of those courts and the means by which their judgments are enforced." *Willy v. Coastal Corp.*, 503 U.S. 131, 136 (1992); see also *Sibbach v. Wilson & Co.*, 312 U.S. 1, 9 (1941) ("Congress has undoubted power to regulate the practice and procedure of Federal courts . . ."); Paul Taylor, *Congress's Power to Regulate the Federal Judiciary: What the First Congress and the First Federal Courts Can Teach Today's Congress and Courts*, 37 PEPP. L. REV. 847 (2010).

The plaintiff's infringement theory may rely on a particular interpretation of a claim term, or a defendant may place significant emphasis on a prior art reference that is only within the scope of the claims under a particular construction. And in any event, before the court construes the claims, it is often difficult to know what the theories of infringement or invalidity will be.

[Limits on pre-claim-construction discovery] will help prevent wasted effort by either eliminating the need for discovery entirely (where, for example, the court's claim construction order effectively resolves the case), or at minimum by focusing the parties on truly relevant discovery, which can only be known after the court has told the parties how the claims will be interpreted.<sup>24</sup>

#### *Transparency of Patent Ownership*

A witness who testified before the Subcommittee on Courts, Intellectual Property, and the Internet on March 14 catalogued the reasons why the Patent Act should require greater disclosure as to who owns or has a financial interest in a patent. The witness explained that greater transparency would allow a party seeking to practice a technology to more readily and completely determine whether other patents also need to be evaluated and possibly licensed, and noted that such ownership information would aid in identifying relevant prior art:

There are many costs associated with an incomplete ownership record, as well as benefits associated with a complete ownership record. First, the lack of transparency throughout the life of the patent hinders the public's ability to accurately assess the risk of entering into a new technology market and increases the cost of performing patent clearance analyses. Second, parties may not necessarily achieve a meaningful "patent peace" in settlements or licenses because they have no way of double-checking the true extent of the other party's patent holdings, and therefore might not negotiate a broad enough license to foreclose future conflicts. Third, a similar double-checking problem may occur in the context of standard setting, where some entities may try to hide standard-essential patents. Fourth, a complete ownership record would benefit the USPTO by providing examiners with another tool to search for prior art, and to make accurate prior art determinations in the context of the [common-ownership] exceptions. Finally, having a complete ownership record would facilitate the use of post-grant proceedings at the

<sup>24</sup> *October hearing*, Statement of Krish Gupta, Senior Vice President and Deputy General Counsel, EMC Corporation, at \*10; *see also id.*, Statement of Kevin Kramer, Vice President and Deputy General Counsel for Intellectual Property, Yahoo! Inc., at \*10 ("Claim construction represents a decisive point in most patent cases. Once the court construes the claims at issue in the case, the parties have much more clarity as to the issues and the arguments to be litigated, if any. In fact, claim construction can and often is determinative of the issue of infringement."). *But see id.*, Statement of Robert A. Armitage, Former General Counsel, Eli Lilly & Co., at \*17 ("In some patent infringement litigations, the Markman Ruling can be dispositive of the infringement issues in the litigation; in other patent infringement litigations, the Markman Ruling is inconsequential to the ultimate resolution of the lawsuit. A one-size-fits-all statute tying the commencement of available discovery to the initial Markman Ruling would make sense in some litigations, but possibly not in others.").

USPTO by giving potential petitioners more information to assess the benefits or risks of filing petitions and to locate the most relevant prior art (which is crucial because of the estoppel provisions of these proceedings).<sup>25</sup>

The same witness also described how some patent owners try to conceal information about which patents they own or hold a financial interest in, in order to forestall review of those patents:

[T]he large patent aggregation entities are typically holding the patents in other names or shell companies, because they don't want to draw attention to the size of their portfolio. . . . [T]hey also want to ensure that . . . declaratory judgment actions and reexamination proceedings [are not] initiated against them.<sup>26</sup>

A witness who appeared before this Committee on October 29 described the difficulties posed when ownership and financial-interest information is withheld: defendants do not know whom they are negotiating with or who has the authority to settle the case.

In most cases, a defendant goes to court knowing who is on the other side. In stark contrast, the [patent-assertion entity] model is such that a patent defendant often does not know, beyond the name of a shell corporation plaintiff, who has an interest in the litigation and the patent at issue. Yet this is knowledge that will inform decisions around every facet of a case, including key decisions such as when and whether to settle a case.

[O]ur experience plays a role in our viewpoint on this issue. In several cases, settlement has been complicated by the “investors” or “partners” that had a financial interest in a litigation. . . . This often comes to light during mediation or settlement talks when a plaintiff reveals that it cannot accept a lower offer because it would not satisfy unnamed investors in the endeavor. Transparency into the ownership stakes in a patent or in the plaintiff would help to avoid these issues and help to ensure that the parties at the bargaining table are the ones with the power and authority to settle the litigation.<sup>27</sup>

The same witness also emphasized the special obligation of transparency and disclosure that attends any government-granted property right:

[A] patent is a government grant. Like real property or any other government grant, it is reasonable to expect that the government's records disclose who owns that right. If anything, the expectation [of transparency] should be greater in patent cases given the ability to enforce that

<sup>25</sup> *March hearing* at 98 (Statement of Dana Rao, Vice President of Intellectual Property and Litigation, Adobe Systems); *see also id.* at 99 (“as defendants, we should know who is getting the ultimate economic benefit from the patents that are being asserted against us.”).

<sup>26</sup> *Id.*

<sup>27</sup> *October hearing*, Statement of Kevin Kramer, Vice President and Deputy General Counsel for Intellectual Property, Yahoo! Inc., at \*9.

right through litigation and the strict liability for infringement.<sup>28</sup>

*The Customer-Suit Exception*

A leading industry witness, testifying at the Subcommittee on Courts, Intellectual Property, and the Internet’s March 14 hearing, described the phenomenon of patent infringement suits that are filed against the customer who uses an allegedly infringing product, rather than against the manufacturer who made the product. The witness noted the potentially coercive nature of such suits—and their potential to overcompensate the plaintiff:

A patent litigation practice that has been sharply criticized is the institution of suits against large numbers of assemblers, distributors, or retailers rather than the original manufacturer or provider of the component or product alleged to infringe. This tactic takes advantage of the fact that such suits threaten defendants with the disruption of aspects of their businesses that are at best tangentially related to the invention which is the subject of the patent, and that each individual defendant has less motivation to litigate the issue to final conclusion than the manufacturer of the product at issue. The result can be to collect enormous sums as the result of a very large number of small settlements whose cumulative value far exceeds the amount that could have been recovered from the original manufacturer.<sup>29</sup>

Similarly, a witness at the Subcommittee’s April 16 hearing described how “[b]y targeting multiple customers or end users, a [patent-assertion entity] may create increased settlement opportunities, particularly when the customers or end users lack sufficient technical knowledge of the accused product or sufficient resources to litigate.”<sup>30</sup> The same witness noted that current law’s remedies for such abuses have proven inadequate: “the stay of a customer suit . . . is not automatic, but rather is committed to the discretion of the district court. Unfortunately, courts have been inconsistent in their willingness to stay such customer suits, thus encouraging their filing.”<sup>31</sup>

Another Subcommittee witness described the following infamous example of the abuse of lawsuits against customers. His example involved infringement actions that have been brought by a patent owner against small businesses that offer their customers wireless Internet access:

<sup>28</sup>*Id.*

<sup>29</sup>*March hearing* at 65 (Statement of Philip S. Johnson, Chief Intellectual Property Counsel, Johnson & Johnson, on behalf of the 21st Century Coalition for Patent Reform); *see also id.* at 250 (Answers of Philip S. Johnson, Chief Intellectual Property Counsel, Johnson & Johnson, to Questions for the Record from Ranking Member Melvin Watt); *April hearing* at 45 (Statement of Colleen V. Chien, Assistant Professor, Santa Clara University Law School).

<sup>30</sup>*April hearing* at 36–38 (Statement of Kevin H. Rhodes, Vice President and Chief Intellectual Property Counsel of 3M Company); *see also March hearing* at 76 (Statement of Philip S. Johnson, Chief Intellectual Property Counsel, Johnson & Johnson, on behalf of the 21st Century Coalition for Patent Reform); *October hearing*, Statement of Krish Gupta, Senior Vice President and Deputy General Counsel, EMC Corporation, at \*10–11; *March hearing* at 122 (Statement for the Record of the National Retail Federation and Shop.org).

<sup>31</sup>*Id.*

The [patent-assertion entity's] plan was to assert the patents against users of equipment that provides a form of wireless Internet access commonly known as "Wi-Fi." By the time the patents were assigned to the PAE, however, the patents had already been broadly cross-licensed to competitors and were nearing the end of their patent terms. Additionally, the prior owners [of the patents] had made binding contractual commitments to license all comers on fair and reasonable terms.

Its targets—it has sent over 13,000 letters threatening litigation—often are nonprofits, local and state governments, and small and medium-sized businesses including retirement homes, children's health clinics, coffee shops, cafes, restaurants, and convenience stores. These entities are targets because they (like most every modern business) provide Wi-Fi on their premises, using equipment supplied by Cisco and other manufacturers. Some of this equipment is already licensed under the patents-in-suit because of broad licenses previously granted by the previous owners. But the PAE doesn't tell their targets this, or that the patents are subject to commitments to license on a reasonable and nondiscriminatory basis to all comers. Instead, the PAE tells these targets, who may have spent as little as \$40 on their wireless equipment, that, unless they pay at least \$2,000 or \$3,000 per location within 2 weeks, they will be sued and have to engage counsel to review thousands of pages of documents.<sup>32</sup>

Other industry witnesses noted that the phenomenon of abusive suits brought against customers who use allegedly infringing products is a problem that has grown worse in recent years:

Increasingly, these suits are directed at our customers, who in turn look to us to indemnify them of liability for using our products. Since 2009, Adobe has received more than 100 such indemnification requests. In one recent example, hundreds of retailers were sued by a particular [patent-assertion entity]. Each of these retailers faced the choice of settling for relatively low amounts, less than

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<sup>32</sup>*March hearing* at 15–16 (Statement of Mark Chandler, Senior Vice President and General Counsel, Cisco Systems Inc.). Although the suits described by this witness clearly appear to be abusive, the Committee recognizes that in some situations, a patent owner will have legitimate reason to sue users of a product rather than the manufacturer of the product. For example, as one witness who appeared before the Subcommittee noted, "[w]hen a product is made and sold abroad but then used in the U.S., the downstream user may be the only entity that is subject to U.S. patent law." *March hearing* at 244 (Answer of Graham Gerst, Partner, Global IP Law Group, LLC to Questions for the Record from Ranking Member Melvin Watt). The same witness also described the scenario in which "it is clear that the downstream user is infringing, but there is no way to know who manufactured the device the downstream user is using. In those cases, the end user is the only one to sue." *Id.* Another Subcommittee witness explained why the law should not immunize end users against suits for infringement: "It may be the case that, due to the nature of the patented invention, infringement depends on how a customer uses, installs, or integrates a product with other products." *April hearing* at 36–38 (Statement of Kevin H. Rhodes, Vice President and Chief Intellectual Property Counsel of 3M Company). The same witness also noted that "end user immunity might run the risk that would-be infringers could game the system, with the manufacturer stopping just short of selling an infringing product so that the customer who is immune from infringement can complete the assembly of what would otherwise be an infringing device." *Id.*

\$100,000, or ending up in expensive protracted litigation costing as much as \$5 million per suit.<sup>33</sup>

Despite Federal Circuit precedent recognizing a customer-suit exception,<sup>34</sup> a review of recent district-court decisions confirms Subcommittee witnesses' characterization of the courts as inconsistent in their application of the law. The current caselaw is a dog's breakfast of overlapping, inconsistent, and conflicting decisions. Even in the relatively simple scenario of the customer who uses or sells the manufacturer's product, and a patent that has claims covering that very product or the process used to make the product,<sup>35</sup> courts have refused to stay an infringement suit against the customer despite the participation of the manufacturer in a suit involving the same patent. Some courts have denied a stay in such circumstances on the ground that the manufacturer has been sued in the same court as the customer.<sup>36</sup> Other courts, by contrast, have denied a stay when the manufacturer files a declaratory-judgment action challenging the patent in another district. These courts have held that a stay should be denied if the manufacturer could have intervened in the suit against the customer.<sup>37</sup> Of course, these lines of cases could be alternately applied in *every* customer suit to deny a stay *regardless* of where the manufacturer filed suit or intervened.

Another source of inconsistency in courts' application of customer-suit stays has been patent infringement actions that assert only method claims. In this scenario, the customer uses or sells the manufacturer's product, and that product is uniquely made to carry out the patented process. For example, if a patent claims the use of wireless Internet access, and the product is a router that enables such access, the router itself does not directly infringe under §271(a) because the patent does not claim the product. Instead, it is the customer who purchases the router and installs it at home who is the only direct infringer, because he is the one who is 'using wireless Internet access.' The retailer is liable only "indirectly," as

<sup>33</sup> *March hearing* at 86 (Statement of Dana Rao, Vice President of Intellectual Property and Litigation, Adobe Systems); *see also March hearing* at 246 (Answer of Graham Gerst, Partner, Global IP Law Group, LLC to Questions for the Record from Ranking Member Melvin Watt) ("[T]he tactic of suing a large number of targets with bogus claims only became common over the last few years.")

<sup>34</sup> *See Katz v. Lear Siegler, Inc.*, 909 F.2d 1459 (Fed. Cir. 1990).

<sup>35</sup> The customer is liable for infringement in such a situation under 35 U.S.C. §271(g).

<sup>36</sup> *See, e.g., Heinz Kettler GmbH & Co. v. Indian Indus., Inc.*, 575 F.Supp.2d 728, 730 (E.D. Va. 2008) ("the customer suit exception is inapplicable in this case . . . [b]ecause plaintiffs have simultaneously sued *both* the manufacturer (Escalade) and the customer (Sears) of the allegedly infringing table-tennis tables") (emphasis in original); *Alloc, Inc. v. Unilin Decor N.V.*, 2005 WL 3448060, at \*3 (E.D. Wis. Dec. 15, 2005) (no customer-suit stay because "the allegedly infringing manufacturers . . . and the allegedly infringing customer . . . are defending claims of infringement in the *same* consolidated suit in the *same* jurisdiction") (emphasis in original); *IP Innovation L.L.C. v. Dell Computer Corp.*, 2004 WL 784792, at \*2 (N.D. Ill. Apr. 9, 2004); *Watson Indus., Inc. v. Canon, Inc.*, 2003 WL 23218401, at \*1 (W.D. Wis. Nov. 24, 2003); *Beck Sys., Inc. v. Marimba, Inc.*, 2001 WL 1502338, at \*2 (N.D. Ill. Nov. 20, 2001) ("When all parties are joined in one simultaneous action, the same problems are not presented, and the rationale underlying the customer suit exception does not apply."); *Bingo Brain, Inc. v. California Concepts, Inc.*, 2000 WL 690227, at \*2 (N.D. Ill. May 24, 2000). *Contra, In re Papst Licensing GmbH & Co. KG Litig.*, 767 F.Supp.2d 1 (D.D.C. 2011) (allowing a stay despite the manufacturer and customer's being sued in the same district).

<sup>37</sup> *See, e.g., Largan Precision Co., Ltd. v. Fujinon Corp.*, 2011 WL 1226040, at \*5 (N.D. Cal. Mar. 31, 2011); *BBC Int'l Ltd. v. Lumino Designs, Inc.*, 441 F.Supp. 2d 438, 443 (E.D.N.Y. 2006) ("[T]he customer suit exception does not apply because BBC could have been sued for infringement in the Northern District of Illinois."); *Air Prods. and Chems., Inc. v. MG Nitrogen Servs., Inc.*, 133 F.Supp.2d 354, 356–57 (D. Del. 2001); *Emerson Elec. Co. v. The Black & Decker Mfg. Co.*, 606 F.2d 234, 242 (8th Cir. 1979) (Markey, J).

a contributory infringer,<sup>38</sup> because he sells a product that is specially made or adapted to implement the patented process and that lacks substantial noninfringing use.

Although a customer who buys and uses a router is the only direct infringer of a method claim, the true infringer in this scenario is the manufacturer of the router. Typically, it is the manufacturer who understands the product and is in the best position to defend against allegations of infringement.

A number of courts, unfortunately, have held that when the customer is sued as a direct infringer of a process patent, and the manufacturer could only be sued as an indirect infringer, the customer-suit exception is inapplicable and no stay of the customer suit is permitted. These cases effectively immunize almost all method patent claims against the customer-suit exception.<sup>39</sup> Other courts, by contrast, have recognized that a customer accused of infringing a method claim by using a manufacturer's product is still a customer, and that a stay of the customer suit in favor of an action to which the manufacturer is a party is appropriate.<sup>40</sup>

Another scenario that has resulted in inconsistent application of the customer-suit exception involves a component that causes a larger product to infringe when the component is incorporated into the product. If patent claims are drafted broadly to cover the final product "with" the component, the component itself does not directly infringe the patent—only the final product incorporating the component directly infringes. Unfortunately, a line of cases holds that even if a component incorporated into the final product is the principal cause of infringement, and the manufacturer of the component is a party to a suit involving the patent, a customer-suit stay must be denied if the patent's claims are drawn to cover the larger product.<sup>41</sup> Other courts, however, have recognized that a stay remains appropriate in such a scenario.<sup>42</sup>

<sup>38</sup> See 35 U.S.C. § 271(c).

<sup>39</sup> See, e.g., *Lodsys, LLC v. Brother Int'l Corp.*, 2013 WL 1338767, at \*11 (E.D. Tex. Jan. 14, 2013); *Teleconference Sys. v. Proctor & Gamble Pharm., Inc.*, 676 F.Supp.2d 321, 327 (D. Del. 2009) (customer-suit exception inapplicable "because plaintiff alleges that Cisco's customer are not mere resellers but are direct infringers"); *Privasys, Inc. v. Visa Int'l*, 2007 WL 3461761, at \*4 (N.D. Cal. Nov. 14, 2007) (agreeing that parties "are not mere customers" if they are "involved in carrying out the infringement of the patented method"); *In re Laughlin Prods., Inc.*, 265 F.Supp.2d 525, 537 (E.D. Pa. 2003) ("[W]here the patentee alleges that the customers themselves have directly infringed the method or process disclosed in the patent, the customer suit exception does not apply."); *Air Prods. and Chems., Inc. v. MG Nitrogen Servs., Inc.*, 133 F.Supp.2d 354, 357 (D. Del. 2001) (denying a stay where the customer's use of a product "directly infringes the claims-in-suit, while [the manufacturer's] sale of the equipment only induces or contributes to infringement"); *Am. Acad. of Sci. v. Novell, Inc.*, 1992 WL 313101, at \*3 (N.D. Cal. July 9, 1992) (customer-suit exception inapplicable "where the patent owner seeks to hold the manufacturer liable solely on a theory of inducement/contributory infringement, claiming direct infringement only against the customer").

<sup>40</sup> See, e.g., *Select Retrieval, LLC v. L.L. Bean, Inc.*, 2013 WL 1099754, at \*5 (D. Me. Mar. 15, 2013); *Thermapure, Inc. v. Temp-Air, Inc.*, 2010 WL 5419090, at \*9–10 (N.D. Ill. Dec. 22, 2010); *Card Activation Techs. v. Pier 1 Imports, Inc.*, 2009 WL 2956926, at \*4 (N.D. Ill. Sep. 14, 2009).

<sup>41</sup> See, e.g., *GeoTag, Inc. v. Frontier Commc'ns Corp.*, 2013 WL 693852, at \*2 n.2 (E.D. Tex. Feb. 26, 2013) (customer-suit exception inapplicable where no evidence that "Microsoft and Google supply the entire accused system"); *Cadence Design Sys., Inc. v. OEA Int'l, Inc.*, 2011 WL 4403619, at \*2 (N.D. Cal. Sep. 20, 2011) ("The [customer suit] exception is . . . inapplicable when a manufacturer makes but a component of an end product, where the end product is accused of infringement"); *Microsoft Corp. v. Commonwealth Scientific and Indus. Research Org.*, 2007 WL 4376104, at \*2–3 (E.D. Tex. Dec. 13, 2007) (even though manufacturer's computer chip "does the 'inventive magic,'" customer-suit stay is denied because chip is "only a component of the end product and therefore does not and cannot directly infringe"); *Viking Injector Co., Inc. v. Chemtron, Inc.*, 1993 WL 625543, at \*3 (M.D. Pa. Nov. 9, 1993).

<sup>42</sup> See, e.g., *Pragmatus Telecom, LLC v. Advanced Store Co., Inc.*, 2012 WL 2803695, at \*3–4 (D. Del. July 10, 2012); *Honeywell Int'l Inc. v. Audivox Commc'ns Corp.*, 2005 WL 2465898,

A final circumstance that has bedeviled the district courts is that of a customer who is also accused of inducement of infringement. As an illustrative example, consider again the case of the router and the patent that covers the process of using wireless Internet access. If the owner of such a patent sues a retailer under § 271(c) for selling routers that infringe a claim to using wireless Internet access, the patent owner also could sue the retailer, per § 271(b), for inducing infringement by purchasers of the router who install the router and directly infringe the patent by using wireless Internet service. Some district courts have held that when such a retailer-customer provides instructions to downstream customers (which would normally support an inducement claim), this creates a “separate interest” in proceeding against the retailer-customer that precludes a customer-suit stay.<sup>43</sup> Other courts, however, have recognized that adding inducement claims to an action should not defeat the customer-suit exception with respect to a party that otherwise qualifies as a customer.<sup>44</sup>

Finally, the Committee notes that although the Innovation Act’s new § 296 only stays, rather than terminates, suits against customers—and thus contemplates the possibility of subsequent actions against customers after the manufacturer suit is concluded—in the vast majority of cases, a suit involving the manufacturer will eliminate all potential infringement liability of the customer.

First of all, if the patent is found invalid or not infringed by the manufacturer’s goods in the suit between the patent owner and the manufacturer, no further cause of action lies against the customer with respect to the same patents and goods.<sup>45</sup>

On the other hand, if the patent is found infringed and not invalid in the suit between the patent owner and the manufacturer, a cause of action still lies against the customer—but in the vast majority of cases, no further damages can be recovered from the customer. Principles of claim preclusion do not bar litigating a second action against the customer.<sup>46</sup> Rather, while the patent owner who prevails in his action against the manufacturer may proceed with a suit against the customer,<sup>47</sup> any such customer suit is sharply limited by the *single-recovery rule*. That rule provides that although “a patentee is entitled to full compensation for related acts of infringement, . . . the patentee, like any tort victim, is not entitled to multiple recoveries for the same injury.”<sup>48</sup> Therefore, “a

at \*1, 3 (D. Del. May 18, 2005); *Commissariat a L’Energie Atomique v. Dell Computer Corp.*, 2004 WL 1554382 (D. Del. May 13, 2004); and *Ricoh Co., Ltd. v. Aeroflex Inc.*, 279 F.Supp.2d 554 (D. Del. 2003).

<sup>43</sup> See, e.g., *Alloc, Inc. v. Unilin Decor N.V.*, 2005 WL 3448060, at \*3 (E.D. Wis. Dec. 15, 2005).

<sup>44</sup> See, e.g., *Ultra Prods., Inc. v. Best Buy Co., Inc.*, 2009 WL 2843888, at \*4–6 (D.N.J. Sep. 1, 2009); *Delphi Corp. v. Auto. Techs. Int’l, Inc.*, 2008 WL 2941116, at \*5 (E.D. Mich. July 25, 2008); *Beck Sys., Inc. v. Marimba, Inc.*, 2001 WL 1502338, at \*1 (N.D. Ill. Nov. 20, 2001) (customer-suit stay denied on other grounds); *Tri-Tronics Co., Inc. v. MacGregor & Co., Inc.*, 1990 WL 114738, at \*3 (N.D. Ill. July 25, 1990).

<sup>45</sup> See *MGA, Inc. v. General Motors Corp.*, 827 F.2d 729, 734 (Fed. Cir. 1987) (“The Kessler doctrine bars a patent infringement action against a customer of a seller who has previously prevailed against the patentee because of invalidity or noninfringement of the patent”) (citing *Kessler v. Eldred*, 206 U.S. 285 (1907)); *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 349–50 (1971).

<sup>46</sup> See *Transclean Corp. v. Jiffy Lube Int’l, Inc.*, 474 F.3d 1298, 1306 (Fed. Cir. 2007) (“[A] manufacturer or seller of a product who is sued for patent infringement typically is not in privity with a party, otherwise unrelated, who does no more than purchase and use the product. . . . [and therefore] a patentee’s suit against one would [not] bar a second action against the other under the doctrine of claim preclusion.”)

<sup>47</sup> See *Shockley v. Arcan, Inc.*, 248 F.3d 1349, 1364 (Fed. Cir. 2001).

<sup>48</sup> Jerry R. Selinger & Jessica W. Young, *Suing an Infringing Competitor’s Customers: Or, Life under the Single Recovery Rule*, 31 J. Marshall L.Rev. 19, 29 (1997).

patentee may not sue users of an infringing product for damages if he has collected actual damages from a manufacturer or seller, and those damages fully compensate the patentee for infringement by users.”<sup>49</sup>

In almost all cases, a successful suit against the manufacturer will fully compensate the patent owner for infringing activity by the manufacturer’s customers. This is true whether indirect-infringement claims<sup>50</sup> or direct-infringement claims were successfully litigated against the manufacturer.<sup>51</sup>

Therefore, although §296 only stays (rather than terminates) a separate cause of action against the customer, the Committee anticipates that in almost all cases, resolution of the manufacturer suit pending the stay will eliminate any possibility of further litigation against the customer.

### *Recommendations to the Judicial Conference*

#### *1. Discovery*

An industry witness who testified at the Subcommittee on Courts, Intellectual Property, and the Internet’s April 16 hearing aptly summarized the problems posed by some discovery requests in patent-infringement litigation. He noted that plaintiffs who do not practice the claimed invention often lack reciprocal discovery burdens, and therefore feel unconstrained in their imposition of such burdens on defendants:

The costs and burdens of discovery can be enormous in any patent case. But in cases brought by [patent-assertion entities], the asymmetry of such costs and burdens increases the risk of litigation abuse. Such patent owners typically have few documents and witnesses, so they may propound extremely burdensome discovery to corporate defendants without fearing that they will be on the receiving end of corresponding burdens. Exacerbating that burden are frequently vague and overreaching infringement allegations, making it difficult for a defendant to determine the metes and bounds of its obligation to preserve evidence, and highly disruptive to comply with that obligation. Coupled with the growth of electronically stored information that is an easy target for burdensome discovery requests, the

<sup>49</sup>*Transclean*, 474 F.3d at 1303.

<sup>50</sup>*See Glenayre Elecs., Inc. v. Jackson*, 443 F.3d 851, 858–59 (Fed. Cir. 2006) (citing *Selinger, supra*) (“[W]here a patentee alleges that a manufacturer contributes to and induces infringement by its customers simply because it sells infringing products to its customers, damages assessed for indirect infringement normally will be the same as damages that would be assessed had the patentee sued and obtained a judgment against the customers.”).

<sup>51</sup>*See id.* at 872 (“[W]here a patentee has enforced its patent against a direct infringer and collected damages sufficient to put him in the same position he would have been in had there not been infringement, the patentee cannot thereafter collect actual damages from an alleged indirect infringer.”); *see also Selinger, supra*, at 52 (“In view of the modern theory of damages, it appears that efforts to procure recovery from different levels in the distribution (or user) chain will be difficult to accomplish, so long as the manufacturer is solvent.”); *October hearing*, Statement of Robert A. Armitage, Former General Counsel, Eli Lilly & Co., at \*17–18 (“In many situations, the patent owner can be—and ultimately will be—made whole for any acts of infringement that have taken place, or will take place, by suing the manufacturer of an accused product. In this and like situations, separate infringement lawsuits brought against customers may serve no legitimate purpose—at least where the manufacturer is willing and able to stand in the shoes of its customers and the customer agrees that its interests would be served by having the manufacturer take over the defense of the patent.”).

costs of litigation can mushroom out of control and force defendants to settle simply to avoid intrusive discovery.<sup>52</sup>

Another Subcommittee witness described the particular burden imposed by requests for electronic discovery—and again emphasized the lack of reciprocal burdens confronted by non-practicing plaintiffs:

In the case of my company, it is really not an overstatement to say that we communicate almost completely electronically—by email, text, IM, you name it. So, when, in the context of patent litigation, we must respond to an electronic discovery request, we are instantly looking at legal and consulting bills that will run into the millions of dollars if we choose not to settle. In contrast, patent trolls have no witnesses, they have no documents, they have no evidence to discover. In short, there is an asymmetry in the patent troll context.<sup>53</sup> Patent trolls can and do pursue litigation strategies that make the litigation as expensive as possible because that same tactic cannot be used against them. With no documents to produce and no witnesses to depose, they have very little cost associated with their obligation to respond to discovery requests.<sup>54</sup>

The same witness offered the following example of the massive costs imposed by wasteful and unnecessary discovery in a particular case—and the Hobson's choice that faces a company confronted with such costs:

The number of electronic documents that we had to collect exceeded 10 million. The cost to collect those documents, before considering the attorney's fees to review and make production determinations, was about \$1.5 million. Again, \$1.5 million was just the cost to collect; considering attorney's fees, the cost of the collection was easily double that amount. Of those documents, only 1,873 documents, or .000183%, appeared on an evidence list as possibly being introduced at trial. These are not documents that were actually used, and it is debatable whether any of the 10 million documents collected were even read by the [plaintiff].<sup>55</sup>

<sup>52</sup>*April hearing* at 32–33 (Statement of Kevin H. Rhodes, Vice President and Chief Intellectual Property Counsel of 3M Company).

<sup>53</sup>Other witnesses appearing before the Subcommittee also emphasized the lack of reciprocal burdens borne by patent plaintiffs who do not practice the claimed technology. *See, e.g., April hearing* at 114 (Statement of Russell W. Binns, Jr., Associate General Counsel, IP Law & Litigation, Avaya Inc.) (“A licensing entity typically doesn’t have very many employees. It doesn’t have a terribly large number of documents. It usually has all the documents prepared on a CD before they even start the suit . . .”); *March hearing* at 74–75 (Statement of Philip S. Johnson, Chief Intellectual Property Counsel, Johnson & Johnson, on behalf of the 21st Century Coalition for Patent Reform) (“[Patent plaintiffs who do not practice the invention] typically have few documents and little to disclose in discovery, so they may propound extremely burdensome discovery to corporations without fearing that they will be on the receiving end of corresponding burdens.”); *March hearing* at 86 (Statement of Dana Rao, Vice President of Intellectual Property and Litigation, Adobe Systems) (“Suits by [patent-assertion entities] take advantage of lopsidedness in our litigation system. . . . PAEs typically have very little in discovery costs but at the same time they have the ability to make defendants like Adobe spend a lot of resources responding to very broad discovery requests.”).

<sup>54</sup>*March hearing* at 44–47 (statement of John Boswell, Senior Vice President and General Counsel, SAS).

<sup>55</sup>*See also October hearing*, Statement of Kevin Kramer, Vice President and Deputy General Counsel for Intellectual Property, Yahoo! Inc., at \*6 (“In a typical troll case, we are asked to provide *hundreds of thousands of pages of documents*, including emails from *anyone* with rel-

SAS won summary judgment in this case and it is now on appeal to the Federal Circuit. So far this case has cost us in excess of \$8 million. If SAS ultimately wins this case, it will be a Pyrrhic victory at best. We spent \$8 million and huge amounts of developer time and executive time, for what? This victory does not resolve the other patent troll cases that we face, or will face in the future. This \$8 million and the millions more that we are spending on other cases is money that SAS no longer has to invest in people, facilities, research, or product development; and we are a relatively small player in this world. In short, the cost to us, and to the economy as a whole, is simply staggering.

The dilemma here is that when a company like SAS receives a complaint from a patent troll, it is faced with a Hobson's choice: defend the litigation, which will cost literally millions of dollars, or settle, for a smaller, but not insignificant, amount of money. If you do settle, then the company develops a reputation for being an easy target, which just invites more extortion attempts from the patent-troll community.<sup>56</sup>

## 2. *Protection of Intellectual Property Licenses 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 the 100th Congress enacted § 365(n) in 1989, it recognized that allowing patent and other intellectual-property licenses to be revoked in bankruptcy would be extremely disruptive to the economy and damaging both to patent owners and 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. Also, under such a regime, inventors would be pressured to transfer their entire interest in a patent, rather than simply provide a license, because only a complete transfer would provide a secure right to practice the patented technology. Use of transfers rather than licensing would both reduce the inventor's return on a valuable patent, and would effectively limit who could practice the technology. For all of these reasons, the 100th Congress concluded that allowing intellectual-property licenses to be voided in bankruptcy "is a fundamental threat to the creative process that has nurtured innovation in the United States,"<sup>57</sup> and enacted § 365(n) to put an end to such bankruptcy practices.

In recent years, some parties have tried to subvert the protections of § 365(n) by filing for bankruptcy in a foreign country, and requesting that U.S. courts extend "comity" to the foreign court's termination of licenses to U.S. intellectual property. Chapter 15 of

evant information, their attachments to those emails, such as word processing documents, spreadsheets, and presentations. . . . [I]n my experience, *less than 1 percent* of the electronic documents that get produced actually get used at trial." (emphasis in original).

<sup>56</sup> *March hearing* at 44–47 (statement of John Boswell, Senior Vice President and General Counsel, SAS).

<sup>57</sup> S. REP. NO. 100–505, at 3 (1989).

the Bankruptcy Code creates procedures for recognizing and extending comity to foreign bankruptcy proceedings. Foreign trustees have cited the fact that Chapter 15 does not list § 365(n) among the mandatory provisions that must apply when a U.S. court recognizes a foreign proceeding as a reason to deny such protections to U.S. licensees when a patent owner files for bankruptcy abroad. They also have argued that § 365(n) does not fall within Chapter 15’s public-policy exception to recognizing foreign proceedings.<sup>58</sup> This determination currently must be litigated on a case-by-case basis, and district courts are given discretion in applying the public-policy exception. Such piecemeal litigation and its inherent risks create uncertainty that undermines intellectual-property licensees’ ability to rely on their licenses—and, ultimately, undermines the fundamental purposes of § 365(n).

U.S. law’s failure to clearly protect intellectual-property licenses in Chapter 15 proceedings also creates disincentives for manufacturers to invest in the United States. If the right to practice a technology under a U.S. patent remains uncertain—while other nations provide firm guarantees that licenses to their patents will be protected in a bankruptcy proceeding, whether domestic or foreign to such nation—a manufacturer contemplating building a fabrication plant would face powerful incentives to invest his resources overseas rather than in the United States. U.S. bankruptcy law must not be permitted to deter investment in plants, equipment, and manufacturing jobs in the United States.

### *Corrections and Improvements to the America Invents Act*

#### *1. Repeal of Section 145*

Section 145 of title 35 allows a patent applicant whose claims have been rejected, and who has appealed to the Patent Trial and Appeal Board and lost, to challenge the Board’s decision in a Federal district court rather than appealing to the Federal Circuit. Section 145 was first authorized by the Patent Act of 1839,<sup>59</sup> long before modern administrative law and procedure was developed. In the intervening years, administrative proceedings have expanded to allow applicants to present any relevant evidence of patentability to the Patent Office, and the district courts hearing § 145 actions had adopted procedural rules that effectively (and reasonably) required applicants to exhaust those administrative remedies in the first instance.<sup>60</sup>

In its decision in *Kappos v. Hyatt*,<sup>61</sup> however, the Supreme Court swept aside those understood limits on the presentation of new evidence under § 145. Apparently constrained by its own 19th Century precedents, the Court determined that “there are no limitations on a patent applicant’s ability to introduce new evidence in a § 145 proceeding”—and “[m]oreover, if new evidence is presented on a disputed question of fact, the district court must make de novo fac-

<sup>58</sup> See 11 U.S.C. § 1506.

<sup>59</sup> Patent Act of 1839, Ch. 88, 5 Stat. 353–355 (March 3, 1839). Previous Acts only authorized civil actions for interference. It is § 10 of the 1839 Act that first provided that the action for interference “shall extend to all cases where patents are refused for any reason whatever.”

<sup>60</sup> See *Hyatt v. Doll*, 576 F.3d 1246, 1271, 1273–74 (Fed. Cir. 2009), *vacated*, *Hyatt v. Kappos*, 625 F.3d 1320 (Fed. Cir. 2010).

<sup>61</sup> 132 S.Ct. 1690 (April 18, 2012).

tual findings that take account of both the new evidence and the administrative record before the PTO.”<sup>62</sup>

Though perhaps well suited to antebellum America, the Supreme Court’s revival of an unrestrained § 145 action presents several problems in the present age. First and foremost, this version of § 145 effectively allows applicants to withhold evidence from the PTO. It allows applicants to ignore the administrative process and present their evidence of patentability in the first instance to a district judge, who is required to review it *de novo*. This puts the judge, who rarely has relevant technical training, in the difficult position of evaluating a new technology and conducting a patent examination—all without the benefit of the views of the agency that Congress created and designated to conduct such reviews.

Moreover, such an approach is unnecessary. Today, applicants have ample administrative routes provided by statute for offering new evidence, including testimony, if a claim is rejected. Even after a Board decision by an administrative patent judge affirming an examiner’s rejections, an applicant can file a continuation application, and can introduce new evidence of patentability in that continuation.<sup>63</sup>

Finally, the wide-open authority to present any new evidence of patentability in district court is wasteful. By permitting an applicant to present his case for patentability for the first time in the district court, § 145 makes PTO examination and Board proceedings irrelevant and consumes disproportionate PTO litigation resources.<sup>64</sup> PTO has developed detailed procedural rules to encourage the timely presentation of evidence; § 145 renders those rules meaningless.

Since applicants already have administrative avenues for presenting their evidence of patentability, and may seek appellate review at the U.S. Court of Appeals for the Federal Circuit under § 141, § 145 no longer serves any purpose. Section 145 has outlived its utility and should be repealed.

## 2. *Obviousness-Type Double Patenting*

The double-patenting doctrine was developed by the courts to control the effects of exceptions to prior art that permit a patentee to obtain multiple patents for obvious variations of the same invention.<sup>65</sup> An inventor can obtain such obvious-variant patents because his own unpublished patent applications are not prior art to his subsequent applications. As a result, absent the double-patenting doctrine, an inventor could obtain multiple patents for what is basically the same invention, and then sell those patents to dif-

<sup>62</sup>*Id.* at 1700–01.

<sup>63</sup>In the AIA’s new contested proceedings—*inter partes* review and post-grant review—the petitioner may challenge a patent using expert evidence in the form of affidavits or declarations, and the patent owner therefore may need to depose such witnesses. These proceedings, however, authorize deposition of witnesses submitting affidavits or declarations. See 35 U.S.C. §§ 316(a)(5)(A) and 326(a)(5).

<sup>64</sup>See *October hearing*, Statement of Robert A. Armitage, Former General Counsel, Eli Lilly & Co., at \*8 (“[T]he benefits to the few patent applicants who would seek [§ 145] relief does not seem . . . to justify the disproportionate burden placed upon the Office to build and maintain the capability to try these cases.”).

<sup>65</sup>The earliest appearance of the double-patenting doctrine—at least in the Supreme Court’s opinions—appears to be in *O’Reilly v. Morse*, 56 U.S. 62 (1853). See *id.* at 114 (observing that if Morse’s broad claim to “the use of the motive power of . . . electro-magnetism, however developed, for making or printing intelligible characters, letters, or signs, at any distance” were valid, then a second, narrower improvement patent would necessarily be “illegal and void” as “extend[ing] his monopoly beyond the period limited by law”).

ferent parties, requiring others to obtain multiple licenses from multiple parties in order to practice what is substantially the same invention.

Also, under the pre-URAA<sup>66</sup> system, in which a patent's term ran 17 years from its issuance, patents could expire 30, 40, or even 50 years after the date that the patent was originally sought. Inventors, by filing a series of continuing applications, could delay prosecution. Without double-patenting rules, patent protection for essentially the same subject matter could remain in force for decades.

The double-patenting doctrine precludes such practices by requiring patentees to disclaim the right to enforce any later-issued obvious-variant patents separately, and to disclaim the right to enforce such later-issued patents beyond the term of the earliest-issuing (and therefore, earliest expiring) obvious-variant patent.

As recently as the 1980's, double patenting was a relatively simple and straightforward doctrine, and was limited by several key principles. The first among these—which traces its origins to the Judge Taft's 1897 decision in *Thomson-Houston Elec. Co. v. Ohio Brass Co.*<sup>67</sup>—is that the double-patenting bar does not apply to an inventor's patents if the same patents could have validly issued to separate inventors. *Ohio Brass* recognized that if “the personality of the owner of two different patents [were to] affect the validity of either, then the anomalous result would follow that the owner of one patent would avoid it by acquiring ownership of another.”<sup>68</sup> The court dismissed the notion that such a “unity of title avoid[s] the main patent” as a “reductio ad absurdum.”<sup>69</sup>

*Ohio Brass* also recognized that it is “well settled that a patent may issue for an improvement on an earlier invention either to the original inventor or a stranger”—and rejected the notion that “if, by some chance, the application for the fundamental patent is delayed in its course through the patent office until a patent on the avowed improvement has issued, then the patent on the fundamental invention is void.”<sup>70</sup> Noting that the “the course of an application for a generic or broad invention may legitimately take longer in its course through the patent office than a comparatively unimportant improvement,”<sup>71</sup> *Ohio Brass* established that the inventor had the right to rely on the order of invention (*i.e.*, pre-AIA priority), rather than the order of issuance, to determine if the later-issued patent should be subject to a double-patenting limit.

A final double-patenting principle, reflected in the PTO's 1967 Official Gazette Notice, is that “[t]he term ‘double patenting’ is properly applicable only to cases involving two or more applications and/or patents of the same inventive entity.”<sup>72</sup> The Notice emphasized that in cases involving different inventors, sections 102 and 103 of title 35 already operate to prevent the issuance of patents that are the same or obvious in view of one another, thus precluding the need to apply double-patenting principles.

<sup>66</sup>The Uruguay Round Agreements Act, PUB. L. NO. 103-465, 108 Stat. 4809 (1994).

<sup>67</sup>80 F. 712 (6th Cir. 1897).

<sup>68</sup>*Id.* at 727.

<sup>69</sup>*Id.*

<sup>70</sup>*Id.* at 724.

<sup>71</sup>*Id.* at 727.

<sup>72</sup>*Double Patenting*, 834 O.G. 1615 (Jan. 31, 1967).

These three fundamental principles—that double patenting is not a bar where the patents could have validly issued to separate inventors, does not apply where § 103 already operates to prevent the issuance of obvious-variant patents, and that order of priority (rather than issuance) must be used to determine which patent is subject to a double-patenting limit—found expression in a series of CCPA decisions following the adoption of the 1952 Act, creating a relatively simple and rational double-patenting landscape.<sup>73</sup>

The Patent Law Amendments Act of 1984,<sup>74</sup> by enacting the common-ownership exception to prior art that now appears at § 102(b)(1)(C), unsettled this landscape by requiring the courts to expand the double-patenting doctrine to encompass this new, broader exception to prior art.<sup>75</sup> This resulted in a series of court decisions during the 1990’s that drastically restricted access to the “two-way” test for double patenting—and that ultimately congealed into a rule that violates basic principles of the double-patenting doctrine that trace their origins to *Ohio Brass*.<sup>76</sup>

Under the so-called one-way test, an earlier-filed but later-issuing commonly owned patent or application can be invalidated for double patenting even if the earlier-issued patent is nonobvious over the later-issuing patent as prior art.<sup>77</sup> In other words, the related inventors of the two patents are punished for making two separate and nonobvious inventions that, had they been made separately by unrelated inventors, would have been entirely valid and separately enforceable for their full respective terms.

Under current jurisprudence, the two-way test is available only in the “unusual circumstance” where the USPTO is “solely responsible for the delay in causing the second-filed application to issue prior to the first”<sup>78</sup>—it is a “narrow exception” that is rendered inapplicable even when the timing of two applications is driven not by “nefarious intent,” but rather by ordinary business decisions.<sup>79</sup>

By reversing *Ohio Brass*’s allowance of an order-of-priority test, the recent jurisprudence also abandons the principle that double-patenting does not apply if the patents could have validly issued to separate inventors—embracing a principle that *Ohio Brass* itself had dismissed as a “*reductio ad absurdum*.” And finally, recent decisions also extend the double-patenting doctrine to cases where the patents *did*, in fact, issue to separate inventors, and thus already operated as prior art against one another.<sup>80</sup> For example, the very recent decision of *In re Hubbell* applied the double-patenting doctrine to destroy the earlier-filed application of a university re-

<sup>73</sup> See Robert A. Armitage, *Everything You Ever Wanted to Know About Double Patenting . . . But Never Realized that You Needed to Ask (From The Makers Of Prozac)*, 2001, at \*\*8–17 [hereinafter *Armitage ODP article*]. This paper was presented at a conference of the Intellectual Property Owners Association but has not been published. A revised and updated version of the paper will be printed in the record of the October 29 hearing.

<sup>74</sup> PUB. L. NO. 98–622 (1984).

<sup>75</sup> See *Armitage ODP article* at \*\*18–19.

<sup>76</sup> *Id.* at \*\*19–28.

<sup>77</sup> See, e.g., *Eli Lilly and Co. v. Barr Labs.*, 251 F.3d 955, 967–68 (Fed. Cir. 2001). Under the two-way test, the double-patenting bar does not apply unless the later-filed but earlier-issued patent also is obvious in view of the earlier-filed but later-issued patent. See *In re Berg*, 140 F.3d 1428, 1432 (Fed. Cir. 1998).

<sup>78</sup> *Lilly v. Barr*, 251 F.3d at 968 n.7 (emphasis in original).

<sup>79</sup> *In re Fallaux*, 564 F.3d 1313, 1317 (Fed. Cir. 2009).

<sup>80</sup> See, e.g., *Lilly v. Barr*, 251 F.3d 955; *In re Hubbell*, 709 F.3d 1140, 1146–48 (Fed. Cir. 2013); see also *Armitage ODP article* at \*27 (“[under these cases,] double patenting would now infect two patents even if the two patented inventions were patentably distinct because the non-obviousness test operated, *i.e.*, one of the two patented inventions was prior art to the other.”).

search team for a broad invention because two of its joint inventors later participated in another research team that filed a later, narrow improvement application that issued before the first application did.<sup>81</sup> The court reached the absurd result of invalidating the earlier-sought basic invention because of a later-discovered improvement that already was required to be nonobvious over the basic invention.

The one-way test, when properly applied, serves the salutary purpose of allowing the courts to rein in the potential for abuse of rules that fail to limit the filing of continuing applications—even decades after an initial patent on an invention has issued.<sup>82</sup> Some of the courts' decisions took note of this special justification for employing the one-way test, suggesting that this approach might be confined to the pre-URAA patents.<sup>83</sup>

In 2009, however, the Federal Circuit made clear that it would not “disregard” its recent precedents—as opposed to the logic underpinning the double-patenting doctrine—and would continue to apply the one-way test’s “ad hoc nullification machine”<sup>84</sup> to modern patents that run 20 years from their filing.<sup>85</sup>

The URAA makes it all but impossible for applicants to obtain the type of pre-URAA patent-term extensions that have been cited as justifying a liberal application of the one-way test. Given the unfairness of invalidating an earlier-filed patent because of a later-filed patent, especially in the case of first-inventor-to-file patents for which prior art is dictated by the order of patent filing, it is appropriate to eliminate continuing application of the one-way test in favor of a rule of law that is consistent with *Ohio Brass* and the double-patenting doctrine’s foundational principles.

### 3. Use of District-Court Claim Construction in Inter Partes and Post-Grant Reviews

In the course of the development of the Innovation Act, the Committee also considered proposals to require the PTAB to follow a district-court claim construction that has been entered with respect to a patent. Such an approach would have the virtue of ensuring that a patent is construed in the same way in all relevant fora. As a result, all risk would be eliminated that a patent might be subject to challenge in a PTAB proceeding for claiming subject matter than the patent owner already had been denied the right to enforce.

Such an approach, however, poses problems of its own. District courts themselves are not bound by a previous district court’s claim construction or a party’s stipulation. Certainly, the second-deciding court does not follow a first-deciding court’s claim construction if it believes the earlier construction to be clearly erroneous. Some inconsistency in claim construction is thus inevitable in the district courts themselves. A requirement to follow constructions entered into or stipulated to in a district court could also be subject to

<sup>81</sup>*In re Hubbell*, 709 F.3d at 1142–43, 1146–48.

<sup>82</sup>*See, e.g., In re Basell Poliolefine Italia, S.P.A.*, 547 F.3d 1371, 1373–74 (Fed. Cir. 2008) (invalidating for double patenting a patent that issued in 2002 from an application claiming priority to 1954).

<sup>83</sup>*See Takeda Pharm. Co., Ltd. v. Doll*, 561 F.3d 1372, 1377 n.1 (Fed. Cir. 2009); *Boehringer Ingelheim Int’l GmbH v. Barr Labs., Inc.*, 592 F.3d 1340, 1346 (Fed. Cir. 2010).

<sup>84</sup>*Hill v. Colorado*, 530 U.S. 703, 742 (2000) (Scalia, J., dissenting).

<sup>85</sup>*In re Fallaux*, 564 F.3d at 1318–1319.

abuse. A party could enter into a self-serving stipulation to an unreasonably narrowed claim construction in a settlement with another party that is not concerned about obtaining a proper claim construction. Such a construction would not bind the patent owner or other courts in other infringement actions—but could insulate the patent from PTAB review. Finally, such an approach presents practical difficulties: district courts can and do adopt claim constructions during the pendency of PTAB proceedings. If the PTAB were required to always follow claim constructions entered by a district court, it would be forced to restart the case whenever a new claim construction were entered—and would effectively find it impossible to comply with the AIA’s 12- to 18-month deadline for completing these proceedings.

For the foregoing reasons, the Committee declines to mandate that the PTAB adopt district-court claim constructions in review proceedings under chapters 31 and 32. The Committee nevertheless expects that the PTO will implement the present amendments not only in their letter, but also in their spirit of narrowing the gap between what a patent is construed to claim when it is enforced, and what it claims when subject to challenge before the PTAB. To this end, the Committee expects that the PTAB will strongly consider adopting as its own any previously-entered district-court claim construction that it finds to be at least a reasonable interpretation of the claims in a patent.<sup>86</sup>

Although covered business method reviews are a subspecies of post-grant review, the unique nature of those proceedings precludes a need to employ district-court standards of claim construction in them. Only business-method patents are eligible for CBM review. Because such patents are not directed at the application of scientific or mathematical principles,<sup>87</sup> they are generally incapable of creating reproducible results, and are thus inherently unpatentably abstract, as that standard recently was clarified in *Bilski v. Kappos*.<sup>88</sup> In light of *Bilski*’s restoration of the historic bar on the patenting of business methods, the Committee finds it unnecessary

<sup>86</sup>Conversely, the Committee expects that U.S. District Courts will give at least persuasive weight to claim constructions previously entered by the technically-trained jurists of the PTAB.

<sup>87</sup>The Committee is aware of the Supreme Court’s recent pronouncement that inventions relying on the application natural laws are unpatentable when “the relation itself exists in principle apart from any human action.” *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S.Ct. 1289, 1297 (2012). The Court applied the “laws of nature” exception to subject-matter patentability to invalidate a patent that disclosed determining the appropriate dose of a drug to treat an autoimmune disease on the basis of measurements of the levels of metabolites in the patient’s blood. *See id.* at 1295. *Prometheus* poses several quandaries, however. It is not entirely clear why the Court concluded that the discovery of a means of determining the amount of a drug that will cure—rather than kill—the patient is an invention inherently unworthy of a patent. The Court’s reliance on the trio of *Benson*, *Flook*, and *Diehr* to guide its § 101 analysis—despite the fact that the latter clearly overruled the first two, and that none of the three is particularly coherent—does not contribute to clarity in this area of law. But most fundamentally, were the Committee to take seriously the suggestion that an invention is unpatentable if it adds “nothing of significance” to the natural laws that control its operation, *id.* at 1302, it must also conclude that the Patent Office should be deauthorized, for nothing would remain patentable other than whatever business methods survive *Bilski*. It is thus unsurprising that the patent bar, particularly in the life sciences, has greeted *Prometheus* as the jurisprudential equivalent of the bombing of Dresden. The Committee will continue to monitor developments in this area and evaluate whether corrective action is necessary.

<sup>88</sup>130 S.Ct. 3218 (2010). The respondent in that case, during the Committee’s October 29 hearing, described another problematic aspect of the patenting of business methods: “patents covering methods of doing business . . . inherently cover all technology solving the affected business problem.” *October hearing*, Statement of David J. Kappos, Former Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office, at \*5. Such patents inevitably are parasitic of the hard work and ingenuity of the inventor of the technological product or feature that implements the business-method “invention.”

to burden the Board with applying district courts' additional claim-construction criteria in CBM proceedings to define the precise metes and bounds of the unpatentable subject matter claimed in such patents.

#### 4. PTO Patent Reviews

During the course of the Committee's consideration of the present bill, a "technical" but serious defect in AIA § 18 was brought to the Committee's attention.<sup>89</sup> AIA § 18(a)(1)(C) delineates the types of prior art that may be employed in a covered business method patent review of a first-to-invent business-method patent. Subparagraph (C) ensures that the *Metallizing Engineering* doctrine, and other discovery-intensive pre-AIA loss-of-right rules, cannot be asserted in a CBM proceeding. Subparagraph (C) bases its definition of the prior art that may be cited against a first-to-invent patent on pre-AIA § 102(a) and (b). The subparagraph neglects, however, to incorporate pre-AIA § 102(e).

This omission precludes using patents and published applications in a CBM proceeding as of their effective filing dates, rather than as of their publication or grant dates. The word "patented," as used in pre-AIA § 102(a) and (b), makes a patent effective as prior art only as of its publication or grant date, and in any event extends only to issued patents rather than published applications—the former are mere "printed publications," and thus effective as prior art only as of their publication dates.<sup>90</sup> Section 9(e) of the Innovation Act corrects this legislative oversight, ensuring that the swarm of business-method patents and abandoned-but-published applications that followed the Federal Circuit's *State Street* decision can serve as prior art in a CBM proceeding as of the date that they were filed, rather than as of when they were published.

As the Committee noted in its report accompanying the AIA, a petition to initiate a CBM review may be granted if the petitioner is either sued for or accused of infringement.<sup>91</sup> The Committee reaffirms that a demand letter or other pre-litigation communication suggesting that infringement may have occurred constitutes an accusation of infringement and satisfies AIA § 18(a)(1)(B)'s prerequisite for filing a petition for review.

As to other matters concerning CBM proceedings, the Committee has heeded the call of witnesses at the October 29 hearing to "let sleeping dogs lie," and allow further analysis of the operation of CBM review before determining whether the duration or scope of the proceedings should be modified.<sup>92</sup> The Committee also has been persuaded that it is unnecessary to codify the PTAB's application of the definition of "covered business method patent" in *SAP v. Versata*, CBM2012-00001. Since the Board's decision appears to be

<sup>89</sup>See Patents Post-Grant Blog, "The Statutory Defect That May Doom Your CBM Petition," Sept. 23, 2013.

<sup>90</sup>See MPEP § 2126; *In re Ekenstam*, 256 F.2d 321, 325 (CCPA 1958); 78 FR 11059, 11074 (Feb. 14, 2013).

<sup>91</sup>See H.R. REP. NO. 112-98, at 54 (2011).

<sup>92</sup>*October hearing*, Statement of David J. Kappos, Former Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office, at \*6 ("[I]t is simply too early to say whether Section 18 needs to be made permanent."); *id.*, Statement of Robert A. Armitage, Former General Counsel, Eli Lilly & Co., at \*10, n.13 ("[A]s to proposed changes to AIA § 18, the Committee might conclude that sleeping dogs should be allowed to lie—and the 2011 compromise on CBMP, IPR and PGR should be allowed to remain undisturbed absent some compelling justification for moving forward with a holistic reassessment of their operation and impact on the patent system.").

entirely consistent with the statutory text, PTO's implementing regulations, and the clear and uncontradicted explanations of the language offered by its principal Senate sponsor, codifying it at this time would amount to little more than legislating for legislating's sake.<sup>93</sup>

#### 5. Clarification of Limits on Patent Term Adjustment

Subparagraph (B) of § 154(b)(1) of title 35 provides a day-for-day adjustment of the term of a patent for delays attributable to the PTO after an application has been pending for more than 3 years. Subparagraph (B) excludes certain events from that adjustment, including the time consumed by a request for continued examination ("RCE") under § 132(b). An RCE is like a continuation application, in that it allows an applicant to seek additional prosecution. For over a decade, the PTO has construed subparagraph (B) to provide that no patent term adjustment is awarded for time accrued as a result of an RCE filing, regardless of when the RCE was filed.<sup>94</sup>

Two recent court decisions, however, have called the PTO's interpretation into doubt. *Exelixis, Inc. v. Kappos*<sup>95</sup> and *Novartis v. Kappos*<sup>96</sup> have held that adjustments for RCE time must be provided under subparagraph (B) when the RCE is filed more than 3 years into the pendency of the application.

These decisions create an unfortunate incentive for applicants to delay filing RCEs until after the 3-year mark. They also threaten to invite a return to the pre-URAA abuses that had been eliminated by the adoption of a patent term that runs from a patent's filing date rather than from its issuance. As Mr. Lamar Smith has noted with respect to the *Exelixis* decision:

The district court's interpretation of subparagraph (B) . . . would allow patent term adjustment to accrue for any continued examination sought after the 3-year clock has run. Such a result, of course, would allow applicants to postpone their patent's expiration date through dilatory prosecution, the very submarine-patenting tactic that Congress sought to preclude in 1994 when it adopted a 20-year patent term that runs from an application's effective filing date.<sup>97</sup>

Mr. Smith's concerns are well founded. Unless the *Exelixis* decision is corrected, its interpretation of subparagraph (B) would allow indefinite patent term adjustments for RCEs commenced after 3 years of prosecution. Because applicants can request multiple RCEs, *Exelixis* would potentially allow applicants to extend their patent terms by many years. This would effectively allow an unscrupulous applicant to pursue a submarine-patenting strategy.

Moreover, when an applicant exhausts his nonfinal and final rejections, and files an RCE (rather than appealing the final rejection to the Board), the applicant effectively restarts prosecution of his application. While applicants are entitled to pursue this route, they

<sup>93</sup> See also Letter of Mr. Lamar Smith to Senator Schumer *et al.*, September 8, 2011 (*printed in* 157 Cong. Rec. S7413–14 (daily ed. Nov. 14, 2011)).

<sup>94</sup> See 37 CFR § 1.702(b)(1) and 37 CFR § 1.703(b)(1).

<sup>95</sup> No. 1:12cv96 (E.D. Va. Nov. 1, 2012).

<sup>96</sup> No. 1:10cv01138 (D.D.C. Nov. 15, 2012) (following *Exelixis*).

<sup>97</sup> 158 Cong. Rec. E2016 (daily ed. Dec. 31, 2012).

should not receive patent-term adjustment for time accrued after they have requested an RCE. “Delays” caused by the filing of an RCE are properly attributable to the applicant’s failure to submit allowable claims in his first round of prosecution, and to his choice to pursue an RCE rather than appealing to the Board. As written, however, subparagraph (B) has led to litigation about what “consumed by continued examination” means, and whether any of the time accrued after an RCE is requested can still create eligibility for B-delay adjustment.

Section 9(f) of the Innovation Act clarifies that no B-delay patent term adjustment accrues after an applicant elects to pursue an RCE. A witness at the Committee’s October legislative hearing commented on subsection (f)’s amendments:

These USPTO-proposed amendments appear on their face to be unobjectionable. With the advent of first-inventor-to-file patents and the ability of patent applicants to secure prompt action by the USPTO to get patents issued through the Prioritized Patent Examination Program, the original policy justification for Patent Term Adjustment, never strong to begin with, has now all but evaporated. If the USPTO were willing to grant Prioritized Patent Examination to any patent applicant meeting the current qualifications, the Committee ought to consider whether the time has come to retire the PTA statute in its entirety—most especially for first-inventor-to-file patents.<sup>98</sup>

#### 6. “*Arising Under*” Jurisdiction and *Gunn v. Minton*

Prior to this year, Federal Circuit and regional circuit caselaw recognized that certain causes of action, though created by state law, effectively determine the legal force or effect of the claims in a patent—and therefore “arise under” Federal patent law and are within the exclusive jurisdiction of the Federal district courts and the Federal Circuit.

These causes of action include, for example, state-law actions for breach of a licensing agreement in which liability turns on whether a party has sold products that infringe a patent.<sup>99</sup> Other such causes of action include state-law actions for business disparagement, unfair competition, injurious falsehood, or interference with prospective economic advantage in which liability depends on whether a patent is infringed by a product or whether the patent is invalid or unenforceable. Typically in such cases, a competitor sues the patentee because the patentee has informed the competitor’s customers that the products that they have purchased from the competitor infringe the patentee’s patent.<sup>100</sup>

Because the Federal Circuit and regional circuits agreed that these types of state-law causes of action, which effectively assign legal liability based on a determination of the scope and the validity of the claims in a patent, “arise under” Federal patent law, the

<sup>98</sup>October hearing, Statement of Robert A. Armitage, Former General Counsel, Eli Lilly & Co., at \*10.

<sup>99</sup>See, e.g. *Scherbatskoy v. Halliburton Co.*, 125 F.3d 288 (5th Cir. 1997) (transferring appeal to the Federal Circuit); *U.S. Valves, Inc. v. Dray*, 190 F.3d 811 (7th Cir. 1999) (same).

<sup>100</sup>See, e.g., *Additive Controls & Measurement Sys., Inc. v. Flowdata, Inc.*, 986 F.2d 476 (Fed. Cir. 1993); *Hunter Douglas, Inc. v. Harmonic Design, Inc.*, 153 F.3d 1318 (Fed. Cir. 1998), overruled on other grounds, *Midwest Indus., Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356 (Fed. Cir. 1999).

Federal district courts had original (and removal) jurisdiction over such actions, and the Federal Circuit had appellate jurisdiction over them.

The Supreme Court's recent decision in *Gunn v. Minton*,<sup>101</sup> however, has cast doubt over whether such actions continue to "arise under" Federal patent law. The Court's opinion concluded that "arising under" jurisdiction exists when the validity or construction of a Federal statute is in question, when a case's resolution will affect numerous other Federal cases, or when a case affects the Federal Government.<sup>102</sup>

None of these factors, however, necessarily captures the case of a state contract or tort action posing the possibility of inconsistent determinations regarding the legal effect of a patent's claims. Such a case does not typically turn on an interpretation of Federal law or affect numerous other cases or the Federal Government. If *Gunn*'s enumeration of "arising under" factors is thus treated as an exclusive listing of such factors, "arising under" jurisdiction could be deemed to no longer extend to the case merely threatening inconsistent determinations as to the effect of a patent.

The Federal Circuit recently has suggested that its past cases finding "arising under" jurisdiction for patent-related state-law business disparagement and injurious falsehood claims "may well have survived the Supreme Court's decision in *Gunn*."<sup>103</sup> That statement, however, is only dicta, and the matter remains unresolved in the Federal Circuit. Moreover, some regional courts of appeals have begun to apply *Gunn* broadly. They effectively have treated *Gunn*'s partial enumeration of the factors that can render a patent issue "substantial" for purposes of arising under jurisdiction as an exclusive list of such factors.<sup>104</sup> Courts such as the Eleventh Circuit in *MDS (Canada) Inc.* have thus held that even a case in which liability turns on whether a particular product infringes a claim in a patent does not "arise under" the Federal patent laws.<sup>105</sup>

It is important that "arising under" jurisdiction continue to extend to these types of cases. If it were otherwise, a patent owner could successfully prosecute an infringement action in Federal court with respect to a product, yet simultaneously be held liable for "business disparagement" in state court for asserting that the same product infringes the same patent. Similarly, a licensee manufacturer could successfully assert a defense of noninfringement in Federal court, yet be held liable for breach of contract in state court with respect to the same patent and the same product. One of the principal reasons for creating the Federal Circuit in 1982

<sup>101</sup> 133 S.Ct. 1059 (Feb. 20, 2013).

<sup>102</sup> See *Gunn*, 133 S.Ct. at 1066–67.

<sup>103</sup> *Forrester Envtl. Servs., Inc. v. Wheelabrator Techs., Inc.*, 715 F.3d 1329, 1334 (Fed. Cir. 2013).

<sup>104</sup> See *MDS (Canada) Inc. v. Rad Source Technologies, Inc.*, 720 F.3d 833, 842–43 (11th Cir. 2013) ("The substantiality inquiry under *Grable* looks [ ] to the importance of the issue to the Federal system as a whole," *Gunn v. Minton*, \_\_\_ U.S. \_\_\_, 133 S.Ct. 1059, 1066, 185 L.Ed.2d 72 (2013), and the Supreme Court has identified three factors to assist in this inquiry. First, a pure question of law is more likely to be a substantial Federal question. *Empire Healthchoice Assur., Inc. v. McVeigh*, 547 U.S. 677, 700–01, 126 S.Ct. 2121, 2137, 165 L.Ed.2d 131 (2006). Second, a question that will control many other cases is more likely to be a substantial Federal question. *Id.* Third, a question that the government has a strong interest in litigating in a Federal forum is more likely to be a substantial Federal question. *Grable*, 545 U.S. at 315–16, 125 S.Ct. at 2368–69. All of these factors establish that the issue of patent infringement here is not a substantial Federal question for the purpose of section 1338.")

<sup>105</sup> See *id.* at 846.

was to prevent inconsistent adjudications as to the legal effect of a patent—that is, to avoid situations where one circuit finds a patent infringed by a product and valid and another circuit finds the opposite. But a broad reading of *Gunn* effectively threatens this very result.

### Hearings

The Committee on the Judiciary held a hearing on H.R. 3309. The hearing took place on October 29, 2013. Testimony was received from Mr. Krish Gupta, Senior Vice President and Deputy General Counsel, EMC Corporation; Mr. Kevin Kramer, Vice President and Deputy General Counsel for Intellectual Property, Yahoo! Inc.; Mr. David J. Kappos, Former Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office; and Mr. Robert A. Armitage, Former General Counsel, Eli Lilly & Co.

The Committee’s Subcommittee on Courts, Intellectual Property, and the Internet also conducted two separate but related hearings on March 14, 2013 (“Abusive Patent Litigation: The Impact on American Innovation & Jobs, and Potential Solutions,” Serial No. 113–13), and April 16, 2013 (“Abusive Patent Litigation: The Issues Impacting American Competitiveness and Job Creation at the International Trade Commission and Beyond,” Serial No. 113–24).

### Committee Consideration

On November 20, 2013, the Committee met in open session and ordered the bill H.R. 3309 favorably reported with an amendment, by a rollcall vote of 33–5, a quorum being present.

### Committee Votes

In compliance with clause 3(b) of rule XIII of the Rules of the House of Representatives, the Committee advises that the following rollcall votes occurred during the Committee’s consideration of H.R. 3309.

1. The amendment to the amendment in the nature of a substitute offered by Mr. Conyers creates a revolving fund for PTO fees, requires disclosure of all parties with a financial interest in a party or the patent in a patent lawsuit, allows stays of suits against customers, instructs the PTO and others to prepare reports on several issues, and makes technical corrections. This amendment was defeated by a rollcall vote of 14–19.

#### ROLLCALL NO. 1

	Ayes	Nays	Present
Mr. Goodlatte (VA), Chairman .....		X	
Mr. Sensenbrenner, Jr. (WI) .....			
Mr. Coble (NC) .....		X	
Mr. Smith (TX) .....			
Mr. Chabot (OH) .....			
Mr. Bachus (AL) .....		X	
Mr. Issa (CA) .....		X	
Mr. Forbes (VA) .....		X	

ROLLCALL NO. 1—Continued

	Ayes	Nays	Present
Mr. King (IA) .....			
Mr. Franks (AZ) .....		X	
Mr. Gohmert (TX) .....		X	
Mr. Jordan (OH) .....		X	
Mr. Poe (TX) .....			
Mr. Chaffetz (UT) .....		X	
Mr. Marino (PA) .....		X	
Mr. Gowdy (SC) .....		X	
Mr. Amodei (NV) .....		X	
Mr. Labrador (ID) .....		X	
Ms. Farenthold (TX) .....		X	
Mr. Holding (NC) .....		X	
Mr. Collins (GA) .....			
Mr. DeSantis (FL) .....			
Mr. Smith (MO) .....		X	
Mr. Conyers, Jr. (MI), Ranking Member .....	X		
Mr. Nadler (NY) .....	X		
Mr. Scott (VA) .....	X		
Mr. Watt (NC) .....	X		
Ms. Lofgren (CA) .....		X	
Ms. Jackson Lee (TX) .....	X		
Mr. Cohen (TN) .....	X		
Mr. Johnson (GA) .....	X		
Mr. Pierluisi (PR) .....		X	
Ms. Chu (CA) .....	X		
Mr. Deutch (FL) .....	X		
Mr. Gutierrez (IL) .....	X		
Ms. Bass (CA) .....	X		
Mr. Richmond (LA) .....	X		
Ms. DelBene (WA) .....		X	
Mr. Garcia (FL) .....	X		
Mr. Jeffries (NY) .....	X		
Total .....	14	19	

2. The amendment to the amendment in the nature of a substitute offered by Mr. Conyers creates a revolving fund for PTO fees. This amendment was defeated by a rollcall vote of 13–17.

ROLLCALL NO. 2

	Ayes	Nays	Present
Mr. Goodlatte (VA), Chairman .....		X	
Mr. Sensenbrenner, Jr. (WI) .....			
Mr. Coble (NC) .....		X	
Mr. Smith (TX) .....		X	
Mr. Chabot (OH) .....			
Mr. Bachus (AL) .....		X	
Mr. Issa (CA) .....		X	
Mr. Forbes (VA) .....		X	

ROLLCALL NO. 2—Continued

	Ayes	Nays	Present
Mr. King (IA) .....		X	
Mr. Franks (AZ) .....			
Mr. Gohmert (TX) .....			
Mr. Jordan (OH) .....			
Mr. Poe (TX) .....			
Mr. Chaffetz (UT) .....		X	
Mr. Marino (PA) .....		X	
Mr. Gowdy (SC) .....		X	
Mr. Amodei (NV) .....		X	
Mr. Labrador (ID) .....		X	
Ms. Farenthold (TX) .....		X	
Mr. Holding (NC) .....		X	
Mr. Collins (GA) .....		X	
Mr. DeSantis (FL) .....		X	
Mr. Smith (MO) .....		X	
Mr. Conyers, Jr. (MI), Ranking Member .....	X		
Mr. Nadler (NY) .....	X		
Mr. Scott (VA) .....	X		
Mr. Watt (NC) .....	X		
Ms. Lofgren (CA) .....	X		
Ms. Jackson Lee (TX) .....	X		
Mr. Cohen (TN) .....			
Mr. Johnson (GA) .....			
Mr. Pierluisi (PR) .....	X		
Ms. Chu (CA) .....	X		
Mr. Deutch (FL) .....	X		
Mr. Gutierrez (IL) .....			
Ms. Bass (CA) .....	X		
Mr. Richmond (LA) .....	X		
Ms. DelBene (WA) .....	X		
Mr. Garcia (FL) .....	X		
Mr. Jeffries (NY) .....			
Total .....	13	17	

3. The amendment to the amendment in the nature of a substitute offered by Mr. Conyers strikes subsections (a) through (c) of section 6 of the bill and replaces them with a study. This amendment was defeated by a rollcall vote of 9–21.

ROLLCALL NO. 3

	Ayes	Nays	Present
Mr. Goodlatte (VA), Chairman .....		X	
Mr. Sensenbrenner, Jr. (WI) .....			
Mr. Coble (NC) .....		X	
Mr. Smith (TX) .....			
Mr. Chabot (OH) .....			
Mr. Bachus (AL) .....			
Mr. Issa (CA) .....		X	

ROLLCALL NO. 3—Continued

	Ayes	Nays	Present
Mr. Forbes (VA) .....		X	
Mr. King (IA) .....		X	
Mr. Franks (AZ) .....		X	
Mr. Gohmert (TX) .....		X	
Mr. Jordan (OH) .....		X	
Mr. Poe (TX) .....			
Mr. Chaffetz (UT) .....		X	
Mr. Marino (PA) .....		X	
Mr. Gowdy (SC) .....		X	
Mr. Amodei (NV) .....			
Mr. Labrador (ID) .....		X	
Ms. Farenthold (TX) .....		X	
Mr. Holding (NC) .....		X	
Mr. Collins (GA) .....		X	
Mr. DeSantis (FL) .....		X	
Mr. Smith (MO) .....		X	
Mr. Conyers, Jr. (MI), Ranking Member .....	X		
Mr. Nadler (NY) .....		X	
Mr. Scott (VA) .....	X		
Mr. Watt (NC) .....	X		
Ms. Lofgren (CA) .....		X	
Ms. Jackson Lee (TX) .....	X		
Mr. Cohen (TN) .....			
Mr. Johnson (GA) .....			
Mr. Pierluisi (PR) .....		X	
Ms. Chu (CA) .....	X		
Mr. Deutch (FL) .....	X		
Mr. Gutierrez (IL) .....			
Ms. Bass (CA) .....			
Mr. Richmond (LA) .....	X		
Ms. DelBene (WA) .....		X	
Mr. Garcia (FL) .....	X		
Mr. Jeffries (NY) .....	X		
Total .....	9	21	

4. The amendment to the amendment in the nature of a substitute offered by Mr. Jeffries strikes the bill's repeal of § 145 of title 35. This amendment was defeated by a rollcall vote of 13–19.

ROLLCALL NO. 4

	Ayes	Nays	Present
Mr. Goodlatte (VA), Chairman .....		X	
Mr. Sensenbrenner, Jr. (WI) .....			
Mr. Coble (NC) .....		X	
Mr. Smith (TX) .....			
Mr. Chabot (OH) .....			
Mr. Bachus (AL) .....		X	
Mr. Issa (CA) .....		X	

## ROLLCALL NO. 4—Continued

	Ayes	Nays	Present
Mr. Forbes (VA) .....		X	
Mr. King (IA) .....		X	
Mr. Franks (AZ) .....		X	
Mr. Gohmert (TX) .....		X	
Mr. Jordan (OH) .....		X	
Mr. Poe (TX) .....			
Mr. Chaffetz (UT) .....		X	
Mr. Marino (PA) .....		X	
Mr. Gowdy (SC) .....		X	
Mr. Amodei (NV) .....		X	
Mr. Labrador (ID) .....		X	
Ms. Farenthold (TX) .....		X	
Mr. Holding (NC) .....		X	
Mr. Collins (GA) .....		X	
Mr. DeSantis (FL) .....		X	
Mr. Smith (MO) .....		X	
Mr. Conyers, Jr. (MI), Ranking Member .....	X		
Mr. Nadler (NY) .....	X		
Mr. Scott (VA) .....	X		
Mr. Watt (NC) .....	X		
Ms. Lofgren (CA) .....	X		
Ms. Jackson Lee (TX) .....	X		
Mr. Cohen (TN) .....			
Mr. Johnson (GA) .....			
Mr. Pierluisi (PR) .....	X		
Ms. Chu (CA) .....	X		
Mr. Deutch (FL) .....	X		
Mr. Gutierrez (IL) .....			
Ms. Bass (CA) .....			
Mr. Richmond (LA) .....	X		
Ms. DelBene (WA) .....	X		
Mr. Garcia (FL) .....	X		
Mr. Jeffries (NY) .....	X		
Total .....	13	19	

5. The amendment to the amendment in the nature of a substitute offered by Mr. Watt makes the provision-limiting discovery prior to claim construction discretionary. This amendment was defeated by a rollcall vote of 8–21.

## ROLLCALL NO. 5

	Ayes	Nays	Present
Mr. Goodlatte (VA), Chairman .....		X	
Mr. Sensenbrenner, Jr. (WI) .....			
Mr. Coble (NC) .....		X	
Mr. Smith (TX) .....			
Mr. Chabot (OH) .....			
Mr. Bachus (AL) .....		X	

ROLLCALL NO. 5—Continued

	Ayes	Nays	Present
Mr. Issa (CA) .....		X	
Mr. Forbes (VA) .....		X	
Mr. King (IA) .....		X	
Mr. Franks (AZ) .....		X	
Mr. Gohmert (TX) .....		X	
Mr. Jordan (OH) .....		X	
Mr. Poe (TX) .....			
Mr. Chaffetz (UT) .....		X	
Mr. Marino (PA) .....		X	
Mr. Gowdy (SC) .....		X	
Mr. Amodei (NV) .....		X	
Mr. Labrador (ID) .....		X	
Ms. Farenthold (TX) .....		X	
Mr. Holding (NC) .....		X	
Mr. Collins (GA) .....		X	
Mr. DeSantis (FL) .....		X	
Mr. Smith (MO) .....		X	
Mr. Conyers, Jr. (MI), Ranking Member .....	X		
Mr. Nadler (NY) .....	X		
Mr. Scott (VA) .....	X		
Mr. Watt (NC) .....	X		
Ms. Lofgren (CA) .....		X	
Ms. Jackson Lee (TX) .....			
Mr. Cohen (TN) .....			
Mr. Johnson (GA) .....			
Mr. Pierluisi (PR) .....		X	
Ms. Chu (CA) .....	X		
Mr. Deutch (FL) .....	X		
Mr. Gutierrez (IL) .....			
Ms. Bass (CA) .....			
Mr. Richmond (LA) .....	X		
Ms. DelBene (WA) .....	X		
Mr. Garcia (FL) .....			
Mr. Jeffries (NY) .....			
Total .....	8	21	

6. The amendment to the amendment in the nature of a substitute offered by Mr. Watt provides for the award of attorney’s fees in “appropriate cases.” This amendment was defeated by a rollcall vote of 12–23.

ROLLCALL NO. 6

	Ayes	Nays	Present
Mr. Goodlatte (VA), Chairman .....		X	
Mr. Sensenbrenner, Jr. (WI) .....			
Mr. Coble (NC) .....		X	
Mr. Smith (TX) .....		X	
Mr. Chabot (OH) .....		X	

ROLLCALL NO. 6—Continued

	Ayes	Nays	Present
Mr. Bachus (AL) .....		X	
Mr. Issa (CA) .....		X	
Mr. Forbes (VA) .....		X	
Mr. King (IA) .....		X	
Mr. Franks (AZ) .....		X	
Mr. Gohmert (TX) .....		X	
Mr. Jordan (OH) .....		X	
Mr. Poe (TX) .....			
Mr. Chaffetz (UT) .....		X	
Mr. Marino (PA) .....		X	
Mr. Gowdy (SC) .....		X	
Mr. Amodei (NV) .....		X	
Mr. Labrador (ID) .....		X	
Ms. Farenthold (TX) .....		X	
Mr. Holding (NC) .....		X	
Mr. Collins (GA) .....		X	
Mr. DeSantis (FL) .....		X	
Mr. Smith (MO) .....		X	
Mr. Conyers, Jr. (MI), Ranking Member .....	X		
Mr. Nadler (NY) .....	X		
Mr. Scott (VA) .....	X		
Mr. Watt (NC) .....	X		
Ms. Lofgren (CA) .....		X	
Ms. Jackson Lee (TX) .....			
Mr. Cohen (TN) .....			
Mr. Johnson (GA) .....	X		
Mr. Pierluisi (PR) .....		X	
Ms. Chu (CA) .....	X		
Mr. Deutch (FL) .....	X		
Mr. Gutierrez (IL) .....			
Ms. Bass (CA) .....	X		
Mr. Richmond (LA) .....	X		
Ms. DelBene (WA) .....	X		
Mr. Garcia (FL) .....	X		
Mr. Jeffries (NY) .....	X		
Total .....	12	23	

7. The amendment to the amendment in the nature of a substitute offered by Mr. Johnson strikes section 6 of the bill. This amendment was defeated by a rollcall vote of 9–25.

ROLLCALL NO. 7

	Ayes	Nays	Present
Mr. Goodlatte (VA), Chairman .....		X	
Mr. Sensenbrenner, Jr. (WI) .....			
Mr. Coble (NC) .....		X	
Mr. Smith (TX) .....		X	
Mr. Chabot (OH) .....		X	

ROLLCALL NO. 7—Continued

	Ayes	Nays	Present
Mr. Bachus (AL) .....		X	
Mr. Issa (CA) .....			
Mr. Forbes (VA) .....		X	
Mr. King (IA) .....			
Mr. Franks (AZ) .....		X	
Mr. Gohmert (TX) .....			
Mr. Jordan (OH) .....		X	
Mr. Poe (TX) .....		X	
Mr. Chaffetz (UT) .....		X	
Mr. Marino (PA) .....		X	
Mr. Gowdy (SC) .....		X	
Mr. Amodei (NV) .....		X	
Mr. Labrador (ID) .....		X	
Ms. Farenthold (TX) .....		X	
Mr. Holding (NC) .....		X	
Mr. Collins (GA) .....		X	
Mr. DeSantis (FL) .....		X	
Mr. Smith (MO) .....		X	
Mr. Conyers, Jr. (MI), Ranking Member .....	X		
Mr. Nadler (NY) .....		X	
Mr. Scott (VA) .....	X		
Mr. Watt (NC) .....	X		
Ms. Lofgren (CA) .....		X	
Ms. Jackson Lee (TX) .....	X		
Mr. Cohen (TN) .....			
Mr. Johnson (GA) .....	X		
Mr. Pierluisi (PR) .....		X	
Ms. Chu (CA) .....		X	
Mr. Deutch (FL) .....		X	
Mr. Gutierrez (IL) .....	X		
Ms. Bass (CA) .....			
Mr. Richmond (LA) .....	X		
Ms. DelBene (WA) .....		X	
Mr. Garcia (FL) .....	X		
Mr. Jeffries (NY) .....	X		
Total .....	9	25	

8. The amendment to the amendment in the nature of a substitute offered by Mr. Jeffries applies heightened standards to the pleading of defenses of noninfringement and invalidity. This amendment was defeated by a rollcall vote of 12–23.

ROLLCALL NO. 8

	Ayes	Nays	Present
Mr. Goodlatte (VA), Chairman .....		X	
Mr. Sensenbrenner, Jr. (WI) .....			
Mr. Coble (NC) .....		X	
Mr. Smith (TX) .....		X	

## ROLLCALL NO. 8—Continued

	Ayes	Nays	Present
Mr. Chabot (OH) .....		X	
Mr. Bachus (AL) .....		X	
Mr. Issa (CA) .....			
Mr. Forbes (VA) .....		X	
Mr. King (IA) .....			
Mr. Franks (AZ) .....		X	
Mr. Gohmert (TX) .....		X	
Mr. Jordan (OH) .....		X	
Mr. Poe (TX) .....		X	
Mr. Chaffetz (UT) .....		X	
Mr. Marino (PA) .....		X	
Mr. Gowdy (SC) .....		X	
Mr. Amodei (NV) .....		X	
Mr. Labrador (ID) .....		X	
Ms. Farenthold (TX) .....		X	
Mr. Holding (NC) .....		X	
Mr. Collins (GA) .....		X	
Mr. DeSantis (FL) .....		X	
Mr. Smith (MO) .....		X	
Mr. Conyers, Jr. (MI), Ranking Member .....	X		
Mr. Nadler (NY) .....	X		
Mr. Scott (VA) .....	X		
Mr. Watt (NC) .....	X		
Ms. Lofgren (CA) .....		X	
Ms. Jackson Lee (TX) .....	X		
Mr. Cohen (TN) .....	X		
Mr. Johnson (GA) .....	X		
Mr. Pierluisi (PR) .....		X	
Ms. Chu (CA) .....	X		
Mr. Deutch (FL) .....	X		
Mr. Gutierrez (IL) .....	X		
Ms. Bass (CA) .....			
Mr. Richmond (LA) .....	X		
Ms. DelBene (WA) .....		X	
Mr. Garcia (FL) .....			
Mr. Jeffries (NY) .....	X		
Total .....	12	23	

9. The amendment to the amendment in the nature of a substitute offered by Mr. Jeffries provides for the award of attorney's fees unless the position of the nonprevailing party was reasonably justified in law and fact, and clarifies that severe economic hardship to the inventor can qualify as a special circumstance allowing denial of a fee award. This amendment was adopted by a rollcall vote of 36–2.

## ROLLCALL NO. 9

	Ayes	Nays	Present
Mr. Goodlatte (VA), Chairman .....	X		
Mr. Sensenbrenner, Jr. (WI) .....			
Mr. Coble (NC) .....	X		
Mr. Smith (TX) .....	X		
Mr. Chabot (OH) .....	X		
Mr. Bachus (AL) .....	X		
Mr. Issa (CA) .....			
Mr. Forbes (VA) .....	X		
Mr. King (IA) .....	X		
Mr. Franks (AZ) .....	X		
Mr. Gohmert (TX) .....	X		
Mr. Jordan (OH) .....	X		
Mr. Poe (TX) .....	X		
Mr. Chaffetz (UT) .....	X		
Mr. Marino (PA) .....	X		
Mr. Gowdy (SC) .....	X		
Mr. Amodei (NV) .....	X		
Mr. Labrador (ID) .....	X		
Ms. Farenthold (TX) .....	X		
Mr. Holding (NC) .....	X		
Mr. Collins (GA) .....	X		
Mr. DeSantis (FL) .....	X		
Mr. Smith (MO) .....	X		
Mr. Conyers, Jr. (MI), Ranking Member .....		X	
Mr. Nadler (NY) .....	X		
Mr. Scott (VA) .....	X		
Mr. Watt (NC) .....	X		
Ms. Lofgren (CA) .....	X		
Ms. Jackson Lee (TX) .....	X		
Mr. Cohen (TN) .....	X		
Mr. Johnson (GA) .....		X	
Mr. Pierluisi (PR) .....	X		
Ms. Chu (CA) .....	X		
Mr. Deutch (FL) .....	X		
Mr. Gutierrez (IL) .....	X		
Ms. Bass (CA) .....	X		
Mr. Richmond (LA) .....	X		
Ms. DelBene (WA) .....	X		
Mr. Garcia (FL) .....	X		
Mr. Jeffries (NY) .....	X		
Total .....	36	2	

10. The amendment to the amendment in the nature of a substitute offered by Mr. Watt provides for consideration of conduct that extended litigation in the award of attorney's fees. This amendment was defeated by a rollcall vote of 17–21.

ROLLCALL NO. 10

	Ayes	Nays	Present
Mr. Goodlatte (VA), Chairman .....		X	
Mr. Sensenbrenner, Jr. (WI) .....			
Mr. Coble (NC) .....		X	
Mr. Smith (TX) .....		X	
Mr. Chabot (OH) .....		X	
Mr. Bachus (AL) .....		X	
Mr. Issa (CA) .....			
Mr. Forbes (VA) .....		X	
Mr. King (IA) .....		X	
Mr. Franks (AZ) .....		X	
Mr. Gohmert (TX) .....		X	
Mr. Jordan (OH) .....		X	
Mr. Poe (TX) .....		X	
Mr. Chaffetz (UT) .....		X	
Mr. Marino (PA) .....		X	
Mr. Gowdy (SC) .....		X	
Mr. Amodei (NV) .....		X	
Mr. Labrador (ID) .....		X	
Ms. Farenthold (TX) .....		X	
Mr. Holding (NC) .....		X	
Mr. Collins (GA) .....		X	
Mr. DeSantis (FL) .....		X	
Mr. Smith (MO) .....		X	
Mr. Conyers, Jr. (MI), Ranking Member .....	X		
Mr. Nadler (NY) .....	X		
Mr. Scott (VA) .....	X		
Mr. Watt (NC) .....	X		
Ms. Lofgren (CA) .....	X		
Ms. Jackson Lee (TX) .....	X		
Mr. Cohen (TN) .....	X		
Mr. Johnson (GA) .....	X		
Mr. Pierluisi (PR) .....	X		
Ms. Chu (CA) .....	X		
Mr. Deutch (FL) .....	X		
Mr. Gutierrez (IL) .....	X		
Ms. Bass (CA) .....	X		
Mr. Richmond (LA) .....	X		
Ms. DelBene (WA) .....	X		
Mr. Garcia (FL) .....	X		
Mr. Jeffries (NY) .....	X		
Total .....	17	21	

11. The bill was reported favorably, as amended, by a rollcall vote of 33–5.

ROLLCALL NO. 11

	Ayes	Nays	Present
Mr. Goodlatte (VA), Chairman .....	X		

## ROLLCALL NO. 11—Continued

	Ayes	Nays	Present
Mr. Sensenbrenner, Jr. (WI) .....			
Mr. Coble (NC) .....	X		
Mr. Smith (TX) .....	X		
Mr. Chabot (OH) .....	X		
Mr. Bachus (AL) .....	X		
Mr. Issa (CA) .....	X		
Mr. Forbes (VA) .....	X		
Mr. King (IA) .....	X		
Mr. Franks (AZ) .....	X		
Mr. Gohmert (TX) .....			
Mr. Jordan (OH) .....	X		
Mr. Poe (TX) .....	X		
Mr. Chaffetz (UT) .....	X		
Mr. Marino (PA) .....	X		
Mr. Gowdy (SC) .....	X		
Mr. Amodei (NV) .....	X		
Mr. Labrador (ID) .....	X		
Ms. Farenthold (TX) .....	X		
Mr. Holding (NC) .....	X		
Mr. Collins (GA) .....	X		
Mr. DeSantis (FL) .....	X		
Mr. Smith (MO) .....	X		
Mr. Conyers, Jr. (MI), Ranking Member .....		X	
Mr. Nadler (NY) .....	X		
Mr. Scott (VA) .....		X	
Mr. Watt (NC) .....		X	
Ms. Lofgren (CA) .....	X		
Ms. Jackson Lee (TX) .....		X	
Mr. Cohen (TN) .....	X		
Mr. Johnson (GA) .....		X	
Mr. Pierluisi (PR) .....	X		
Ms. Chu (CA) .....	X		
Mr. Deutch (FL) .....	X		
Mr. Gutierrez (IL) .....	X		
Ms. Bass (CA) .....	X		
Mr. Richmond (LA) .....	X		
Ms. DelBene (WA) .....	X		
Mr. Garcia (FL) .....	X		
Mr. Jeffries (NY) .....	X		
Total .....	33	5	

**Committee Oversight Findings**

In compliance with clause 3(c)(1) of rule XIII of the Rules of the House of Representatives, the Committee advises that the findings and recommendations of the Committee, based on oversight activities under clause 2(b)(1) of rule X of the Rules of the House of Representatives, are incorporated in the descriptive portions of this report.

### **New Budget Authority and Tax Expenditures**

Clause 3(c)(2) of rule XIII of the Rules of the House of Representatives is inapplicable because this legislation does not provide new budgetary authority or increased tax expenditures.

### **Congressional Budget Office Cost Estimate**

In compliance with clause 3(c)(3) of rule XIII of the Rules of the House of Representatives, the Committee sets forth, with respect to the bill, H.R. 3309, the following estimate and comparison prepared by the Director of the Congressional Budget Office under section 402 of the Congressional Budget Act of 1974:

U.S. CONGRESS,  
CONGRESSIONAL BUDGET OFFICE,  
*Washington, DC, November 27, 2013.*

Hon. BOB GOODLATTE, CHAIRMAN,  
*Committee on the Judiciary,*  
*House of Representatives, Washington, DC.*

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 3309, the “Innovation Act.”

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contacts are Martin von Gnechten and Susan Willie, who can be reached at 226–2860.

Sincerely,

DOUGLAS W. ELMENDORF,  
DIRECTOR.

Enclosure

cc: Honorable John Conyers, Jr.  
Ranking Member

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### **H.R. 3309—Innovation Act.**

As ordered reported by the House Committee on the Judiciary  
on November 20, 2013.

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CBO estimates that implementing H.R. 3309 would cost \$3 million over the 2014–2018 period, assuming appropriation of the necessary amounts, mainly for reports to be prepared by the Administrative Office of the United States Courts (AOUSC) and the Government Accountability Office and administrative costs incurred by the AOUSC associated with new judicial procedures. Pay-as-you-go procedures do not apply to this legislation because it would not affect direct spending or revenues.

Based on information from the Patent and Trademark Office (PTO), CBO also estimates that implementing H.R. 3309 would have a gross cost to PTO of about \$30 million per year. However, PTO is authorized to collect fees sufficient to offset its operating expenses; therefore, CBO estimates that the net budgetary effect of PTO’s activities undertaken to implement H.R. 3309 would not be significant, assuming appropriation actions consistent with the agency’s authorities.

H.R. 3309 would change administrative and judicial processes that support the protection of intellectual property rights. CBO expects that, by requiring inventors to be more specific in pleadings to the court, awarding attorney fees to the prevailing party, and limiting discovery early in an infringement proceeding, the bill would affect the decisions of inventors to initiate lawsuits for patent infringement.

H.R. 3309 would make several adjustments to judicial procedures for patent infringement cases, including which parties may join a suit and when a court is required to grant a motion to stay an action. Further, the bill would require the courts to award the prevailing party reasonable fees and other expenses incurred in connection with such cases. The bill also would require the AOUSC to develop rules and procedures related to the discovery of evidence in lawsuits for patent infringement.

The bill would change procedures that PTO has in place to examine patent applications, award patents, and determine the validity of a patent that has already been granted. Among other things, H.R. 3309 would specify that the agency use methods similar to those used in district courts to evaluate the validity of a patent. The bill also would require the agency to develop new databases to make information about patent ownership and litigation available on its website, perform an additional review of certain declarations made on original applications, and prepare several studies and reports on patent ownership and the behavior of certain patent owners.

H.R. 3309 would impose a mandate as defined in the Unfunded Mandates Reform Act (UMRA) on both public and private entities because PTO would charge fees to offset the costs incurred to collect and make some information related to patents publicly available. Other provisions in the bill also would result in increased patent fees. The requirement to pay those fees would be a mandate because the Federal Government controls the patent and trademark system, and no reasonable alternatives to that system exist.

Based on information from PTO, CBO estimates that the annual cost to comply with the mandate would be about \$30 million, with less than \$1 million of those costs accruing to public entities and the rest accruing to private entities. Therefore, the cost for public and private entities to comply with the mandate would fall below the annual thresholds established in UMRA for intergovernmental and private-sector mandates (\$75 million and \$150 million in 2013, respectively, adjusted annually for inflation).

The CBO contacts for this estimate are Susan Willie and Martin von Gnechten (for Federal costs), Melissa Merrell (for the impact on state and local governments), and Paige Piper/Bach and Nathan Musick (for the private-sector impact). The estimate was approved by Peter H. Fontaine, Assistant Director for Budget Analysis.

### **Duplication of Federal Programs**

No provision of H.R. 3309 establishes or reauthorizes a program of the Federal Government known to be duplicative of another Federal program, a program that was included in any report from the Government Accountability Office pursuant to section 21 of Public Law 111–139, or a program related to a program identified in the most recent Catalog of Federal Domestic Assistance.

### **Disclosure of Directed Rule Makings**

The Committee estimates that H.R. 3309 specifically directs to be completed one specific rule making within the meaning of 5 U.S.C. 551.

### **Performance Goals and Objectives**

The Committee states that pursuant to clause 3(c)(4) of rule XIII of the Rules of the House of Representatives, H.R. 3309 amends title 35, United States Code, and the Leahy-Smith America Invents Act, to make improvements and technical corrections.

### **Advisory on Earmarks**

In accordance with clause 9 of rule XXI of the Rules of the House of Representatives, H.R. 3309 does not contain any congressional earmarks, limited tax benefits, or limited tariff benefits as defined in clause 9(e), 9(f), or 9(g) of Rule XXI.

### **Section-by-Section Analysis**

*Section 1. Short title; table of contents.*

This Act may be cited as the “Innovation Act.”

*Section 2. Definitions.*

Section 2 defines the terms “Director” and “Office.”

*Section 3. Patent infringement actions.*

#### *(a) Pleading requirements*

New § 281A establishes heightened pleading requirements for claims of patent infringement, to the extent that the required information is reasonably accessible to the claimant.

#### *(b) Attorney’s fees*

Subsection (a) of revised § 285 provides that fees and expenses shall be awarded to a prevailing party unless the position and conduct of the nonprevailing party was reasonably justified in law and fact or special circumstances (such as economic hardship to the inventor) make a fee award unjust. This standard reflects the Supreme Court’s clarification of the standard employed by the Equal Access to Justice Act (EAJA),<sup>106</sup> which governs the award of fees against the Federal Government. Enacted over 30 years ago, EAJA offers a well-developed body of caselaw to guide application of revised § 285, and sets a standard that is predictable and fair.

Under this standard, there is no presumption that the nonprevailing party’s position was not reasonably justified simply because it lost the case.<sup>107</sup> Even if a plaintiff’s complaint is rejected by the judge or jury, the plaintiff is immune from a fee award so long as its position had a reasonable basis in law and fact.<sup>108</sup> Fees cannot be awarded if the nonprevailing party’s case was justified to a de-

<sup>106</sup> 28 U.S.C. § 2412(d).

<sup>107</sup> *Norris v. SEC*, 695 F.3d 1261, 1265 (Fed. Cir. 2012).

<sup>108</sup> *Pierce v. Underwood*, 487 U.S. 552, 565 (1988).

gree that could satisfy a reasonable person,<sup>109</sup> or there was at least a dispute over which reasonable minds could differ.<sup>110</sup>

When a case turns on a legal question, courts have looked to the clarity of the governing law—that is, whether judicial decision on the issue left the status of the law unsettled, and whether the legal issue was novel or difficult.<sup>111</sup> On questions of statutory interpretation, for example, courts have asked whether the Federal courts were split on the matter,<sup>112</sup> or whether the nonprevailing party interpreted a statute in a manner that is contrary to its plain language and unsupported by its legislative history.<sup>113</sup>

Subsection (a) has been modified to further clarify that the special circumstances that justify the denial of a fee award to a prevailing party may include situations involving severe economic hardship to the inventor.<sup>114</sup> The courts have discretion in special circumstances to protect from a fee award, for example, the unsophisticated independent inventor who brought a lawsuit to protect what he may have understood to be his claimed invention but whose complaint was ultimately determined not to be reasonably justified.

This analysis is not conducted issue by issue; rather, the nonprevailing party's litigation position is reviewed in the overall context.<sup>115</sup> While the parties' postures on individual matters may be more or less justified, the reasonable-justification test favors treating a case as an inclusive whole, rather than as atomized line-items.<sup>116</sup> Also, when determining whether a party is prevailing party that is entitled to a fee award, courts consider the degree of success obtained by that party. A party whose "success" consists of a damage award that is only a very small fraction of what it originally sought is not entitled to a fee award.<sup>117</sup>

As under the EAJA, a district court's decision to grant or deny a fee award under § 285(a) is reviewed for an abuse of discretion.<sup>118</sup> This deferential standard, however, "does not mean that a mistake of law is beyond appellate correction. A district court by definition abuses its discretion when it makes an error of law."<sup>119</sup>

Subsection (b) of § 285 provides that any party to the action may, upon motion, require another party to certify whether or not it will be able to satisfy a fee award in the event that such an award is made against such other party. This subsection also provides that a party joined in the action pursuant to § 299(d) may be required to pay the unsatisfied portion of a fee award.

Subsection (c) of § 285 closes a potential loophole that an abusive litigant otherwise might be able to exploit to impose substantial

<sup>109</sup> *Id.*

<sup>110</sup> *Norris v. SEC*, 695 F.3d 1261, 1265 (Fed. Cir. 2012).

<sup>111</sup> *Id.*

<sup>112</sup> *DGR Assocs., Inc. v. United States*, 690 F.3d 1335, 1342 (Fed. Cir. 2012).

<sup>113</sup> *Patrick v. Shinseki*, 668 F.3d 1325, 1330–31 (Fed. Cir. 2011).

<sup>114</sup> The term "inventor" is defined at § 100(f) of title 35.

<sup>115</sup> *DGR Assocs.*, 690 F.3d at 1343.

<sup>116</sup> *Id.* (quoting *I.N.S. v. Jean*, 496 U.S. 154, 161–62 (1990)).

<sup>117</sup> *See, e.g., Hubbard v. United States*, 480 F.3d 1327 (Fed. Cir. 2007).

<sup>118</sup> *Pierce v. Underwood*, 487 U.S. at 562–63.

<sup>119</sup> *Koon v. U.S.*, 518 U.S. 81, 100 (1996) (citation omitted); *see also Cooter & Gell v. Hartmarx Corp.*, 496 U.S. 384, 402 (1990). Plenary review of the reasonableness of a nonprevailing litigant's position on a legal question is particularly appropriate in the patents context, in light of the amounts likely to be at stake, the specialized nature of patent law and the Federal Circuit's familiarity with it, and the need to provide guidance to litigants as to, for example, what types of claim-construction and obviousness arguments, even if ultimately unsuccessful, are nevertheless reasonably justified.

costs on the opposing party with an unjustified complaint while evading accountability under subsection (a). Under the Supreme Court's *Buckhannon* decision, the "prevailing party" that is potentially entitled to a fee award includes only a party that has obtained from the court an "enforceable judgment on the merits" or a "court-ordered consent decree."<sup>120</sup> A defendant's "voluntary change in conduct," even if spurred by the plaintiff's lawsuit, is insufficient to make the plaintiff a prevailing party.<sup>121</sup>

Under Federal Circuit precedent,<sup>122</sup> moreover, a patent owner can deprive a court of Article III jurisdiction over an accused infringer's counterclaims for invalidity or noninfringement by giving the accused infringer a covenant not to sue for infringement—and thereby preclude the defendant from becoming a "prevailing party" on the basis of those counterclaims.<sup>123</sup> *Highway Equipment* also held, however, that such a covenant does *not* deprive the court of jurisdiction over the patent owner's infringement complaint,<sup>124</sup> and that fees may be awarded to the defendant if the covenant results in dismissal of the complaint with prejudice.<sup>125</sup> *Highway Equipment* would thus appear to allow a defendant to obtain prevailing-party status and hold a plaintiff accountable for an unjustified litigation position.

Courts have also held, however, that a defendant is *not* a prevailing party if a complaint is dismissed *without* prejudice<sup>126</sup>—and district courts have discretion to determine whether a complaint is dismissed with or without prejudice.<sup>127</sup> Moreover, *Highway Equipment* itself notes that the regional courts of appeals are divided as to whether even a dismissal *with* prejudice makes the defendant a prevailing party and potentially eligible for a fee award.<sup>128</sup> And finally, several regional courts of appeals have held that when a case is dismissed as moot—which a covenant not to sue would appear to require—the defendant is *not* a prevailing party and no fees may be awarded.<sup>129</sup>

To avoid subjecting patent litigants to the uncertainty surrounding this still-developing area of the law, subsection (c) provides that an infringement claimant who unilaterally extends a covenant not to sue to the opposing party shall be deemed to be the nonprevailing party for purposes of subsection (a). Subsection (c) applies only if the plaintiff acts unilaterally—it does not apply if, for example, the parties jointly stipulate to dismissal of the case.

<sup>120</sup> *Buckhannon Bd. and Care Home, Inc. v. West Virginia Dep't of Health and Human Resources*, 532 U.S. 598, 604 (2001).

<sup>121</sup> *Id.* at 605.

<sup>122</sup> *Highway Equipment Co., Inc. v. FEEO, Ltd.*, 469 F.3d 1027 (Fed. Cir. 2006).

<sup>123</sup> *Id.* at 1033 n.1; see also *Cisco Sys., Inc. v. Alberta Telecomms. Research Ctr.*, No. 2012-1687, 2013 WL 4563117, at \*4 (Aug. 29, 2013).

<sup>124</sup> *Highway Equip. Co.*, 469 F.3d at 1033 n.1.

<sup>125</sup> *Id.* at 1035–36.

<sup>126</sup> See *Jerowski v. Federal Mine Safety and Health Review Comm'n.*, 697 F.3d 651 (7th Cir. 2012); *Newport News Holdings Corp. v. Virtual City Vision, Inc.*, 650 F.3d 423, 444 (4th Cir. 2011).

<sup>127</sup> See *Highway Equip. Co.*, 469 F.3d at 1034; Wright & Miller's Federal Practice and Procedure § 2364.

<sup>128</sup> See *Highway Equip. Co.*, 469 F.3d at 1032, 1036.

<sup>129</sup> *Doe v. Nixon*, 716 F.3d 1041, 1050–51 (8th Cir. 2013); *Dionne v. Floormasters Enters., Inc.*, 667 F.3d 1199, 1205–06 (11th Cir. 2012); *Demis v. Sniezek*, 558 F.3d 508, 513 (6th Cir. 2009); *Ma v. Chertoff*, 547 F.3d 342, 344 (2nd Cir. 2008); *Biodiversity Conservation Alliance v. Stem*, 519 F.3 1226, 1230 (10th Cir. 2008) (O'Connor, J.). A dismissal on account of the plaintiff's extension of a covenant not to sue—whether with or without prejudice—also appears to tread closely to mooting the action through a voluntary cessation of conduct—the scenario that *Buckhannon* found to make a party immune from a fee award.

Subsection (c) protects the rights of a defendant who believes that he has been the target of an abusive complaint, and who would have preferred to continue the litigation in order to hold the plaintiff accountable for his position or conduct under subsection (a). Subsection (c), by deeming the defendant the prevailing party, preserves only the possibility of a fee award. A plaintiff deemed non-prevailing under subsection (c) would not be subject to a fee award if its position and conduct were reasonably justified or special circumstances would make an award unjust.

An exception is made to subsection (c) for a plaintiff who seeks dismissal of his claims early in the litigation, when he would be allowed to do so without a court order under Rule 41. A patentee who timely reconsiders the wisdom of his infringement claims, extends a covenant not to sue to the opposing party, and seeks such early dismissal of his complaint would remain immune from the possibility of an award of attorney's fees. The abusive litigant, however, who delays and forces the defendant to incur large costs—and who subsequently dismisses his complaint and unilaterally extends a covenant not to sue in order to moot the defendant's counter-claims—could be held to account under subsection (a).<sup>130</sup>

Section 3(b)(2)(B) of the Innovation Act strikes subsections (f) and (g) of §273 of title 35. Subsection (f) deems particular cases “exceptional” for purposes of §285—a standard that will no longer be employed by §285. Subsection (g) provides that a patent shall not be deemed invalid solely because a defense is established under §273. The subsection appears to have been enacted to address “a point of uncertainty”<sup>131</sup> regarding whether a secret use of an invention that established a §273 defense also would establish the invalidity of the patent at issue. Because it is now clear that the activities of an inventor who suppresses or conceals his invention cannot establish a pre-AIA §102(g) defense,<sup>132</sup> however, §273(g) no longer serves any purpose.

Section 3(b)(3) of the Act applies revised §285 to cases filed on or after the date that is 6 months prior to the enactment of the Act. This is in accord with precedents applying new fee-shifting statutes to pending cases,<sup>133</sup> and will preclude an unseemly rush to file cases in the period immediately prior to the enactment of the Act.

### (c) Joinder

New §299(d) of title 35 provides that if a plaintiff is unable to pay fees and expenses awarded pursuant to §285, the court may join in the action any interested party of that plaintiff. Joinder may be sought only if the plaintiff is a patent-assertion entity—*i.e.*, a party that does not use, make, or sell the subject matter of the claimed invention, and that acquired the patent or patents at issue for the sole purpose of asserting them against alleged infringers.

<sup>130</sup> It is clear that a defendant in an infringement action whose success in a copending reexamination or review proceeding results in dismissal of the civil action is regarded as the prevailing party in the civil action. *See, e.g., Inland Steel Co. v. LTV Steel Co.*, 364 F.3d 1318, 1320–21 (Fed. Cir. 2004). This rule is legally well-grounded and is sound policy, given the extent to which such proceedings increasingly serve as an alternative to, and are statutorily intertwined with, district-court actions. *See, e.g.,* 35 U.S.C. §315(b). The Committee thus declines to displace or disturb this rule.

<sup>131</sup> H.R. REP. NO. 106–287, at 49 (1999).

<sup>132</sup> *See Dow Chem. Co. v. Astro-Valcour, Inc.*, 267 F.3d 1334, 1342 (Fed. Cir. 2001).

<sup>133</sup> *See Bradley v. School Bd. of City of Richmond*, 416 U.S. 696 (1974); *Hutto v. Finney*, 437 U.S. 678, 694 n.23 (1978) (“this court’s general practice” is to apply newly enacted fee-shifting statutes to “all cases pending on the date of enactment”).

*(d) Discovery prior to claim construction*

New § 299A of title 35 provides that in a case in which the court determines that a claim construction is necessary, discovery shall be limited to issues concerning such claim construction until the construction is entered. This limit will not apply in all cases. In many cases, it will be clear that a claim construction is required early in the case in order to bring the dispute into focus, and § 299A will limit discovery to information relevant to that construction. In other cases, however, a party may need broader discovery in order to sharpen its infringement or invalidity contentions and bring into relief which claim terms and interpretations are relevant, and thus an early construction is not required.

*(e) Effective date*

This subsection applies the amendments made by section 3 to cases filed on or after the enactment of the Innovation Act, except where the individual subsections of section 3 supply their own effective dates.

*(f) Sense of congress*

This subsection states the sense of congress regarding demand letters.

*(g) Demand letters*

This subsection adds an undesignated paragraph to the end of § 284 of title 35 that provides that pre-suit notification of infringement may not be relied on to establish willfulness unless such notification identifies with particularity the patent and the accused products or process and explains why a claim is infringed to the extent possible following a reasonable inquiry.

*Section 4. Transparency of patent ownership.*

New § 290(b) of title 35 requires disclosure, upon the filing an infringement action, of the real-parties-in interest to the patent and its enforcement. In the event of noncompliance, awards of attorney's fees, and recovery of enhanced damages incurred during periods of non-compliance, are barred, and the adverse party may recover attorney's fees that it incurred in the course of uncovering correct ownership information.

*Section 5. Customer-suit exception.*

Revised § 296 of title 35 codifies and strengthens the common-law customer-suit exception to a patent plaintiff's presumptive entitlement to his choice of venue. It requires grant of a timely motion to stay the suit against the customer if the manufacturer and the customer agree to a stay, the manufacturer has joined the suit or filed a related suit, and the customer agrees to be bound by the final resolution of issues in the manufacturer's suit that the customer and manufacturer have in common.

Section 296 is voluntary—it allows a stay only if the customer and manufacturer have agreed that the manufacturer most appropriately bears the burden of defending against the infringement suit. Section 296 also eliminates inconsistencies in current law's application of the customer-suit exception. It authorizes a stay whether the manufacturer is a party to the customer suit or to a

separate related action, and it allows the customer and manufacturer to obtain a stay despite the fact that the customer is the only party accused of directly infringing a method claim, the customer is accused of infringing because of its incorporation of a component into its own product, or the customer has been accused of inducement of infringement.<sup>134</sup>

Subsection (c)(1) creates a limited exception to the customer and manufacturer's entitlement to a stay. Subparagraph (A) allows an exception for situations in which the manufacturer's action will not resolve a major issue in the suit against the customer. This would include, for example, a suit involving only method claims in which the manufacturer does not contest the validity of the patent or its alleged infringement by the customer, and instead contends only that the manufacturer is not liable for infringement because its product has substantial noninfringing use. It would also include a case in which it is clear that the major dispute over infringement or invalidity will concern components or materials in the covered customer's product or process other than those supplied by the covered manufacturer.

Subparagraph (B) allows an exception when a stay unreasonably prejudices and would be manifestly unjust to the patent plaintiff. This would include, for example, a case in which it is clear that the manufacturer would be unable to satisfy a substantial damages judgment and the patent owner's only true recourse is against infringing customers.

Once a stay is imposed, the customer nevertheless remains a party to the suit, and limited discovery may be sought from the customer to the extent necessary to prove the case against the manufacturer. Thus, for example, when the manufacturer is sued for indirect infringement, discovery may be necessary to show that prerequisite direct infringement has, in fact, occurred. Customer discovery also may be necessary to identify all suppliers of allegedly infringing products, components, or materials.

The original version of § 296, which was enacted in 1992 and attempted to address the Eleventh Amendment immunity of states, was voided in its entirety in 1999 by the Supreme Court in its decision in *Florida Prepaid Postsecondary Education Expense Board v. College Savings Bank*.<sup>135</sup> The Innovation Act reclaims this long-dormant code section. To the extent that states and their subdivisions do not enjoy Eleventh Amendment immunity against patent-infringement actions, that liability is codified and preserved by § 271(h) of title 35, which continues to provide that liability for patent infringement extends to “any State, any instrumentality of a State, and any officer or employee of a State or instrumentality of a State acting in his official capacity.”

<sup>134</sup> “[E]fficiency and judicial economy” have been described as the “guiding principles” for interpreting and applying the common-law customer suit exception. *Lonestar Inventions, L.P. v. Sony Elecs. Inc.*, 2011 WL 3880550 (E.D. Tex. 2011). With the hope that a similar judicial solipsism will not infect the interpretation of § 296, the Committee emphasizes that the purpose of the statutory customer-suit stay—as expressed by witnesses testifying before the Committee and Subcommittee—is to protect customers against the inherently coercive nature of infringement suits directed at products or processes that the defendant did not develop or design.

<sup>135</sup> 527 U.S. 627 (1999).

*Section 6. Procedures and practices to implement and recommendations to the Judicial Conference.*

Subsection (a) provides for an exchange of discovery of the core documents in a patent case. Costs of document discovery beyond the core documents would be shifted to the party that requests the discovery. In response to concerns expressed by witnesses at hearings before the Committee and Subcommittee,<sup>136</sup> this provision has been modified to provide the Judicial Conference with the authority to make modifications to these rules.

Subsection (b) requires the Judicial Conference to develop case-management procedures for patent cases. The Committee requests that the Conference, in the course of developing such procedures, address Rule 56(b), which relates to the time for filing a motion for summary judgment. Some district courts have declined to timely rule on or even allow early motions for summary judgment, thereby compounding the burden and expense of patent litigation. The Committee also suggests that Conference clarify that a litigant has an obligation under Rule 11 to withdraw a claim that has become frivolous.

Subsection (c) requires the Supreme Court to eliminate its current short-form patent complaint—Form 18—from the Appendix of the Federal Rules of Civil Procedure, and provides that the Court may prescribe a new form that, at minimum, notifies accused infringers of the asserted claim or claims, the products or services accused of infringement, and the plaintiff's theory as to how an accused product or service meets each limitation of each asserted claim.

Subsection (d), by adding 11 U.S.C. § 365(n) to the mandatory provisions that must apply in a Chapter 15 bankruptcy proceeding when relevant, provides certainty to licensees of patents and other intellectual property by guaranteeing that such licenses cannot be terminated in the United States via a foreign bankruptcy proceeding. The amendment also clarifies that trademark licenses are protected against being voided in bankruptcy, effectively codifying the Seventh Circuit's approach in *Sunbeam Prods., Inc. v. Chicago Am. Mfg., LLC*.<sup>137</sup> Because of the importance of providing certainty to manufacturers that they will be allowed to practice licensed technology in the United States, the amendment is made fully retroactive, applying to cases pending at any level of appeal or review.

*Section 7. Small business education, outreach, and information access.*

Subsection (a) establishes a small business education and outreach program and directs the PTO to provide information to small businesses to address concerns arising from patent infringement. Subsection (b) directs the PTO to provide to the public on a website information about patent ownership that has been disclosed to the Office as a result of litigation.

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<sup>136</sup> See, e.g., *October hearing*, Statement of David J. Kappos, Former Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office, at \*4; *id.*, Statement of Robert A. Armitage, Former General Counsel, Eli Lilly & Co., at \*18.

<sup>137</sup> 686 F.3d 372 (7th Cir. 2012) (Easterbrook, J.).

*Section 8. Studies on patent transactions, quality, and examination.*

Subsection (a) directs the PTO to conduct a study of the developing secondary market for patents in the United States, and to make recommendations as to how to promote transparency and fairness in such markets.

Subsection (b) directs the PTO to conduct a study of patents owned by the United States, how such patents are licensed, and how different agencies maintain records of such licenses, and to provide recommendations as to whether restrictions should be imposed on the transfer of patents by the United States.

Subsection (c) directs the Comptroller General to conduct a study of patent examination and relevant technology.

Subsection (d) requires the Director of the Administrative Office of the United States Courts to conduct a study regarding proposals to create a patent small-claims court.

Subsection (e) requires the PTO to conduct a study regarding demand letters.

Subsection (f) directs the Comptroller General to conduct a study of litigation involving business-method patents.

*Section 9. Improvements and corrections to the America Invents Act.*

*(a) Repeal of section 145*

This subsection repeals the cause of action authorized by § 145 of title 35. The repeal applies with respect to any proceeding in which the Patent Trial and Appeal Board has issued a decision, whether on appeal or on rehearing, after the date of enactment of this Act.

*(b) Repeal of could-have-raised estoppel for civil litigation following post-grant review*

This subsection corrects the so-called scrivener's error in § 325(e)(2) of title 35, repealing the could-have-raised estoppel that was inadvertently applied by the AIA to civil litigation following the completion of a post-grant review. Estoppel in civil litigation will henceforth be limited to those issues that were actually raised and decided in the post-grant review. Could-have-raised estoppel will continue to apply to other PTO proceedings following the completion of a post-grant review, and to all proceedings following completion of an inter partes review.

*(c) Use of district-court claim construction in post-grant and inter partes reviews*

This subsection directs the PTO to follow civil-litigation standards of claim construction, currently authoritatively described in *Phillips v. AWH Corp.*,<sup>138</sup> in all inter partes and post-grant reviews. The PTO will be permitted to continue to give claims their broadest reasonable interpretation during examination and in other administrative proceedings.<sup>139</sup> This subsection also requires

<sup>138</sup> 415 F.3d 1303 (Fed. Cir. 2005).

<sup>139</sup> Use of the broadest reasonable interpretation of claims is appropriate during prosecution and reexamination of a patent because, during such proceedings, "a patent applicant has the opportunity and the responsibility to remove any ambiguity in claim term meaning by amending the application." *In re Bigto*, 381 F.3d 1320, 1324 (Fed. Cir. 2004). "Only in this way can uncertainties of claim scope be removed, as much as possible, during the administrative process." *In*

the PTAB to consider an existing district-court claim construction of relevant terms in a patent when the PTAB is construing those terms, but allows the Board to reject a district-court interpretation that it finds to be clearly erroneous.

Regulations implementing this subsection's amendments, like all regulations promulgated pursuant to §§ 316 and 326 of title 35, must, pursuant to subsection (b) of those sections, be implemented with consideration of "the efficient administration of the Office" and "the ability of the Office to timely complete proceedings instituted under" chapters 31 and 32. District-court claim construction therefore must be adapted to the unique nature of inter partes and post-grant reviews, and should not be accompanied in those proceedings by unnecessary and time-consuming procedures such as a formal *Markman* hearing.

(d) *Obviousness-type double patenting*

This subsection codifies and reforms the doctrine of double patenting as it applies it to first-inventor-to-file patents.<sup>140</sup> New § 106 is anchored in the foundational principles of double-patenting law that are reflected in the Sixth Circuit's decision in *Thomson-Houston Elec. Co. v. Ohio Brass Co.*,<sup>141</sup> and in the PTO's 1967 Official Gazette Notice on double patenting.<sup>142</sup>

Section 106 adopts as a threshold requirement for double patenting to exist with respect to two patents that, for at least one claimed invention in each of the two patents, neither claimed invention represents prior art to the other under § 102(a).<sup>143</sup> Section 106 also adopts, at paragraph (1), the rule that a first patent's claimed invention can subject a second patent's claimed invention to the consequences from double patenting under § 106 only if the first was effectively filed on or before the effective filing date of the second. A subsequently-filed patent or application will never be the basis for imposing double-patenting consequences on an earlier-filed application's claimed invention. Thus a broad patent for a basic invention cannot be invalidated for double patenting simply because a subsequently-filed improvement patent issued before the basic patent was granted.

In the case of patents arising from patent filings on the same day that name the same inventor,<sup>144</sup> each of the two patents will be considered as the "second patent" vis-à-vis the other, and both patents will be separately subject to the § 106 consequences from double patenting. Similarly, each of two patents is separately subject to § 106 double-patenting consequences vis-à-vis the other if the respective claimed inventions of the two patents have the same effective filing date and, had the effective filing dates not been the

*re Zletz*, 893 F.2d 319, 321 (Fed. Cir. 1990). By requiring the patentee or applicant to address at least those ambiguities identified by the examiner during the administrative process, the PTO thus avoids leaving "the public to guess about which language the drafter deems necessary to his claimed invention and which language is merely superfluous, nonlimiting elaboration." *Bicon, Inc. v. The Straumann Co.*, 441 F.3d 945, 950 (Fed. Cir. 2006).

<sup>140</sup> Same-invention double patenting is based on § 101's "whoever invents" requirement and is thus already "codified" with respect to all patents.

<sup>141</sup> 80 F. 712 (6th Cir. 1897).

<sup>142</sup> *Double Patenting*, 834 O.G. 1615 (Jan. 31, 1967).

<sup>143</sup> Claimed inventions in respective patents can be prior art to one another under either § 102(a)(1) or § 102(a)(2).

<sup>144</sup> Section 106(2)(A) applies double-patenting limits to situations where the first and second patents name the same "inventor." The term "inventor" is defined by § 100(f) to mean the entire inventive entity.

same, a claimed invention of one of the two patents nevertheless would have been subject to a § 102(b)(2) prior art exception with respect to the other.

Finally, § 106 confines double patenting's reach to situations where § 103 does not apply to limit the issuance of obvious-variant patents. Where § 103 does apply of its own force—where no prior-art exception applies—then § 106 does not apply.<sup>145</sup>

The possible consequences of double patenting under § 106 are that the claimed invention of the first patent that is not otherwise prior art to the claimed invention of the second patent will become prior art for § 103 purposes,<sup>146</sup> or that the second patent will need to contain a § 106(3) disclaimer of the right to independently enforce the second patent.

Section 106 also replaces recent caselaw's parallel universe of double-patenting obviousness analysis with an ordinary § 103 analysis. The recent common law has an “export version” quality, resembling, but lacking some of the precision of, conventional obviousness analysis.<sup>147</sup> Section 106 requires courts reviewing potential double patents to employ the conventional § 103 analysis.

Some features of the common-law double-patenting doctrine are preserved in § 106. Section 106 looks only to the “claimed invention” as prior art. Also, the safe harbor of § 121 continues to apply—as do the courts' byzantine consonance and other requirements for the application of that section. No change is made in the requirements or practices regarding the content and filing of terminal disclaimers, other than that § 106 gives the Director the authority to promulgate regulations consistent with the statute. Thus in the case of a second patent that is commonly owned with a first patent, paragraph (3)'s requirement of a disclaimer of independent enforcement can be satisfied by disclaiming the enforcement of the second patent except for periods when the patents are commonly owned.

Section 9(d)(4) of the Innovation Act makes common-law obviousness-type double-patenting rules inapplicable to any patent that is subject to § 106. Whether a particular first-inventor-to-file “second patent” is subject to § 106 will depend, however, on whether the “first patent” that is asserted against the second patent is a first-to-invent patent or a first-inventor-to-file patent. In the case of a family of commonly-owned patents and applications whose effective-filing dates cross the first-inventor-to-file rule's March 16, 2013 effective date, a first-inventor-to-file “second patent” may be subject *both* to § 106 *and* to nonstatutory double patenting rules, depending on when the “first patents” at issue were effectively filed. In such a scenario, of course, the applicant could, pursuant to § 3(n)(1) of the AIA, convert his first-to-invent applications into first-inventor-to-file applications by amending them to claim subject matter

<sup>145</sup> Although § 106(2) cites § 102(b)(2), only the exclusions under subparagraphs (A) and (C) of § 102(b)(2) can invoke the application of § 106. Any application or patent that is excluded from prior art by subparagraph (B) also is necessarily anticipated by the prior public disclosure of the inventor or a joint inventor of the second patent, and thus cannot issue as a valid patent and cause the second patent to be a “double patent.”

<sup>146</sup> Section 106 also applies the novelty analysis inherent in a § 103 obviousness analysis, anticipation being “the epitome of”—and is necessarily embraced by—obviousness. *In re McDaniel*, 293 F.3d 1379, 1385 (Fed. Cir. 2002).

<sup>147</sup> See, e.g., *Takeda Pharm. Co., Ltd. v. Doll*, 561 F.3d 1372, 1375 (Fed. Cir. 2009); *Amgen Inc. v. F. Hoffman-La Roche Ltd.*, 580 F.3d 1340, 1355, 1358 (Fed. Cir. 2009).

with an effective filing date after March 16, 2013, thereby ensuring that any “second patent” is subject to § 106 alone.

Section 9(d)(5) of the Innovation Act applies § 106 to both patents and applications, thereby preserving PTO’s authority to reject an application on double-patenting grounds if it would, once issued, contain a claim that is invalid under § 106.

*(e) PTO patent reviews*

This subsection amends AIA § 18(a)(1)(C) to allow patents and published applications to be effective as prior art against a first-to-invent business-method patent as of their effective filing dates.

*(f) Clarification of limits on patent term adjustment*

The amendments made by this subsection clarify that no B-delay patent-term adjustment may be awarded for time consumed by a request for continued examination (RCE), regardless of when the RCE was requested. The amendments also clarify that B delay may not be awarded for any of the time accrued after the applicant has restarted prosecution by filing an RCE.

*(g) Clarification of jurisdiction*

To preclude a broad reading of *Gunn v. Minton*,<sup>148</sup> this subsection establishes that avoiding inconsistent judgments as to the legal effect of the claims in a patent is a substantial Federal interest that is important to the Federal system—the test for “arising under” jurisdiction applied by *Gunn*—and that such cases therefore “arise under” Federal patent law. This subsection thus clarifies that it is not necessary to exclusive Federal patent jurisdiction that a case also require interpretation of a Federal statute or affect numerous parties or the Federal Government. This provision effectively codifies the Federal Circuit’s recent dicta in *Forrester Environmental Services*,<sup>149</sup> and ensures the continuing viability of the Federal Circuit and regional circuits’ pre-*Gunn* precedents recognizing patents “arising under” jurisdiction over certain state-law business-disparagement and breach-of-contract actions.<sup>150</sup>

This clarification is applied to all pending and future cases. It is applied to pending cases so that courts will not be required to determine whether *Gunn*’s enumeration of “substantiality” factors is intended to be exclusive, or what exactly *Gunn* means—in the absence of this subsection—with respect to state-law breach of contract and unfair competition cases that turn on whether a product or process infringes a patent. An exception is made, however, for cases in which a Federal court already has determined its “arising under” patents jurisdiction—those courts will not be required to revisit such determinations, despite the enactment of this provision.

<sup>148</sup> 133 S.Ct. 1059 (Feb. 20, 2013).

<sup>149</sup> 715 F.3d 1329, 1334 (Fed. Cir. 2013) (noting that “arising under” jurisdiction over particular “state law claims premised on allegedly false statements about patents . . . may well have survived the Supreme Court’s decision in *Gunn*”).

<sup>150</sup> See, e.g., *Scherbatskoy v. Halliburton Co.*, 125 F.3d 288 (5th Cir. 1997); *U.S. Valves, Inc. v. Dray*, 190 F.3d 811 (7th Cir. 1999); *Additive Controls & Measurement Sys., Inc. v. Flowdata, Inc.*, 986 F.2d 476 (Fed. Cir. 1993); *Hunter Douglas, Inc. v. Harmonic Design, Inc.*, 153 F.3d 1318 (Fed. Cir. 1998), *overruled on other grounds*, *Midwest Indus., Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356 (Fed. Cir. 1999).

*(h) Extension of patent pilot program*

This subsection extends by an additional 10 years the duration of the patent pilot program operating in certain district courts that was established by Public Law No. 111–349 (2011).

*(i) Technical corrections**(1) § 102*

This paragraph makes a nonsubstantive stylistic correction to the Patent Code. It amends § 102 so that it consistently uses the term “the inventor or a joint inventor or another,” rather than alternating between that phrase and “the inventor or joint inventor or by another.” The change has no substantive effect, and creates linguistic uniformity and eliminates a potential ambiguity in the section.

*(2) Inventor’s oath or declaration*

Section 115 of title 35 was substantially revised by § 4(a) of the AIA, and was further modified by the AIA technical amendments.<sup>151</sup> This paragraph makes two further changes to § 115. Section 115 currently represents a merely formal requirement that the inventor file an oath or declaration prior to the payment of the issue fee (*i.e.*, the fee that is paid after the examination of a patent application has been completed). The amendment made by clause (i) eliminates the § 115 requirement for applications that are filed by the inventor’s assignee, rather than by the inventor. Section 4(b) of the AIA amended § 118 of title 35 to permit the patent owner to seek a patent in cases where the inventor has assigned the right to seek a patent. For assignee-applicants, the filing of the separate assignment of the invention from the inventor to the assignee renders any additional § 115 requirement redundant. The amendment made by clause (ii) allows the Director to dispense with the filing of the § 115 statement as he deems appropriate. This could include, for example, with respect to continuing applications for patent under §§ 120 and 121, where the separate § 115 requirement can be a redundancy. The amendments thus remove unnecessary paperwork from the patent examination process.

*(3) Assignee filers*

Section 4(b) of the AIA amended 35 U.S.C. § 118 to broadly authorize assignees (rather than just inventors) to file their own patent applications. Per section 4(e) of the AIA, this authorization applies to all applications filed on or after the date that is 1 year after the enactment of the AIA (*i.e.*, September 16, 2012).

The AIA neglected, however, to make a conforming change to § 119(e)(1) to allow the assignee filer to claim the benefit of the filing date of an earlier provisional application. That section still requires that the application claiming the earlier date be filed “by an inventor or inventors named” in the provisional application. Although the courts might overlook this legislative mistake (which would otherwise vitiate the effect of the AIA’s changes to § 118 for provisional filers), the Committee thinks it best to simply correct this oversight in the present bill.

<sup>151</sup> PUB. L. NO. 112–274 (2013).

This paragraph also amends the language of § 120 to make a stylistic change similar to that made by paragraph (1), while also reenacting AIA § 3(f)'s conforming amendment for assignee filers and giving the new conforming amendment a proper effective date. The AIA amended § 120 that authorize assignee applicants (rather than just inventor applicants) to claim the benefit of the filing date of a parent application in a continuation application. Unfortunately, however, this conforming change to § 120 was included in § 3(f) of the AIA. Per § 3(n) of the AIA, the changes made by AIA § 3(f) apply only to first-inventor-to-file patents. A large number of patents filed after September 16, 2012, however, will continue to be first-to-invent patents. Absent the revision made by this paragraph, there could be a substantial number of first-to-invent patents filed by assignees after September 16, 2012 whose owners would later discovered that they are unable to claim the benefit of a parent application's priority date. The revisions made by this paragraph ensure that the conforming change accommodating assignee filers will apply to all patents (including first-to-invent patents) for which § 4(b) of the AIA authorizes assignee filing.

This paragraph also conforms § 120 to the proper linguistic formulation: "the inventor or a joint inventor." Sections 100(f) and (g) of title 35 now define "inventor" and "joint inventor." The former refers to the entire inventive entity (*i.e.*, all of the joint inventors), and thus should always be preceded by the definite article. The latter ("a joint inventor") is necessarily one of the several who invented the subject matter. This paragraph's edits, though nonsubstantive, ensure usage consistent with these meanings.

#### (4) *Derived patents*

This paragraph makes the same nonsubstantive stylistic change to § 291(b) of title 35 that paragraph (1) makes to § 102 of that title.

#### (5) *Specification*

This paragraph amends the effective date of the AIA's addition of subsections and titles to § 112 so that the new citation format will be used in all proceedings and matters after enactment of the present bill. This will simplify citation to § 112, which currently is understood to be required to be cited by its pre-AIA, undesignated paragraphs for patents issuing from an application filed before September 16, 2012: *Biosig Instruments, Inc. v. Nautilus, Inc.*,<sup>152</sup> recently held that the AIA's addition of substructure to § 112 applies only with respect to patents issued after September 16, 2012.<sup>153</sup> The only rational purpose of adding substructure to § 112, however, is to simplify citation to it—a purpose that is entirely defeated by the current approach. Under *Biosig*, the patent bar would be required, for the next quarter century, to first identify the issue date of a patent before it could determine whether to cite to the subsections of current § 112 or to the undesignated paragraphs of pre-AIA § 112. This paragraph avoids such absurdities by making the AIA's addition of subsections and titles to § 112 immediately applicable in all proceedings and matters, and thereby eliminating the

<sup>152</sup> 715 F.3d 891 (Fed. Cir. 2013).

<sup>153</sup> See *id.* at 897, n.3.

need to ever again cite to the undesignated paragraphs of pre-AIA § 112.

*(6) Time limit for commencing misconduct proceedings*

This paragraph adds an additional year to the time by which the Director must commence a proceeding under 35 U.S.C. § 32 once the misconduct forming the basis for the proceeding is made known to an officer or employee of the Office. The amendment applies to all such proceedings commenced after the enactment of this Act.

*(7) Patent owner response*

Sections 316(a)(8) and 326(a)(8) of title 35 each provide for “the filing by the patent owner of a response to the petition under section 313 [or 323] after a . . . review has been instituted.” The citation to §§ 313 and 323 is incorrect—reviews are instituted under §§ 311 and 321. Sections 313 and 323 only authorize the patent owner to file a preliminary response to the petition before the review is instituted. These amendments correct this miscitation.

*(8) International applications*

Paragraph (7) of section 202(b) of the Patent Law Treaties Implementation Act (“PLTIA”) amends 35 U.S.C. § 361(c) to “authorize” the Director to allow the filing of a PCT application in a language other than English. The PCT and its regulations would require the USPTO to review such an application for errors and to process requests for incorporation by reference. The USPTO has indicated, however, that

[t]he United States Receiving Office is simply not currently capable of conducting the review and processing required by the PCT for PCT applications filed in a language other than English. Creating a procedure under the PCT to provide for the initial filing of a non-English-language PCT application and later filing of an English-language translation for the purpose of subsequent review and processing would, under the provisions of the PCT and PCT Regulations, result in the resetting of the International Filing Date to the later date of submission of the English-language translation of the non-English-language PCT application.<sup>154</sup>

This paragraph repeals PLTIA § 202(b)(7)’s amendments to 35 U.S.C. § 361(c), thereby relieving the United States Receiving Office of its authority to review PCT applications for errors and process requests for incorporation by reference in a language other than English.

*Section 10. Effective date.*

Except as otherwise provided in this Act, the amendments made by the Act shall be effective upon enactment of the Act, and shall apply to any patent issued or any action filed on or after such effective date.

<sup>154</sup> *Changes to Implement the Patent Law Treaty*, 78 Fed. Reg. 62368, 62390 (Oct. 21, 2013).

**Changes in Existing Law Made by the Bill, as Reported**

In compliance with clause 3(e) of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italics, existing law in which no change is proposed is shown in roman):

**TITLE 35, UNITED STATES CODE**

\* \* \* \* \*

**PART I—UNITED STATES PATENT AND  
TRADEMARK OFFICE**

\* \* \* \* \*

**CHAPTER 3—PRACTICE BEFORE PATENT AND  
TRADEMARK OFFICE**

\* \* \* \* \*

**§ 32. Suspension or exclusion from practice**

The Director may, after notice and opportunity for a hearing, suspend or exclude, either generally or in any particular case, from further practice before the Patent and Trademark Office, any person, agent, or attorney shown to be incompetent or disreputable, or guilty of gross misconduct, or who does not comply with the regulations established under section 2(b)(2)(D), or who shall, by word, circular, letter, or advertising, with intent to defraud in any manner, deceive, mislead, or threaten any applicant or prospective applicant, or other person having immediate or prospective business before the Office. The reasons for any such suspension or exclusion shall be duly recorded. The Director shall have the discretion to designate any attorney who is an officer or employee of the United States Patent and Trademark Office to conduct the hearing required by this section. A proceeding under this section shall be commenced not later than the earlier of either the date that is 10 years after the date on which the misconduct forming the basis for the proceeding occurred, or ~~1 year~~ *2 years* after the date on which the misconduct forming the basis for the proceeding is made known to an officer or employee of the Office as prescribed in the regulations established under section 2(b)(2)(D). The United States District Court for the Eastern District of Virginia, under such conditions and upon such proceedings as it by its rules determines, may review the action of the Director upon the petition of the person so refused recognition or so suspended or excluded.

\* \* \* \* \*

**PART II—PATENTABILITY OF INVENTIONS  
AND GRANT OF PATENTS**

\* \* \* \* \*

**CHAPTER 10—PATENTABILITY OF INVENTIONS**

\* \* \* \* \*

Sec.

100. Definitions.

\* \* \* \* \*

106. *Prior art in cases of double patenting.*

\* \* \* \* \*

**§ 102. Conditions for patentability; novelty**

(a) \* \* \*

(b) EXCEPTIONS.—

(1) DISCLOSURES MADE 1 YEAR OR LESS BEFORE THE EFFECTIVE FILING DATE OF THE CLAIMED INVENTION.—A disclosure made 1 year or less before the effective filing date of a claimed invention shall not be prior art to the claimed invention under subsection (a)(1) if—

(A) the disclosure was made by [the inventor or joint inventor or by another] *the inventor or a joint inventor or another* who obtained the subject matter disclosed directly or indirectly from the inventor or a joint inventor; or

\* \* \* \* \*

**§ 106. *Prior art in cases of double patenting***

*A claimed invention of a patent issued under section 151 (referred to as the “first patent”) that is not prior art to a claimed invention of another patent (referred to as the “second patent”) shall be considered prior art to the claimed invention of the second patent for the purpose of determining the nonobviousness of the claimed invention of the second patent under section 103 if—*

*(1) the claimed invention of the first patent was effectively filed under section 102(d) on or before the effective filing date of the claimed invention of the second patent;*

*(2) either—*

*(A) the first patent and second patent name the same inventor; or*

*(B) the claimed invention of the first patent would constitute prior art to the claimed invention of the second patent under section 102(a)(2) if an exception under section 102(b)(2) were deemed to be inapplicable and the claimed invention of the first patent was, or were deemed to be, effectively filed under section 102(d) before the effective filing date of the claimed invention of the second patent; and*

*(3) the patentee of the second patent has not disclaimed the rights to enforce the second patent independently from, and beyond the statutory term of, the first patent.*

\* \* \* \* \*

**CHAPTER 11—APPLICATION FOR PATENT**

\* \* \* \* \*

**§ 115. Inventor's oath or declaration**

(a) NAMING THE INVENTOR; INVENTOR'S OATH OR DECLARATION.—An application for patent that is filed under section 111(a) or commences the national stage under section 371 shall include, or be amended to include, the name of the inventor for any invention claimed in the application. **【Except as otherwise provided】** *Except for an application filed under section 118 or as otherwise provided* in this section, each individual who is the inventor or a joint inventor of a claimed invention in an application for patent **【shall execute】** *may be required by the Director to execute* an oath or declaration in connection with the application.

\* \* \* \* \*

**§ 119. Benefit of earlier filing date; right of priority**

(a) \* \* \*

\* \* \* \* \*

(e)(1) An application for patent filed under section 111(a) or section 363 for an invention disclosed in the manner provided by section 112(a) (other than the requirement to disclose the best mode) in a provisional application filed under section 111(b), **【by an inventor or inventors named】** *that names the inventor or a joint inventor* in the provisional application, shall have the same effect, as to such invention, as though filed on the date of the provisional application filed under section 111(b), if the application for patent filed under section 111(a) or section 363 is filed not later than 12 months after the date on which the provisional application was filed and if it contains or is amended to contain a specific reference to the provisional application. No application shall be entitled to the benefit of an earlier filed provisional application under this subsection unless an amendment containing the specific reference to the earlier filed provisional application is submitted at such time during the pendency of the application as required by the Director. The Director may consider the failure to submit such an amendment within that time period as a waiver of any benefit under this subsection. The Director may establish procedures, including the payment of a surcharge, to accept an unintentionally delayed submission of an amendment under this subsection during the pendency of the application.

\* \* \* \* \*

**§ 120. Benefit of earlier filing date in the United States**

An application for patent for an invention disclosed in the manner provided by section 112(a) (other than the requirement to disclose the best mode) in an application previously filed in the United States, or as provided by section 363, which **【names an inventor or joint inventor】** *names the inventor or a joint inventor* in the previously filed application shall have the same effect, as to such invention, as though filed on the date of the prior application, if filed before the patenting or abandonment of or termination of proceedings on the first application or on an application similarly

entitled to the benefit of the filing date of the first application and if it contains or is amended to contain a specific reference to the earlier filed application. No application shall be entitled to the benefit of an earlier filed application under this section unless an amendment containing the specific reference to the earlier filed application is submitted at such time during the pendency of the application as required by the Director. The Director may consider the failure to submit such an amendment within that time period as a waiver of any benefit under this section. The Director may establish procedures, including the payment of a surcharge, to accept an unintentionally delayed submission of an amendment under this section.

\* \* \* \* \*

**CHAPTER 13—REVIEW OF PATENT AND TRADEMARK OFFICE DECISIONS**

\* \* \* \* \*

[145. Civil action to obtain patent.]

\* \* \* \* \*

**§ 141. Appeal to Court of Appeals for the Federal Circuit**

(a) EXAMINATIONS.—An applicant who is dissatisfied with the final decision in an appeal to the Patent Trial and Appeal Board under section 134(a) [may appeal the Board’s decision to] *may appeal the Board’s decision only to* the United States Court of Appeals for the Federal Circuit. [By filing such an appeal, the applicant waives his or her right to proceed under section 145.]

\* \* \* \* \*

**[§ 145. Civil action to obtain patent**

[An applicant dissatisfied with the decision of the Patent Trial and Appeal Board in an appeal under section 134(a) may, unless appeal has been taken to the United States Court of Appeals for the Federal Circuit, have remedy by civil action against the Director in the United States District Court for the Eastern District of Virginia if commenced within such time after such decision, not less than sixty days, as the Director appoints. The court may adjudge that such applicant is entitled to receive a patent for his invention, as specified in any of his claims involved in the decision of the Patent Trial and Appeal Board, as the facts in the case may appear and such adjudication shall authorize the Director to issue such patent on compliance with the requirements of law. All the expenses of the proceedings shall be paid by the applicant.]

\* \* \* \* \*

**CHAPTER 14—ISSUE OF PATENT**

\* \* \* \* \*

**§ 154. Contents and term of patent; provisional rights**

- (a) \* \* \*
- (b) ADJUSTMENT OF PATENT TERM.—
  - (1) PATENT TERM GUARANTEES.—

(A) GUARANTEE OF PROMPT PATENT AND TRADEMARK OFFICE RESPONSES.—Subject to the limitations under paragraph (2), if the issue of an original patent is delayed due to the failure of the Patent and Trademark Office to—

(i) \* \* \*

\* \* \* \* \*

(iii) act on an application within 4 months after the date of a decision by the Patent Trial and Appeal Board under section 134 or 135 or a decision by a Federal court under [section 141, 145, or 146] *section 141 or 146* in a case in which allowable claims remain in the application; or

\* \* \* \* \*

(B) GUARANTEE OF NO MORE THAN 3-YEAR APPLICATION PENDENCY.—Subject to the limitations under paragraph (2), if the issue of an original patent is delayed due to the failure of the United States Patent and Trademark Office to issue a patent within 3 years after the actual filing date of the application under section 111(a) in the United States or, in the case of an international application, the date of commencement of the national stage under section 371 in the international application, [not including—] *the term of the patent shall be extended 1 day for each day after the end of that 3-year period until the patent is issued, not including—*

(i) any time [consumed by continued examination of the application requested by the applicant] *consumed after continued examination of the application is requested by the applicant* under section 132(b);

\* \* \* \* \*

(iii) any delay in the processing of the application by the United States Patent and Trademark Office requested by the applicant except as permitted by paragraph (3)(C)[,].

[the term of the patent shall be extended 1 day for each day after the end of that 3-year period until the patent is issued.]

\* \* \* \* \*

**PART III—PATENTS AND PROTECTION OF PATENT RIGHTS**

\* \* \* \* \*

**CHAPTER 28—INFRINGEMENT OF PATENTS**

\* \* \* \* \*

**§ 273. Defense to infringement based on prior commercial use**

(a) \* \* \*

\* \* \* \* \*

[(f) UNREASONABLE ASSERTION OF DEFENSE.—If the defense under this section is pleaded by a person who is found to infringe the patent and who subsequently fails to demonstrate a reasonable basis for asserting the defense, the court shall find the case exceptional for the purpose of awarding attorney fees under section 285.

[(g) INVALIDITY.—A patent shall not be deemed to be invalid under section 102 or 103 solely because a defense is raised or established under this section.]

\* \* \* \* \*

**CHAPTER 29—REMEDIES FOR INFRINGEMENT OF PATENT, AND OTHER ACTIONS**

Sec.

281. Remedy for infringement of patent.

281A. *Pleading requirements for patent infringement actions.*

\* \* \* \* \*

**[285. Attorney fees.]**

285. *Fees and other expenses.*

\* \* \* \* \*

**[290. Notice of patent suits.]**

290. *Notice of patent suits; disclosure of interests.*

\* \* \* \* \*

**[296. Liability of States, instrumentalities of States, and State officials for infringement of patents.]**

296. *Stay of action against customer.*

\* \* \* \* \*

299A. *Discovery in patent infringement action.*

\* \* \* \* \*

**§281A. Pleading requirements for patent infringement actions**

(a) *PLEADING REQUIREMENTS.—Except as provided in subsection (b), in a civil action in which a party asserts a claim for relief arising under any Act of Congress relating to patents, a party alleging infringement shall include in the initial complaint, counterclaim, or cross-claim for patent infringement, unless the information is not reasonably accessible to such party, the following:*

- (1) *An identification of each patent allegedly infringed.*
- (2) *An identification of each claim of each patent identified under paragraph (1) that is allegedly infringed.*
- (3) *For each claim identified under paragraph (2), an identification of each accused process, machine, manufacture, or composition of matter (referred to in this section as an “accused instrumentality”) alleged to infringe the claim.*
- (4) *For each accused instrumentality identified under paragraph (3), an identification with particularity, if known, of—*
  - (A) *the name or model number of each accused instrumentality; or*
  - (B) *if there is no name or model number, a description of each accused instrumentality.*
- (5) *For each accused instrumentality identified under paragraph (3), a clear and concise statement of—*
  - (A) *where each element of each claim identified under paragraph (2) is found within the accused instrumentality; and*

(B) with detailed specificity, how each limitation of each claim identified under paragraph (2) is met by the accused instrumentality.

(6) For each claim of indirect infringement, a description of the acts of the alleged indirect infringer that contribute to or are inducing the direct infringement.

(7) A description of the authority of the party alleging infringement to assert each patent identified under paragraph (1) and of the grounds for the court's jurisdiction.

(8) A clear and concise description of the principal business, if any, of the party alleging infringement.

(9) A list of each complaint filed, of which the party alleging infringement has knowledge, that asserts or asserted any of the patents identified under paragraph (1).

(10) For each patent identified under paragraph (1), whether a standard-setting body has specifically declared such patent to be essential, potentially essential, or having potential to become essential to that standard-setting body, and whether the United States Government or a foreign government has imposed specific licensing requirements with respect to such patent.

(b) *INFORMATION NOT READILY ACCESSIBLE.*—If information required to be disclosed under subsection (a) is not readily accessible to a party, that information may instead be generally described, along with an explanation of why such undisclosed information was not readily accessible, and of any efforts made by such party to access such information.

(c) *CONFIDENTIAL INFORMATION.*—A party required to disclose information described under subsection (a) may file, under seal, information believed to be confidential, with a motion setting forth good cause for such sealing. If such motion is denied by the court, the party may seek to file an amended complaint.

(d) *EXEMPTION.*—A civil action that includes a claim for relief arising under section 271(e)(2) shall not be subject to the requirements of subsection (a).

\* \* \* \* \*

## § 284. Damages

(a) *IN GENERAL.*—Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.

(b) *ASSESSMENT BY COURT; TREBLE DAMAGES.*—When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed. Increased damages under this paragraph shall not apply to provisional rights under section 154(d).

(c) *WILLFUL INFRINGEMENT.*—A claimant seeking to establish willful infringement may not rely on evidence of pre-suit notification of infringement unless that notification identifies with particularity the asserted patent, identifies the product or process accused, and explains with particularity, to the extent possible following a reasonable investigation or inquiry, how the product or process infringes one or more claims of the patent.

(d) *EXPERT TESTIMONY.*—The court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances.

**[§ 285. Attorney fees**

**[The court in exceptional cases may award reasonable attorney fees to the prevailing party.]**

**§ 285. Fees and other expenses**

(a) *AWARD.*—The court shall award, to a prevailing party, reasonable fees and other expenses incurred by that party in connection with a civil action in which any party asserts a claim for relief arising under any Act of Congress relating to patents, unless the court finds that the position and conduct of the nonprevailing party or parties were reasonably justified in law and fact or that special circumstances (such as severe economic hardship to a named inventor) make an award unjust.

(b) *CERTIFICATION AND RECOVERY.*—Upon motion of any party to the action, the court shall require another party to the action to certify whether or not the other party will be able to pay an award of fees and other expenses if such an award is made under subsection (a). If a nonprevailing party is unable to pay an award that is made against it under subsection (a), the court may make a party that has been joined under section 299(d) with respect to such party liable for the unsatisfied portion of the award.

(c) *COVENANT NOT TO SUE.*—A party to a civil action that asserts a claim for relief arising under any Act of Congress relating to patents against another party, and that subsequently unilaterally extends to such other party a covenant not to sue for infringement with respect to the patent or patents at issue, shall be deemed to be a nonprevailing party (and the other party the prevailing party) for purposes of this section, unless the party asserting such claim would have been entitled, at the time that such covenant was extended, to voluntarily dismiss the action or claim without a court order under Rule 41 of the Federal Rules of Civil Procedure.

\* \* \* \* \*

**§ 290. Notice of patent [suits] suits; disclosure of interests**

**[The clerks]** (a) *NOTICE OF PATENT SUITS.*—The clerks of the courts of the United States, within one month after the filing of an action under this title shall give notice thereof in writing to the Director, setting forth so far as known the names and addresses of the parties, name of the inventor, and the designating number of the patent upon which the action has been brought. If any other patent is subsequently included in the action he shall give like notice thereof. Within one month after the decision is rendered or a judgment issued the clerk of the court shall give notice thereof to the Director. The Director shall, on receipt of such notices, enter the same in the file of such patent.

(b) *INITIAL DISCLOSURE.*—

(1) *IN GENERAL.*—Except as provided in paragraph (2), upon the filing of an initial complaint for patent infringement, the plaintiff shall disclose to the Patent and Trademark Office,

the court, and each adverse party the identity of each of the following:

(A) The assignee of the patent or patents at issue.

(B) Any entity with a right to sublicense or enforce the patent or patents at issue.

(C) Any entity, other than the plaintiff, that the plaintiff knows to have a financial interest in the patent or patents at issue or the plaintiff.

(D) The ultimate parent entity of any assignee identified under subparagraph (A) and any entity identified under subparagraph (B) or (C).

(2) EXEMPTION.—The requirements of paragraph (1) shall not apply with respect to a civil action filed under subsection (a) that includes a cause of action described under section 271(e)(2).

(c) DISCLOSURE COMPLIANCE.—

(1) PUBLICLY TRADED.—For purposes of subsection (b)(1)(C), if the financial interest is held by a corporation traded on a public stock exchange, an identification of the name of the corporation and the public exchange listing shall satisfy the disclosure requirement.

(2) NOT PUBLICLY TRADED.—For purposes of subsection (b)(1)(C), if the financial interest is not held by a publicly traded corporation, the disclosure shall satisfy the disclosure requirement if the information identifies—

(A) in the case of a partnership, the name of the partnership and the name and correspondence address of each partner or other entity that holds more than a 5-percent share of that partnership;

(B) in the case of a corporation, the name of the corporation, the location of incorporation, the address of the principal place of business, and the name of each officer of the corporation; and

(C) for each individual, the name and correspondence address of that individual.

(d) ONGOING DUTY OF DISCLOSURE TO THE PATENT AND TRADEMARK OFFICE.—

(1) IN GENERAL.—A plaintiff required to submit information under subsection (b) or a subsequent owner of the patent or patents at issue shall, not later than 90 days after any change in the assignee of the patent or patents at issue or an entity described under subparagraph (B) or (D) of subsection (b)(1), submit to the Patent and Trademark Office the updated identification of such assignee or entity.

(2) FAILURE TO COMPLY.—With respect to a patent for which the requirement of paragraph (1) has not been met—

(A) the plaintiff or subsequent owner shall not be entitled to recover reasonable fees and other expenses under section 285 or increased damages under section 284 with respect to infringing activities taking place during any period of noncompliance with paragraph (1), unless the denial of such damages or fees would be manifestly unjust; and

(B) the court shall award to a prevailing party accused of infringement reasonable fees and other expenses under

section 285 that are incurred to discover the updated assignee or entity described under paragraph (1), unless such sanctions would be unjust.

(e) DEFINITIONS.—In this section:

(1) FINANCIAL INTEREST.—The term “financial interest”—

(A) means—

(i) with regard to a patent or patents, the right of a person to receive proceeds related to the assertion of the patent or patents, including a fixed or variable portion of such proceeds; and

(ii) with regard to the plaintiff, direct or indirect ownership or control by a person of more than 5 percent of such plaintiff; and

(B) does not mean—

(i) ownership of shares or other interests in a mutual or common investment fund, unless the owner of such interest participates in the management of such fund; or

(ii) the proprietary interest of a policyholder in a mutual insurance company or of a depositor in a mutual savings association, or a similar proprietary interest, unless the outcome of the proceeding could substantially affect the value of such interest.

(2) PROCEEDING.—The term “proceeding” means all stages of a civil action, including pretrial and trial proceedings and appellate review.

(3) ULTIMATE PARENT ENTITY.—

(A) IN GENERAL.—Except as provided in subparagraph (B), the term “ultimate parent entity” has the meaning given such term in section 801.1(a)(3) of title 16, Code of Federal Regulations, or any successor regulation.

(B) MODIFICATION OF DEFINITION.—The Director may modify the definition of “ultimate parent entity” by regulation.

## § 291. Derived Patents

(a) \* \* \*

(b) FILING LIMITATION.—An action under this section may be filed only before the end of the 1-year period beginning on the date of the issuance of the first patent containing a claim to the allegedly derived invention and naming an individual alleged to have derived such invention as the inventor [or joint inventor] or a joint inventor.

\* \* \* \* \*

## § 296. Liability of States, instrumentalities of States, and State officials for infringement of patents

[(a) IN GENERAL.—Any State, any instrumentality of a State, and any officer or employee of a State or instrumentality of a State acting in his official capacity, shall not be immune, under the eleventh amendment of the Constitution of the United States or under any other doctrine of sovereign immunity, from suit in Federal court by any person, including any governmental or nongovern-

mental entity, for infringement of a patent under section 271, or for any other violation under this title.

[(b) REMEDIES.—In a suit described in subsection (a) for a violation described in that subsection, remedies (including remedies both at law and in equity) are available for the violation to the same extent as such remedies are available for such a violation in a suit against any private entity. Such remedies include damages, interest, costs, and treble damages under section 284, attorney fees under section 285, and the additional remedy for infringement of design patents under section 289.]

**§ 296. Stay of action against customer**

(a) *STAY OF ACTION AGAINST CUSTOMER.*—*Except as provided in subsection (d), in any civil action arising under any Act of Congress relating to patents, the court shall grant a motion to stay at least the portion of the action against a covered customer related to infringement of a patent involving a covered product or process if the following requirements are met:*

(1) *The covered manufacturer and the covered customer consent in writing to the stay.*

(2) *The covered manufacturer is a party to the action or to a separate action involving the same patent or patents related to the same covered product or process.*

(3) *The covered customer agrees to be bound by any issues that the covered customer has in common with the covered manufacturer and are finally decided as to the covered manufacturer in an action described in paragraph (2).*

(4) *The motion is filed after the first pleading in the action but not later than the later of—*

(A) *the 120th day after the date on which the first pleading in the action is served that specifically identifies the covered product or process as a basis for the covered customer's alleged infringement of the patent and that specifically identifies how the covered product or process is alleged to infringe the patent; or*

(B) *the date on which the first scheduling order in the case is entered.*

(b) *APPLICABILITY OF STAY.*—*A stay issued under subsection (a) shall apply only to the patents, products, systems, or components accused of infringement in the action.*

(c) *LIFT OF STAY.*—

(1) *IN GENERAL.*—*A stay entered under this section may be lifted upon grant of a motion based on a showing that—*

(A) *the action involving the covered manufacturer will not resolve a major issue in suit against the covered customer; or*

(B) *the stay unreasonably prejudices and would be manifestly unjust to the party seeking to lift the stay.*

(2) *SEPARATE MANUFACTURER ACTION INVOLVED.*—*In the case of a stay entered based on the participation of the covered manufacturer in a separate action involving the same patent or patents related to the same covered product or process, a motion under this subsection may only be made if the court in such separate action determines the showing required under paragraph (1) has been met.*

(d) *EXEMPTION.*—This section shall not apply to an action that includes a cause of action described under section 271(e)(2).

(e) *CONSENT JUDGMENT.*—If, following the grant of a motion to stay under this section, the covered manufacturer seeks or consents to entry of a consent judgment relating to one or more of the common issues that gave rise to the stay, or declines to prosecute through appeal a final decision as to one or more of the common issues that gave rise to the stay, the court may, upon grant of a motion, determine that such consent judgment or unappealed final decision shall not be binding on the covered customer with respect to one or more of such common issues based on a showing that such an outcome would unreasonably prejudice and be manifestly unjust to the covered customer in light of the circumstances of the case.

(f) *RULE OF CONSTRUCTION.*—Nothing in this section shall be construed to limit the ability of a court to grant any stay, expand any stay granted under this section, or grant any motion to intervene, if otherwise permitted by law.

(g) *DEFINITIONS.*—In this section:

(1) *COVERED CUSTOMER.*—The term “covered customer” means a party accused of infringing a patent or patents in dispute based on a covered product or process.

(2) *COVERED MANUFACTURER.*—The term “covered manufacturer” means a person that manufactures or supplies, or causes the manufacture or supply of, a covered product or process or a relevant part thereof.

(3) *COVERED PRODUCT OR PROCESS.*—The term “covered product or process” means a product, process, system, service, component, material, or apparatus, or relevant part thereof, that—

(A) is alleged to infringe the patent or patents in dispute; or

(B) implements a process alleged to infringe the patent or patents in dispute.

\* \* \* \* \*

**§ 299. Joinder of parties**

(a) \* \* \*

\* \* \* \* \*

(d) *JOINDER OF INTERESTED PARTIES.*—

(1) *JOINDER.*—In a civil action arising under any Act of Congress relating to patents in which fees and other expenses have been awarded under section 285 to a prevailing party defending against an allegation of infringement of a patent claim, and in which the nonprevailing party alleging infringement is unable to pay the award of fees and other expenses, the court shall grant a motion by the prevailing party to join an interested party if such prevailing party shows that the nonprevailing party has no substantial interest in the subject matter at issue other than asserting such patent claim in litigation.

(2) *LIMITATION ON JOINDER.*—

(A) *DISCRETIONARY DENIAL OF MOTION.*—The court may deny a motion to join an interested party under paragraph (1) if—

(i) the interested party is not subject to service of process; or

(ii) joinder under paragraph (1) would deprive the court of subject matter jurisdiction or make venue improper.

(B) *REQUIRED DENIAL OF MOTION.*—The court shall deny a motion to join an interested party under paragraph (1) if—

(i) the interested party did not timely receive the notice required by paragraph (3); or

(ii) within 30 days after receiving the notice required by paragraph (3), the interested party renounces, in writing and with notice to the court and the parties to the action, any ownership, right, or direct financial interest (as described in paragraph (4)) that the interested party has in the patent or patents at issue.

(3) *NOTICE REQUIREMENT.*—An interested party may not be joined under paragraph (1) unless it has been provided actual notice, within 30 days after the date on which it has been identified in the initial disclosure provided under section 290(b), that it has been so identified and that such party may therefore be an interested party subject to joinder under this subsection. Such notice shall be provided by the party who subsequently moves to join the interested party under paragraph (1), and shall include language that—

(A) identifies the action, the parties thereto, the patent or patents at issue, and the pleading or other paper that identified the party under section 290(b); and

(B) informs the party that it may be joined in the action and made subject to paying an award of fees and other expenses under section 285(b) if—

(i) fees and other expenses are awarded in the action against the party alleging infringement of the patent or patents at issue under section 285(a);

(ii) the party alleging infringement is unable to pay the award of fees and other expenses;

(iii) the party receiving notice under this paragraph is determined by the court to be an interested party; and

(iv) the party receiving notice under this paragraph has not, within 30 days after receiving such notice, renounced in writing, and with notice to the court and the parties to the action, any ownership, right, or direct financial interest (as described in paragraph (4)) that the interested party has in the patent or patents at issue.

(4) *INTERESTED PARTY DEFINED.*—In this subsection, the term “interested party” means a person, other than the party alleging infringement, that—

(A) is an assignee of the patent or patents at issue;

(B) has a right, including a contingent right, to enforce or sublicense the patent or patents at issue; or

(C) has a direct financial interest in the patent or patents at issue, including the right to any part of an award

*of damages or any part of licensing revenue, except that a person with a direct financial interest does not include—*

*(i) an attorney or law firm providing legal representation in the civil action described in paragraph (1) if the sole basis for the financial interest of the attorney or law firm in the patent or patents at issue arises from the attorney or law firm’s receipt of compensation reasonably related to the provision of the legal representation; or*

*(ii) a person whose sole financial interest in the patent or patents at issue is ownership of an equity interest in the party alleging infringement, unless such person also has the right or ability to influence, direct, or control the civil action.*

**§ 299A. Discovery in patent infringement action**

*(a) DISCOVERY IN PATENT INFRINGEMENT ACTION.—Except as provided in subsection (b), in a civil action arising under any Act of Congress relating to patents, if the court determines that a ruling relating to the construction of terms used in a patent claim asserted in the complaint is required, discovery shall be limited, until such ruling is issued, to information necessary for the court to determine the meaning of the terms used in the patent claim, including any interpretation of those terms used to support the claim of infringement.*

*(b) DISCRETION TO EXPAND SCOPE OF DISCOVERY.—*

*(1) TIMELY RESOLUTION OF ACTIONS.—If, under any provision of Federal law (including the amendments made by the Drug Price Competition and Patent Term Restoration Act of 1984 (Public Law 98–417)), resolution within a specified period of time of a civil action arising under any Act of Congress relating to patents will necessarily affect the rights of a party with respect to the patent, the court shall permit discovery, in addition to the discovery authorized under subsection (a), before the ruling described in subsection (a) is issued as necessary to ensure timely resolution of the action.*

*(2) RESOLUTION OF MOTIONS.—When necessary to resolve a motion properly raised by a party before a ruling relating to the construction of terms described in subsection (a) is issued, the court may allow limited discovery in addition to the discovery authorized under subsection (a) as necessary to resolve the motion.*

*(3) SPECIAL CIRCUMSTANCES.—In special circumstances that would make denial of discovery a manifest injustice, the court may permit discovery, in addition to the discovery authorized under subsection (a), as necessary to prevent the manifest injustice.*

\* \* \* \* \*

**CHAPTER 31—INTER PARTES REVIEW**

\* \* \* \* \*

**§ 316. Conduct of inter partes review**

*(a) REGULATIONS.—The Director shall prescribe regulations—*

(1) \* \* \*

\* \* \* \* \*

(8) providing for the filing by the patent owner of a response to [the petition under section 313] *the petition under section 311* after an inter partes review has been instituted, and requiring that the patent owner file with such response, through affidavits or declarations, any additional factual evidence and expert opinions on which the patent owner relies in support of the response;

\* \* \* \* \*

(12) setting a time period for requesting joinder under section 315(c)[; and];

(13) providing the petitioner with at least 1 opportunity to file written comments within a time period established by the Director[.]; and

(14) *providing that for all purposes under this chapter—*

*(A) each claim of a patent shall be construed as such claim would be in a civil action to invalidate a patent under section 282(b), including construing each claim of the patent in accordance with the ordinary and customary meaning of such claim as understood by one of ordinary skill in the art and the prosecution history pertaining to the patent; and*

*(B) if a court has previously construed the claim or a claim term in a civil action in which the patent owner was a party, the Office shall consider such claim construction.*

\* \* \* \* \*

**CHAPTER 32—POST-GRANT REVIEW**

\* \* \* \* \*

**§ 325. Relation to other proceedings or actions**

(a) \* \* \*

\* \* \* \* \*

(e) **ESTOPPEL.**—

(1) \* \* \*

(2) **CIVIL ACTIONS AND OTHER PROCEEDINGS.**—The petitioner in a post-grant review of a claim in a patent under this chapter that results in a final written decision under section 328(a), or the real party in interest or privy of the petitioner, may not assert either in a civil action arising in whole or in part under section 1338 of title 28 or in a proceeding before the International Trade Commission under section 337 of the Tariff Act of 1930 that the claim is invalid on any ground that the petitioner raised [or reasonably could have raised] during that post-grant review.

\* \* \* \* \*

**§ 326. Conduct of post-grant review**

(a) **REGULATIONS.**—The Director shall prescribe regulations—

(1) \* \* \*

\* \* \* \* \*

(8) providing for the filing by the patent owner of a response to **the petition under section 323** *the petition under section 321* after a post-grant review has been instituted, and requiring that the patent owner file with such response, through affidavits or declarations, any additional factual evidence and expert opinions on which the patent owner relies in support of the response;

\* \* \* \* \*

(11) requiring that the final determination in any post-grant review be issued not later than 1 year after the date on which the Director notices the institution of a proceeding under this chapter, except that the Director may, for good cause shown, extend the 1-year period by not more than 6 months, and may adjust the time periods in this paragraph in the case of joinder under section 325(c)**;** and**;**

(12) providing the petitioner with at least 1 opportunity to file written comments within a time period established by the Director**;** and

(13) *providing that for all purposes under this chapter—*

(A) *each claim of a patent shall be construed as such claim would be in a civil action to invalidate a patent under section 282(b), including construing each claim of the patent in accordance with the ordinary and customary meaning of such claim as understood by one of ordinary skill in the art and the prosecution history pertaining to the patent; and*

(B) *if a court has previously construed the claim or a claim term in a civil action in which the patent owner was a party, the Office shall consider such claim construction.*

\* \* \* \* \*

**TITLE 11, UNITED STATES CODE**

**CHAPTER 1—GENERAL PROVISIONS**

**§ 101. Definitions**

In this title the following definitions shall apply:

(1) \* \* \*

\* \* \* \* \*

(35A) The term “intellectual property” means—

(A) \* \* \*

\* \* \* \* \*

(E) work of authorship protected under title 17; **[or]**

(F) mask work protected under chapter 9 of **[title 17;]**

*title 17; or*

(G) *a trademark, service mark, or trade name, as those terms are defined in section 45 of the Act of July 5, 1946 (commonly referred to as the “Trademark Act of 1946”) (15 U.S.C. 1127);*

to the extent protected by applicable nonbankruptcy law.

\* \* \* \* \*

**CHAPTER 3—CASE ADMINISTRATION**

\* \* \* \* \*

**SUBCHAPTER IV—ADMINISTRATIVE POWERS**

\* \* \* \* \*

**§ 365. Executory contracts and unexpired leases**

(a) \* \* \*

\* \* \* \* \*

(n)(1) \* \* \*

(2) If the licensee elects to retain its rights, as described in paragraph (1)(B) of this subsection, under such contract—

(A) \* \* \*

(B) the licensee shall make all [royalty payments] *royalty or other payments* due under such contract for the duration of such contract and for any period described in paragraph (1)(B) of this subsection for which the licensee extends such contract; [and]

(C) the licensee shall be deemed to waive—

(i) \* \* \*

(ii) any claim allowable under section 503(b) of this title arising from the performance of such contract[.]; and  
(D) *in the case of a trademark, service mark, or trade name, the trustee shall not be relieved of a contractual obligation to monitor and control the quality of a licensed product or service.*

\* \* \* \* \*

**CHAPTER 15—ANCILLARY AND OTHER CROSS-BORDER CASES**

\* \* \* \* \*

**SUBCHAPTER III—RECOGNITION OF A FOREIGN PROCEEDING AND RELIEF**

\* \* \* \* \*

**§ 1520. Effects of recognition of a foreign main proceeding**

(a) Upon recognition of a foreign proceeding that is a foreign main proceeding—

(1) \* \* \*

\* \* \* \* \*

(3) unless the court orders otherwise, the foreign representative may operate the debtor’s business and may exercise the rights and powers of a trustee under and to the extent provided by sections 363 and 552[; and];

(4) section 552 applies to property of the debtor that is within the territorial jurisdiction of the United States[.]; and

(5) section 365(n) applies to intellectual property of which the debtor is a licensor or which the debtor has transferred.

\* \* \* \* \*

**SECTION 1295 OF TITLE 28, UNITED STATES CODE**

**§ 1295. Jurisdiction of the United States Court of Appeals for the Federal Circuit**

(a) The United States Court of Appeals for the Federal Circuit shall have exclusive jurisdiction—

(1) \* \* \*

\* \* \* \* \*

(4) Of an appeal from a decision of—

(A) the Patent Trial and Appeal Board of the United States Patent and Trademark Office with respect to a patent application, derivation proceeding, reexamination, post-grant review, or inter partes review under title 35, at the instance of a party who exercised that party's right to participate in the applicable proceeding before or appeal to the Board, [except that an applicant or a party to a derivation proceeding may also have remedy by civil action pursuant to section 145 or 146 of title 35; an appeal under this subparagraph of a decision of the Board with respect to an application or derivation proceeding shall waive the right of such applicant or party to proceed under section 145 or 146 of title 35;] *except that a party to a derivation proceeding may also have remedy by civil action under section 146 of title 35; an appeal under this subparagraph of a decision of the Board with respect to a derivation proceeding shall waive the right of such party to proceed under section 146 of title 35;*

\* \* \* \* \*

(C) a district court to which a case was directed pursuant to [section 145, 146, or] *section 146 or 154(b)* of title 35;

\* \* \* \* \*

**LEAHY-SMITH AMERICA INVENTS ACT**

\* \* \* \* \*

**SEC. 18. TRANSITIONAL PROGRAM FOR COVERED BUSINESS METHOD PATENTS.**

(a) TRANSITIONAL PROGRAM.—

(1) ESTABLISHMENT.—Not later than the date that is 1 year after the date of the enactment of this Act, the Director shall issue regulations establishing and implementing a transitional post-grant review proceeding for review of the validity of covered business method patents. The transitional proceeding implemented pursuant to this subsection shall be regarded as, and shall employ the standards and procedures of, a post-grant

review under chapter 32 of title 35, United States Code, subject to the following:

(A) **Section 321(c)** *Sections 321(c) and 326(a)(13)* of title 35, United States Code, and subsections (b), (e)(2), and (f) of section 325 of such title shall not apply to a transitional proceeding.

\* \* \* \* \*

(C) A petitioner in a transitional proceeding who challenges the validity of 1 or more claims in a covered business method patent on a ground raised under section 102 or 103 of title 35, United States Code, as in effect on the day before the effective date set forth in section 3(n)(1), may support such ground only on the basis of—

(i) prior art that is described by **section 102(a) subsection (a) or (e) of section 102** of such title (as in effect on the day before such effective date); or

\* \* \* \* \*

**ACT OF JANUARY 4, 2011**

(Public Law 111-349)

AN ACT To establish a pilot program in certain United States district courts to encourage enhancement of expertise in patent cases among district judges.

**SECTION 1. PILOT PROGRAM IN CERTAIN DISTRICT COURTS.**

(a) \* \* \*

\* \* \* \* \*

**[(c) DURATION.—**The program established under subsection (a) shall terminate 10 years after the end of the 6-month period described in subsection (b).**]**

*(c) DURATION.—The program established under subsection (a) shall be maintained using existing resources, and shall terminate 20 years after the end of the 6-month period described in subsection (b).*

\* \* \* \* \*

**PATENT LAW TREATIES IMPLEMENTATION ACT OF 2012**

\* \* \* \* \*

**TITLE II—PATENT LAW TREATY IMPLEMENTATION**

\* \* \* \* \*

**SEC. 202. CONFORMING AMENDMENTS.**

(a) \* \* \*

(b) **RELIEF IN RESPECT OF TIME LIMITS AND REINSTATEMENT OF RIGHT.—**Title 35, United States Code, is amended—

(1) \* \* \*

\* \* \* \* \*

[(7) in section 361, by striking subsection (c) and inserting the following:

["(c) International applications filed in the Patent and Trademark Office shall be filed in the English language, or an English translation shall be filed within such later time as may be fixed by the Director.";]

[(8) (7) in section 364, by striking subsection (b) and inserting the following:

"(b) An applicant's failure to act within prescribed time limits in connection with requirements pertaining to an international application may be excused as provided in the treaty and the Regulations."; and

[(9) (8) in section 371(d), in the third sentence, by striking ", unless it be shown to the satisfaction of the Director that such failure to comply was unavoidable".

\* \* \* \* \*



## Dissenting Views

We strongly oppose H.R. 3309, the “Innovation Act.” Although we believe certain legislative changes are needed to respond to litigation asymmetries when so-called patent trolls—also referred to as non-practicing entities (NPE’s) or patent assertion entities (PAE’s)—unfairly target small businesses and end users,<sup>1</sup> the overall legislation is unbalanced and will discourage innovation. In particular, we oppose the legislation because:

- (i) it has been considered pursuant to a rushed and unfair process;
- (ii) it excludes the single most important step we can take to improve patent quality and protect against abusive litigation—ending US Patent and Trademark Office (PTO) fee diversion;
- (iii) it includes a number of one-sided changes to our civil justice system that apply to limit the rights of all patent holders, not just cases involving “trolls”; and
- (iv) it violates our system of separation of powers by imposing unnecessary mandates on the Federal courts.

There are few economic issues Congress will face that are more important than our patent system. Intellectual property intensive industries account for over a third of our Nation’s gross domestic product, about 5 trillion dollars, and contribute over 40 million jobs to the U.S. economy.<sup>2</sup> Our patent system, while not perfect, is the envy of the world and a significant driver of growth in our economy. While we support common sense changes to improve and enhance the system, we cannot support the changes included in H.R. 3309 which taken as a whole will unbalance the patent system for all patent owners (not just patent “trolls”), disrupt comity with our coequal judicial branch of government, and discourage the very innovation that is the lifeblood of our economy.

Our concerns are shared by a wide and deep range of participants and stakeholders in the patent system who have issued letters opposing or expressing numerous serious concerns with the legislation, including the Federal Judicial Conference, the American Bar Association (ABA), the American Intellectual Property Law Association (AIPLA), the Patent Officers Professional Associa-

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<sup>1</sup>Because many NPEs do not manufacture or run businesses with a substantial number of employees, they do not experience the disruptive effect that litigation may impose on businesses that do. Whether NPEs assert valid or dubious patents, they are more likely to settle, both prior to and after filing a lawsuit, for sums less than the estimated cost of litigation, which gives them greater leverage over alleged infringers. Also, because NPEs generally do not have corporate customers or consumers, they do not face the same reputational harms that operating companies do. *See generally* Brian T. Yeh, An Overview of the “Patent Troll” Debate, CRS R42668 (April 16, 2013) (describing NPEs and subsets of such entities, and analyzing the debate on their effect on innovation and role in litigation).

<sup>2</sup>Economics and Statistics Administration and the U.S. Patent and Trademark Office, 2012, “Intellectual Property and the U.S. Economy: Industries in Focus,” at vii.

tion (POPA), the American Association of Universities (AAU), the Biotechnology Industry Association (BIO), the Coalition for Twenty-First Century Patent Reform (21C), the Innovation Alliance, the American Association for Justice (AAJ), the Pharmaceutical Research and Manufacturers Association (PhRMA), the Eagle Forum, the Institute of Electrical and Electronics Engineers, the National Association of Patent Practitioners (NAPP), the National Venture Capital Association, and the National Bankruptcy Conference.<sup>3</sup>

<sup>3</sup>These and numerous other well-regarded groups and individuals have cited similar concerns with the bill. The following materials are on file with the House of Representatives Committee on the Judiciary, Democratic Staff, and many are accessible on the minority website: Letter from Jeffrey S. Sutton, Chair of the Committee on Rules of Practice and Procedure of the Judicial Conference of the United States, and Jonathan C. Rose, Secretary of the Committee on Rules of Practice and Procedure of the Judicial Conference of the United States, to Representative John Conyers, Jr., Ranking Member of the House Committee on the Judiciary (Nov. 6, 2013) (noting that “[b]y dictating the outcome of the Rules Enabling Act process with respect to potential rules, Section 6 of H.R. 3309 runs counter to that process.”); Letter from Thomas M. Susman, Director of the Governmental Affairs Office of the American Bar Association, to Representative Robert Goodlatte, Chairman of the House Committee on the Judiciary, and Representative John Conyers, Jr., Ranking Member of the House Committee on the Judiciary (Nov. 14, 2013) (noting that “[o]ur primary concerns regard provisions of the bill that call for Congress, rather than the courts, to establish certain rules of procedure for the Federal courts, thereby circumventing a rulemaking process that has served our justice system well for almost 80 years.”); Letter from Wayne P. Sobon, President of the American Intellectual Property Law Association, to Representative Robert Goodlatte, Chairman of the House Committee on the Judiciary (Nov. 19, 2013) (noting that “AIPLA is concerned that the bill will mandate inflexible rules, many of which may have unintended consequences including impeding access to the courts, and we further believe that the Judicial Conference in its own discretion is in a better position to work with the district courts to institute appropriate case management rules.”); Letter from Robert D. Budens, President of the Patent Office Professional Association, to Representative Robert Goodlatte, Chairman of the House Committee on the Judiciary, and Representative John Conyers, Jr., Ranking Member of the House Committee on the Judiciary (Nov. 18, 2013) (arguing that “the Innovation Act appears skewed against small inventors.”); Letter from the Association of American Universities, American Council of Education, Association of American Medical Colleges, Association of Public and Land-grant Universities, Association of University Technology Managers, and Council on Governmental Relations to Representative Robert Goodlatte, Chairman of the House Committee on the Judiciary, and Representative John Conyers, Jr., Ranking Member of the House Committee on the Judiciary (Nov. 19, 2013) (arguing that “a number of provisions in the Manager’s Amendment are problematic, including the extremely broad scope of civil actions to which fee shifting would apply and the high, indefinite threshold for a court’s waiver of that fee shifting, the extent of the heightened pleading requirements, the breadth of the information required in Sec. 4’s transparency provisions, and the narrowing of the scope of the estoppel provisions in the AIA’s new post-grant review procedure.”); Letter from James C. Greenwood, President and CEO of the Biotechnology Industry Organization, to Representative Robert Goodlatte, Chairman of the House Committee on the Judiciary (Nov. 14, 2013) (arguing that “in an attempt to target abusive litigation practices by the few, the proposals impose unjustified burdens on too many legitimate patent owners seeking to enforce and defend their inventions in good faith.”); Letter from Carl B. Horton of the Coalition for 21st Century Patent Reform to Representative Robert Goodlatte, Chairman of the House Committee on the Judiciary, and Representative John Conyers, Jr., Ranking Member of the House Committee on the Judiciary (Nov. 18, 2013) (noting that “we continue to have a serious concern that the provision related to stays of discovery pending claim construction would prolong all patent litigation by a year or more, substantially increase its cost, and deny parties with meritorious positions of the timely relief they deserve.”); Letter from Brian Pomper, Executive Director of the Innovation Alliance, to Representative Robert Goodlatte, Chairman of the House Committee on the Judiciary, and Representative John Conyers, Jr., Ranking Member of the House Committee on the Judiciary (Nov. 19, 2013) (arguing that “[o]lverly detailed pleading requirements, inflexible discovery limits, and broad provisions permitting stays against certain parties have the potential to undermine the enforceability of all patent rights, no matter how valuable the patent, and thus potentially incentivize infringement.”); Letter from Linda Lipsen, CEO of The American Association for Justice, to Representative Robert Goodlatte, Chairman of the House Committee on the Judiciary, and Representative John Conyers, Jr., Ranking Member of the House Committee on the Judiciary (Nov. 19, 2013) (arguing that the “Innovation Act makes radical and unnecessary changes to United States patent law that would close the courthouse door to individual inventors and small start-ups.”); Letter from Chester Davis, Jr., Executive Vice President of Advocacy and Member Relations for the Pharmaceutical Research and Manufacturers of America, to Representative Robert Goodlatte, Chairman of the House Committee on the Judiciary, and Representative John Conyers, Jr., Ranking Member of the House Committee on the Judiciary (Nov. 13, 2013) (noting that “many of the provisions contained in the recently introduced Innovation Act (H.R. 3309) perhaps unintentionally undermine the ability of patent owners more broadly to enforce their rights by filing a patent suit and litigating it to completion.”); Letter from Marc T. Apter, President of The Institute of Electrical and Elec-

For these reasons, and those described below, we respectfully dissent and urge our colleagues to reject this legislation when it comes to the House floor.

#### DESCRIPTION AND BACKGROUND

##### I. BRIEF SUMMARY OF H.R. 3309

H.R. 3309 includes several common sense proposals that as a general matter we believe would improve the patent system and respond to abuses and asymmetries in the patent system. These include:

- (i) *Transparency of Patent Ownership (Sec. 4)*—requiring patent litigants to disclose the real parties in interest in the asserted patent.<sup>4</sup>
- (ii) *Customer Stay (Sec. 5)*—limiting the practice of suing downstream users of a patented product or technology, such as retailers, restaurants or supermarkets, for infringement by allowing the manufacturer to step in to defend against an infringement claim.<sup>5</sup>
- (iii) *Small Business Assistance (Sec. 7)*—facilitating coordination between the USPTO patent ombudsman, the Small Business Administration, and the Minority Business Development Agency to provide educational resources and outreach programs for small business concerns arising from patent infringement and abusive patent litigation practices.

At the same time, we strongly oppose a number of provisions that go well beyond the problem of patent trolls and would harm legitimate patent holders and independent inventors. These include:

- (i) *Limits on Access to the Courts (Sec. 3)*—imposing a series of limitations on the civil justice system involving patents,

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tronics Engineers, to Representative Robert Goodlatte, Chairman of the House Committee on the Judiciary, and Representative John Conyers, Jr., Ranking Member of the House Committee on the Judiciary (Nov. 19, 2013) (arguing that “provisions in the Bill are still not sufficiently narrowly crafted to target litigation abuse and therefore would reduce the value and enforceability of patents more broadly.”); Letter from Priya Sinha Cloutier, Chair of The National Association of Patent Practitioners Government Affairs Committee, to Representative Robert Goodlatte, Chairman of the House Committee on the Judiciary (Nov. 19, 2013) (arguing that “the provisions contained in the recently introduced Innovation Act (H.R.3309) are not narrowly crafted to address abusive practices, but instead broadly undermine the ability of patent owners to enforce their constitutionally protected, government (USPTO) granted patent rights.”); Letter from Bobby Franklin, President and CEO of the National Venture Capital Association, to Representative Robert Goodlatte, Chairman of the House Committee on the Judiciary, and Representative John Conyers, Jr., Ranking Member of the House Committee on the Judiciary (Nov. 20, 2013) (noting that it is “critical that Congress balance the need for patent litigation reform with the needs of those start-ups that depend on strong patent protection and that believe the system is working. Congress must also take care to avoid any unintended consequences that could weaken strong patent protection.”); Letter from Phyllis Schlafly, President of the Eagle Forum, to Chairman Robert Goodlatte (Oct. 29, 2013); and Memoranda of the National Bankruptcy Conference (Nov. 11–12, 2013) (noting the National Bankruptcy Conference’s opposition to the enactment of section 6(d) of H.R. 3309 as a matter of international bankruptcy policy.).

<sup>4</sup>We find the additional fee-shifting provision in this section unnecessary and duplicative. We supported the Conyers/Watt substitute that did not create an additional fee-shifting requirement associated with the transparency obligations.

<sup>5</sup>We would hope that the final language concerning the customer stay could be reviewed and fine tuned if necessary to insure that the language does not have any unintended consequences in terms of protecting culpable parties. See, e.g., testimony of David J. Kappos before the Committee on the Judiciary, H.R. 3309 Innovation Act, Oct. 29, 2013.

including heightened pleading requirements; mandatory fee shifting in most cases; and limitations on discovery.

- (ii) *Encroachment on Judicial Authority (Sec. 6)*—imposing a series of mandates and directives on the Federal judiciary involving patent litigation in contravention of the time-tested Rules Enabling Act process.

## II. DETAILED SECTION-BY-SECTION ANALYSIS OF H.R. 3309

*Sec. 1. Short Title.* Section 1 sets forth the short title of the bill as the “Innovation Act.”

*Sec. 2. Definitions.* Section 2 provides for the definitions of “Director” and “Office”.

*Sec. 3. Patent Infringement Actions.* Subsection (a) imposes heightened pleading requirements on parties asserting patent infringement whether in an initial complaint, counterclaim or cross-claim. Current law governing pleading in all civil actions, including patent infringement claims, is somewhat fluid following the decisions of the U.S. Supreme Court in *Bell Atlantic v. Twombly*, 550 U.S. 544 (2007) and *Ashcroft v. Iqbal*, 556 U.S. 662 (2009). Those cases moved away from the traditional “notice” pleading regime and moved towards more fact-based pleading requirements. Section 3(a) imposes statutory heightened pleading requirements by requiring patent holders to identify the patents and claims infringed and to provide more specificity as to how they are infringed.

Subsection (b) alters the fee-shifting scheme under existing law. Currently, a court “in exceptional cases may award reasonable attorney fees to the prevailing party” in a patent infringement lawsuit. There is pending litigation concerning the meaning of the term “exceptional cases.” The Federal Circuit is expected to address this issue within the next month in *Sidense Corp. v. Kilopass Tech., Inc.*<sup>6</sup> And the Supreme Court has granted *certiorari* in two cases involving fee-shifting in patent litigation this term, including *Octane Fitness v. Icon Health & Fitness Inc.* in which the two-step test to meet the “exceptional case” standard has been challenged.<sup>7</sup> Section 3(b) would replace the current discretionary statutory provision with a mandatory fee-shifting provision. As amended by Representative Hakeem Jeffries’ amendment at markup, it requires that fees shift to the non-prevailing party unless they can meet the burden of establishing that their position was “reasonably justified” or that “special circumstances”<sup>8</sup> make an award unjust. The provision also defines a non-prevailing party to include a plaintiff patentee who “subsequently unilaterally extends . . . a covenant not

<sup>6</sup>See *Sidense Corp. v. Kilopass Tech., Inc.*, (Fed. Cir. pending 2013).

<sup>7</sup>*Octane Fitness v. Icon Health & Fitness, Inc.*, 496 Fed. Appx. 57 (Fed. Cir. 2012), cert. granted, 81 USLW 3567 (U.S. Oct. 1, 2013) (No. 12–1184). *Octane Fitness* will consider the Federal Circuit’s two-part test for satisfying the “exceptional case” standard. According to the Federal Circuit “[a]bsent misconduct in conduct of the litigation or in securing the patent, sanctions may be imposed . . . only if both (1) the litigation is brought in subjective bad faith, and (2) the litigation is objectively baseless.” *Brooks Furniture Mfg. Inc. v. Futailer Int’l, Inc.*, 393 F.3d 1378, 1381 (Fed. Cir. 2005). The Court also granted *certiorari* in *Highmark, Inc. v. Allcare Health Management Systems, Inc.*, 687 F.3d 1300 (Fed. Cir. 2012), cert. granted, 81 USLW 3562 (U.S. Oct 1, 2013) (No. 12–1163, 12A763), in which it will consider to what extent a district court’s determination whether the criteria for “exceptional case” status has been met is entitled to deference.

<sup>8</sup>The Jeffries Amendment parenthetically explains that “special circumstances” includes “severe economic hardship to a named inventor).”

to sue for infringement with respect to the patent or patents at issue.”

Subsection (c) establishes an additional mechanism for joinder of additional plaintiffs notwithstanding Federal Rules of Civil Procedure 19 and 20, which already provide for the permissive and mandatory joinder of parties, respectively. Under section 3(c) defendants may join additional parties having a financial interest in the patents at issue for the purpose of satisfying any award of attorneys’ fees and other expenses against a judgment-proof patentee.

Subsection (d) requires a judge to limit discovery in any case where the court will hold a *Markman* hearing<sup>9</sup> to construe the terms in the patent claim and determine the scope of the patent. *Markman* proceedings can occur early in the litigation or at the end of full-scale discovery but before the trial. Section 3(d) strips the court of discretion to manage proceedings before it by requiring that they limit discovery in all cases to only that information needed to construe the claims of the patent and render a *Markman* ruling. This section further restricts the discretion of the court to expand the scope of discovery prior to claim construction only in cases with a statutory deadline (specifically including cases where a pharmaceutical company submits an abbreviated application for approval of a new drug) “when necessary to resolve a motion properly raised” or “as necessary to prevent the manifest injustice.”

*Sec. 4. Transparency of Patent Ownership.* Section 4(a) requires a patent owner who asserts an infringement claim in court to provide detailed information about all persons or entities having an interest in the patent. Specifically, the patent owner has an ongoing duty to inform the parties, the court, and the USPTO of the identity of any: (1) assignee of the patent, (2) entity with the right to sublicense or enforce the patent, (3) entity with any financial interest in the patent or in the patentee, and (4) the ultimate parent entity of the assignee. The patent owner is encouraged to comply with this requirement by causing it to forfeit attorneys fees under section 285 or enhanced damages. In addition, the patent owner may also be required to pay the opposing party’s costs and attorneys fees incurred to determine the identity of the real parties at interest in the patent if the patent owner fails to comply with this section. Fees may be shifted even if the identity of additional parties was immaterial to the proceedings and may only be avoided if the court determines they are “unjust.”

*Sec. 5. Customer-suit Exception.* Currently, manufacturers or suppliers may seek leave to intervene in patent infringement actions against their customers or end users. They may also seek a declaratory judgment where a case or controversy exists, or pursue administrative legal action against a patent owner. Section 5(a) goes further to require an action against a customer be stayed if: 1) both the manufacturer and customer agree, 2) the customer agrees to be bound by any judgment against the manufacturer, and 3) the motion for a stay is brought within 120 days of service of the first infringement pleading.

*Sec. 6. Procedures and Practices to Implement and Recommendations to the Judicial Conference.* Section 6 includes a number of

<sup>9</sup>*Markman v. Westview Instruments, Inc.*, 517 U.S. 370 (1996).

mandates that the Federal judiciary change its rules of procedure in several specified areas. Subsection (a) requires the Judicial Conference to promulgate rules and procedures on core document discovery, electronic communication production, fee-shifting for additional document discovery, and the sequence and scope of discovery. Subsection (b) requires the Judicial Conference to develop case management procedures for all patent cases, including procedures that will focus on early disposition of the case. Subsection (c) requires the Supreme Court to eliminate Form 18 (concerning patent pleadings) and authorizes the Court to replace Form 18 with specific minimum contents.

Section 6(d) makes two substantive amendments to the Bankruptcy Code. The first concerns chapter 15 of the Bankruptcy Code, which codifies the Model Law on Cross-Border Insolvency promulgated by the United Nations Commission on International Trade Law (UNCITRAL). It reflects a very carefully crafted international agreement that guides bankruptcy courts throughout the world about how to manage transnational insolvencies implicating the laws of other nations.<sup>10</sup> To achieve its goal of reciprocal international cooperation, chapter 15 requires “each country to recognize a foreign main proceeding in the debtor’s home country as the leader in the worldwide effort and that it cooperate with that jurisdiction to achieve the best results for all concerned.”<sup>11</sup> Section 6(d) would alter a fundamental principal of chapter 15, namely, that it not favor a particular country’s law. It does this by requiring a U.S. court to apply Bankruptcy Code section 365(n) (which gives certain rights to intellectual property licensees where the debtor has rejected the license agreement) to “foreign main proceedings,” a type of chapter 15 case “pending in the country where the debtor has the center of its main interests.”<sup>12</sup> This change effectively imposes U.S. law whether or not it should apply to a particular license. For example, a U.S. bankruptcy court would be required to apply U.S. law to a license owned by a foreign company and issued under another country’s law even if the intellectual property that is the subject of the license agreement is not located in the U.S.

In addition, section 6(d) amends the Bankruptcy Code’s definition of intellectual property to include trademarks, service marks, and trade names<sup>13</sup> and imposes an affirmative duty on the debtor-licensor that has rejected the license contract to monitor and control the quality of the licensed product or service. This provision would apply to all types of bankruptcy cases, namely, liquidating chapter

<sup>10</sup> Enacted in 2005, chapter 15 is intended to “provide effective mechanisms for dealing with cases of cross-border insolvency” through various statutorily mandated objectives. Bankruptcy Abuse Prevention and Consumer Protection Act of 2005, Pub. L. No. 109–8, 119 Stat. 23 (2005). The text of the Model Law and the Report of UNCITRAL on its adoption are found at U.N. G.A., 52d Sess., Supp. No. 17 (A/52/17). These include promoting cooperation between U.S. courts and the courts of foreign nations and ensuring “fair and efficient administration of cross-border insolvencies that protects the interests of all creditors, and other interested entities, including the debtor.” 11 U.S.C. § 1501(a)(1) & (3) (2013). As explained in this Committee’s report that accompanied identical legislation that led to the enactment of chapter 15, “[c]ases brought under chapter 15 are intended to be ancillary to cases brought in a debtor’s home country, unless a full United States bankruptcy case is brought under another chapter.” H. Rep. No. 109–31, at 105–06 (2005).

<sup>11</sup> *Id.*

<sup>12</sup> 11 U.S.C. § 1506 (2013).

<sup>13</sup> 11 U.S.C. § 101(35A) (2013).

7 cases, reorganizing chapter 11 cases, and transnational chapter 15 bankruptcy cases.

*Sec. 7. Small Business Education, Outreach, and Information Access.* Subsection (a) requires the USPTO to develop educational resources and outreach programs for small business concerns arising from patent infringement and abusive patent litigation practices. It requires the Patent Ombudsman Program, established under AIA, to coordinate with small and minority business initiatives. The Director of the PTO is required under section 7(b) to develop a website for small businesses that should include patent transparency information required under the bill whenever a patentee sues on a patent.

*Sec. 8. Studies on Patent Transactions, Quality, and Examination.* Section 8 mandates a number of concurrent studies. Subsection (a) requires a study on the secondary market oversight for patent transactions to promote transparency and ethical business practices and is due within 1 year of enactment of the bill. Subsection (b) requires a study on patents owned by the U.S. government and is due within 6 months of enactment of the bill. Subsection (c) requires a study on patent quality and access to the best information during examination. The GAO is also directed to evaluate the patent examination process at the USPTO and to assess the available technologies. The GAO study is due within 6 months of enactment of the bill. The manager's amendment includes a new subsection (d) which requires an additional study by the Administrative Office of the U.S. Courts to examine the feasibility of developing a pilot program for patent small claims proceedings.

Two additional studies were added during the markup. One imposes yet another obligation on the USPTO to study a very broadly defined "demand letter" and issue a report to Congress within 1 year of enactment of the bill. The other requires the GAO to produce a study within 6 months of the enactment of the bill on the quality of business method patents asserted in patent infringement lawsuits.

*Sec. 9. Improvements and Technical Corrections to the Leahy-Smith America Invents Act.* Section 9 makes several changes to patent law, many of which are not technical and would have a significant impact on patent system. A summary of these provisions follows:

Section 9(a) repeals section 145, which allows a *de novo* appeal of denial of a patent application by the USPTO to a district court. Currently, a patent applicant has the option of either appealing a decision by the USPTO denying a patent application directly to the Federal Circuit under 35 U.S.C. §141 or initiating an action against the USPTO in district court under 35 U.S.C. §145. The Federal Circuit reviews an appeal of a USPTO decision solely based on the record that was before the agency. In a district court proceeding, however, the applicant can introduce new evidence and subpoena witnesses. The Supreme Court recently affirmed the expansive breadth of evidence that a patent applicant may introduce in a §145 proceeding.<sup>14</sup>

<sup>14</sup> See *Kappos v. Hyatt*, 566 U.S. \_\_\_\_, 132 S.Ct. 1690 (2012).

Section 9(b) deletes “or reasonably could have raised” from section 325(e)(2) in the AIA’s Post Grant Review (PGR) procedure. The AIA established this new first window procedure to enable early challenge of patents. PGR is intended to weed out weak issued patents before they have an adverse effect on the market. Section 325(e)(2) of the AIA currently contains an estoppel provision that prohibits a participant in PGR from asserting claims “on any ground that the petitioner raised or reasonably could have raised during that post-grant review” in a subsequent civil action. The revision now estops a PGR participant from raising in a subsequent lawsuit only those claims the petitioner actually raised in the PGR.

Section 9 (c) eliminates the “Broadest Reasonable Interpretation” (BRI) standard and requires that claims of issued patents be construed in PGR and inter partes review (IPR) proceedings under the same standard used in district court. Patents before the district courts are presumed valid and subject to a “clear and convincing” standard of proof to establish validity. BRI is an administrative rule that the USPTO has used and the courts have sanctioned since the 1930’s. After enactment of the AIA, however, the USPTO issued a rulemaking proceeding to determine the rules of practice to implement the newly created IPR proceeding, the PGR proceeding, and the transitional post-grant review proceeding for covered business method patents (Section 18/CBM program). The final rule requires the USPTO to apply BRI to construe certain patent claims before the agency, including those in the new IPR and PGR proceedings.<sup>15</sup> This subsection, in effect, repeals the agency rulemaking and replaces the BRI standard with the same standard used in the district courts.

Section 9(d) codifies the judicial doctrine against double-patenting and applies it to patents issued after AIA under the first to file system. Current law prohibits two types of double patenting. One type is based on 35 U.S.C. § 101, which has been construed to disallow multiple patents for the “same invention.” The other type is judicially created. The judicial doctrine against double patenting prevents a patentee from prolonging the life of a patent by rejecting claims in a second patent that are obvious variations from claims in a first patent. The provision codifies the concept that “unless two patents from the same inventor could have validly issued had they been sought by two different inventors, the two patents must be owned by the same entity, and must both terminate upon the earliest termination of either patent.”<sup>16</sup>

Section 9(e) of the manager’s amendment dispensed with the controversial expansion of the reach and duration of the transitional Section 18/CPM program included in the introduced version of H.R. 3309. The manager’s amendment, however, redefines and expands the scope of prior art under the transitional covered business method program, and retains the seemingly unencumbered authority of the Director to waive fees under this section.

Section 9(f) extends the life of certain patents if there are delays in the issuance of those patents. There are often delays during the patent examination process and Congress enacted 35 U.S.C.

<sup>15</sup> See Federal Register/Vol. 77, No. 157, Aug. 14, 2012.

<sup>16</sup> Summary of 21C Position, at 11.

§ 154(b)(1) to provide for an extension of a patent term for USPTO delays. Part B delay occurs when the USPTO fails to issue a patent within 3 years from the filing date of the patent application. For a “B” type delay there is an addition of one day for each day after the end of the 3-year period beginning on the date the patent application was filed. Judges on the U.S. District Court for the Eastern District of Virginia have disagreed about the meaning of section 154(b)(1)(B) and how the filing of a Request for Continued Examination (RCE) impacts the ability to accrue “B” type Patent Term Adjustment. Section 9(f) would amend § 154(b)(1)(B) to eliminate any patent term adjustment for “B delay” occurring after an applicant files a RCE. The section would make the change effective with regards to any “patent application or patent” pending on the Act’s date of enactment. This section would codify the USPTO’s current practice of excluding any time consumed by an RCE from the calculation of patent term adjustment under section 154(b)(1)(B). This change would overturn the November 1, 2012 decision in *Exelixis, Inc. v. Kappos I*<sup>17</sup> and codify the January 28, 2013 decision in *Exelixis, Inc. v. Kappos II*.<sup>18</sup>

Section 9(g) clarifies Federal jurisdiction over cases in which a patent issue is not the primary issue in the case. This provision is presumed to be an attempt to override the Supreme Court decision in *Gunn v. Minton*<sup>19</sup> in which the Court held that a legal malpractice claim did not “arise under” Federal patent law for purposes of section 1338(a). The Court applied a four-prong test: “federal jurisdiction over a state law claim will lie if a federal issue is: (1) necessarily raised, (2) actually disputed, (3) substantial, and (4) capable of resolution in federal court without disrupting the federal-state balance approved by Congress.” Although the Court found that the first two prongs were satisfied, jurisdiction was absent because the patent question “was not substantial in the relevant sense” and therefore the third prong was not satisfied. This subsection focuses on the third of the four prongs without relating it to the first two.

Section 9(h) extends the life of the patent pilot program from 10 to 20 years.

Section 9(i) makes a series of seven additional changes it classifies as “technical,” including one that extends the time limit for bringing disciplinary proceedings before the USPTO. Like several other technical changes, the rationale has never been explained and it does not appear to be supported by the USPTO.

*Sec. 10. Effective date.* Section 10 provides that unless otherwise specified in the bill, the provisions shall become effective on the date of enactment and apply to any patent issued or any case filed on or after the date of enactment.

#### CONCERNS WITH H.R. 3309

As noted above, we oppose the legislation for a number of reasons, including the rushed process; the failure to end USPTO fee diversion; the legislation’s limitations imposed on the patent civil justice system in a manner that will harm all patent holders, not

<sup>17</sup>No. 1: 12cv96 (E.D. Va. Nov. 1, 2012).

<sup>18</sup>No. 1: 12cv574 (LMB/TRJ) (E.D. Va. Jan. 28, 2013).

<sup>19</sup>568 U.S. \_\_\_\_ (2013).

just “trolls;” and its general disregard for our system of mutual respect for the prerogatives of a coequal branch of government by imposing unnecessary and overly prescriptive mandates on the Federal courts. The following is a more detailed description of these concerns.

#### I. RUSHED AND UNFAIR LEGISLATIVE PROCESS

Legislation involving a subject matter as critical and sensitive as patent law should be reviewed and considered only under the most careful and deliberative process. The America Invents Act (AIA),<sup>20</sup> was signed into law by President Barack Obama in 2011 which was the most comprehensive overhaul of the U.S. patent system since 1952.<sup>21</sup> That legislation was the subject of numerous hearings over more than three Congresses.<sup>22</sup>

Yet now, a little more than 2 years after the AIA was signed into law, and at a time when many important aspects of the new law are largely untested, we are again considering a significant patent overhaul. In this context, and given the stakes involved, it is all the more important that we proceed with caution and deliberation. This was the message strongly delivered to the Committee just a few weeks ago by David J. Kappos, the most recent Director of the USPTO:

At the outset of considering further changes to our patent system, we must recognize that the time constant of the patent system—the period between new patent application and court decision on patent infringement claim—is very long. Many years. As such, the impact of Congress’ very recent major changes to our patent system has barely begun to be felt. *In such long time constant situations, every engineering instinct and every leadership instinct tells me to proceed with caution.*

Moreover, in long time constant systems such as our patent system, over-correction is a major danger. By the time an over-correction is apparent, it will be years after the system is badly damaged. *And we are not tinkering with just any system here; we are reworking the greatest innovation engine the world has ever known, almost instantly after it has been significantly overhauled. If there were ever a case where caution is called for, this is it.*

<sup>20</sup> Leahy-Smith America Invents Act, Pub. L. No. 112–29, 125 Stat. 285, (2011).

<sup>21</sup> The White House, “President Obama Signs America Invents Act, Overhauling the Patent System to Stimulate Economic Growth, and Announces New Steps to Help Entrepreneurs Create Jobs” (Sept. 16, 2011).

<sup>22</sup> The AIA was intended, in part, to provide American inventors and entrepreneurs with new or improved administrative alternatives to costly litigation regarding patent validity, freeing them to focus on innovation and job creation. Implementation of the various provisions of the AIA was staggered to allow the agency adequate time to comply with the new statutory mandates. “*America Invents Act: Effective Dates, United States Patent and Trademark Office (USPTO)*” (Oct. 5, 2011) [http://www.uspto.gov/aia\\_implementation/aia-effective-dates.pdf](http://www.uspto.gov/aia_implementation/aia-effective-dates.pdf). In addition to modifying USPTO practice and procedures to provide alternatives to litigation, the AIA also sought to address allegations of patent litigation abuse head-on. For example, a provision was hastily added to the bill just prior to the markup to discourage the improper joinder of multiple, unrelated defendants in a single suit. David O. Taylor, “*Patent Misjoinder*,” 88 N.Y.U. L. Rev. 652, 655–656 (2013). Companies argued that entities that do not manufacture any products would sue a large number of defendants in an inconvenient forum on distinct grounds of infringement. Section 299 of the AIA severely restricts this practice by imposing specific requirements that must be met before a court may allow numerous accused infringers to be sued together.

Caution in turn calls for a deliberative process that takes the time to reach out and listen to all stakeholders, including those who will be the fastest ones off the mark. Many small innovators—today’s Edisons—have not had time to make their views heard. Others having various levels of dependence on strong IP rights are just now beginning to consider the prospect of further changes to our patent system. *We need to allow these important stakeholders their time to participate.*

Caution also calls for us to ask: is the building on fire? Do we have an emergency that requires immediate action? No. The building is not on fire.<sup>23</sup>

Unfortunately, in this case the Committee on the Judiciary has proceeded with undue haste and with a bill that goes well beyond the issue of patent “trolls” and well beyond even the patent law. We have only had a single legislative hearing, with a single panel of four witnesses a mere 1 month ago.<sup>24</sup> The Chair ignored a bipartisan request signed by six Members of the Committee seeking an additional hearing “to further study the text and impact”<sup>25</sup> of the legislation. Subcommittee markup was skipped and the bill proceeded to full committee where it was marked up for a single day. A deadline for floor amendments has been set by the Rules Committee on the very first day back after the Thanksgiving District Work period, making it difficult for Members of the full House to

<sup>23</sup> Statement of David J. Kappos before the Committee on the Judiciary, H.R. 3309 Innovation Act, Oct. 29, 2013 (emphasis added). In this regard, it is useful to note the AIA required the Government Accountability Office (GAO) to conduct a study of the litigation and litigation practices of these “non-practicing entities” or NPEs. The GAO study made some key observations about NPEs, more pejoratively referred to as “patent trolls,” who engage in abusive litigation tactics to enforce patents of dubious validity or patent portfolios purchased for the sole purpose of monetizing through licensing or litigation. U.S. Government Accountability Office, 2013, “Intellectual Property: Assessing Factors That Affect Patent Infringement Litigation Could Help Improve Patent Quality”, GAO-13-465, at 2-3, <http://www.gao.gov/assets/660/657103.pdf>. Chief among its observations was that who or what qualifies as a “patent troll” cannot be determined solely based on the entity’s characterization as a NPE. NPEs themselves defy precise definition and may include individual inventors who do not produce or have not yet produced a product associated with their patented invention; universities that partner with technology transfer companies; or research and development companies that license their patents to others in order to fund further research. NPEs may even consist of manufacturing or “operating companies” that claim infringement based upon patented products they no longer produce, or on patents for which they have never produced a product that uses the asserted invention. Due in part to this definition dilemma, the GAO’s analysis suggested that focusing on the identity of the patent holder to assess the nature and scope of litigation abuses is likely misplaced. *Id.*, at 45. Instead, the GAO thought it noteworthy that the vast majority of patent lawsuits regardless of the litigant, were based on software patents. Significantly, the GAO also found that, despite the arguments that abusive patent litigation by NPEs was pervasive, in fact, “companies that make products brought most of the lawsuits and that nonpracticing entities (NPE) brought about a fifth of all lawsuits.” *Id.*, inside cover of report, “What GAO Found”. Moreover, to the extent that there was an uptick in lawsuits by NPEs, the increase was likely a consequence of the AIA’s strict joinder provision which led to plaintiffs suing more defendants separately, or due to a rush to the courthouse by plaintiffs seeking to avoid the restrictive joinder provision before the AIA was signed into law. *Id.*, at 15. Finally, the GAO concluded that there was little difference in the rate of settlements of lawsuits whether brought by operating companies or NPEs. *Id.*, at 25.

<sup>24</sup> Although the Intellectual Property Subcommittee held a number of hearings to explore various aspects of the “patent troll” problem (Hearing on: “The International Trade Commission and Patent Disputes,” Wednesday 7/18/2012; Hearing on: “Abusive Patent Litigation: The Issues Impacting American Competitiveness and Job Creation at the International Trade Commission and Beyond,” Tuesday 4/16/2013; Hearing on: “Abusive Patent Litigation: The Impact on American Innovation & Jobs, and Potential Solutions,” Thursday 3/14/2013), the Committee held only a single legislative hearing on the proposed solutions consisting of a number of complex and overlapping measures that would affect procedures before both the courts and the USPTO.

<sup>25</sup> Letter from Representatives Doug Collins & John Conyers, Jr., et al., to Chairman Bob Goodlatte (Nov. 7, 2013).

review the bill and the report and develop meaningful amendments. H.R. 3309 is scheduled for floor consideration the very first legislative week after markup. In essence, we are acting as if there is an emergency at a time when caution and deliberation are clearly required.

## II. FAILURE TO END PTO FEE DIVERSION

A critical threshold failing of H.R. 3309 is its failure to respond to the single most important problem facing our patent system today—the continuing diversion of patent fees. When the AIA was passed 2 years ago, there was consensus on both sides of the aisle that continuing fee diversion constituted a tax on innovation and undermined efforts of the USPTO to reduce its backlog. Unfortunately, loopholes in the final agreement and the onset of sequester have again resulted in user fees being diverted away from the USPTO.

The result is that nearly \$150 million in badly needed user fees have been diverted in Fiscal Year 2013. This loss is on top of the estimated \$1 billion in fees diverted over the last two decades.<sup>26</sup> By failing to provide patent examiners the resources they need to review and analyze effectively the hundreds of thousands of complex and interrelated patent applications they receive every year, ongoing efforts at the USPTO to keep pace with innovation and to continue to enhance patent quality will be stymied. This diversion prevented improvements to IT projects and resulted in the hiring of about 1000 less patent examiners.<sup>27</sup>

There is widespread agreement by observers of the system and stakeholders that this is an unacceptable and harmful situation. Former PTO Director Kappos has testified:

Less than 2 years after the passage of the AIA and all the accompanying focus on USPTO fee diversion, we found ourselves again looking at an Agency having its lifeblood, the user fees that come with the work asked of USPTO by American innovators drained away. *I simply cannot overstate the destruction that is causing, as the work remains without funding to handle it, creating an innovation deficit that will require future generations of innovators to pay into the Agency again in hopes their fees are paid.* Nor will it be possible for the USPTO to accomplish the mandates of the AIA, much less the added responsibilities contemplated by parts of H.R. 3309, without access to the user fees calculated to meet those challenges.<sup>28</sup>

Similarly, the Coalition for Twenty First Century Patent Reform has written that “The single most critical issue facing the U.S. Patent and Trademark Office (USPTO) is its inability to retain all of the fees paid by patent and trademark applicants and to use those fees to provide the services for which they were paid. Legislation

<sup>26</sup> See Letter from Herbert C. Wamsley, Executive Director of the Intellectual Property Owners Association to Ranking Members John Conyers, Jr. and Mel Watt and Representatives Darrell Issa and Doug Collins, (Oct. 29, 2013) (on file with House Committee on the Judiciary Democratic staff).

<sup>27</sup> IPO Daily News for Friday, November 22, 2013, available at <http://www.ipso.org>.

<sup>28</sup> Statement of David J. Kappos, before the House Judiciary Committee, Hearing on H.R. 3309, Innovation Act., October 29, 2013 (emphasis added).

to prevent USPTO user fees from being diverted or sequestered to support other government programs must be enacted.”<sup>29</sup> This view is shared by the Patent Office Professional Association,<sup>30</sup> the American Intellectual Property Law Association,<sup>31</sup> and the Innovation Alliance.<sup>32</sup> Failure to include language ending PTO fee diversion once and for all belies any serious effort to reform and update the patent system.<sup>33</sup>

### III. THE LEGISLATION LIMITS THE RIGHTS OF ALL PATENT HOLDERS, NOT JUST PATENT “TROLLS”

#### A. *The Bill’s Heightened Pleading Requirements Will Deny Legitimate Inventors Access to the Courts*

We oppose the heightened pleading requirements set forth in Section 3(a) because they will work an unfairness against patent holders across the board; are drafted in a one-sided manner; will prolong litigation; and the provision is unnecessary as the issue is already being dealt with by the courts.

First, the information required by the heightened pleading standard will in many cases create an unfairness since the information may not be available to the patent holder at the time of the filing.<sup>34</sup> It is for these reasons that so many key patent stakeholders oppose this provision of H.R. 3309. For example, PhRMA has written that the section “increases pleading requirements in a way that raises questions about the balance between having information available in pleadings and providing for the prompt and effective access to the courts by patent owners more broadly.”<sup>35</sup>

The American Association for Justice has noted that “[t]he practical effect of this change is that many meritorious cases will face early dismissal because corporate defendants will simply refuse to provide the information necessary to plead the case.”<sup>36</sup> And in a similar vein, the Coalition for Twenty-First Century Patent Reform, representing many of the largest operating companies in America, has complained that “[t]he pleading requirements in proposed Sec. 281A go well beyond this concept of fair notice of the basis for the allegation of infringement and well beyond the requirements of Rule 11 of the Federal Rules of Civil Procedure.”<sup>37</sup> Likewise, several other key participants in the patent community have expressed serious concerns about the fairness and practicality

<sup>29</sup> Letter from 21C.

<sup>30</sup> “The single most urgent problem facing the U.S. Patent System is not ‘patent trolls,’ it is stable and adequate funding for the USPTO.” Letter from POPA.

<sup>31</sup> “Finally, and perhaps most importantly, AIPLA strongly believes that the single most important reform for improving the quality of patents is requiring a fully funded USPTO.” Letter from AIPLA.

<sup>32</sup> “We have long supported ensuring that USPTO has full access to the fee revenue that it collects. No other change would more effectively enhance patent quality in the United States.” Letter from Innovation Alliance.

<sup>33</sup> Representatives Conyers and Watt, along with a bipartisan group of 10 additional Members have introduced legislation, H.R. 3349, the “Innovation Protection Act,” which would end the problem of fee diversion by creating a permanent funding mechanism to support the PTO. Unfortunately, when this language was offered at the Committee, it was rejected by the Majority in a party line vote.

<sup>34</sup> Often the specific information required under this section may only be obtained through discovery which typically cannot be obtained prior to filing a complaint or other pleading. Even though the bill relieves a claimant of the obligation to provide the level of detail required if the information “is not reasonably accessible”, there is no guidance for making that determination.

<sup>35</sup> PhRMA letter.

<sup>36</sup> AAJ letter.

<sup>37</sup> 21C letter.

of this provision, including the National Association of Patent Practitioners<sup>38</sup> and the higher education community.<sup>39</sup>

Second, section 3(c), is drafted in a one sided manner in that, as the ABA notes, it applies “only to parties asserting patent infringement, either as a plaintiff or as a defendant counterclaimant [but] does not provide any corresponding heightened pleading standards for asserting non-infringement or invalidity in a complaint or counterclaim for Declaratory Judgment.”<sup>40</sup> Under this provision, a small inventor will be required to provide detailed information in their complaint, however, an alleged infringer does not bear the same burden to explain with specificity to that inventor why they believe they have not infringed the patent or why they believe the patent is invalid. As the Institute of Electronics Engineers has written, “[s]ince most patent infringement complaints draw a counter-claim of patent invalidity, any such counter-claim should also be pleaded with comparable particularity (e.g., citing applied prior art references to all claim terms) that would support the invalidity contention.”<sup>41</sup>

Third, although the stated goal of the legislation is to reduce and shorten litigation, the heightened pleading requirement may well have the opposite effect by fostering litigation over whether the patent owner has met the heightened pleading standard or had reasonable access to the required information if they admittedly did not comply.

Finally, as with many other provisions in section 3, it is not necessary for Congress to enact a statutory change, as this very matter is being addressed by the Federal judiciary already. Indeed, in the patent context, courts have addressed whether emerging pleading standards in the aftermath of the Supreme Court’s decisions in *Bell Atlantic v. Twombly*<sup>42</sup> and *Ashcroft v. Iqbal*<sup>43</sup> override Form 18<sup>44</sup> of the Federal Rules of Civil Procedure.<sup>45</sup> Courts have also considered the interrelationship of Form 18, pleading requirements

<sup>38</sup> Letter from Priya Sinha Cloutier, Chair of The National Association of Patent Practitioners Government Affairs Committee to Representative Robert Goodlatte, Chairman of the House Committee on the Judiciary (Nov. 19, 2013).

<sup>39</sup> Letter from the Association of American Universities, American Council of Education, Association of American Medical Colleges, Association of Public and Land-grant Universities, Association of University Technology Managers, and Council on Governmental Relations to Representative Robert Goodlatte, Chairman of the House Committee on the Judiciary, and Representative John Conyers, Jr., Ranking Member of the House Committee on the Judiciary (Nov. 19, 2013).

<sup>40</sup> American Bar Association Section of Intellectual Property Law, 2013 Fall Council Meeting, Innovation Act Task Force Resolutions and Reports, at 5, Nov. 8, 2013.

<sup>41</sup> Letter from Marc T. Apter, President of The Institute of Electrical and Electronics Engineers to Representative Robert Goodlatte, Chairman of the House Committee on the Judiciary, and Representative John Conyers, Jr., Ranking Member of the House Committee on the Judiciary (Nov. 19, 2013) (hereinafter IEEE-USA letter).

<sup>42</sup> 550 U.S. 544 (2007).

<sup>43</sup> 556 U.S. 662 (2009).

<sup>44</sup> Fed. R. Civ. Pro. 84 provides: “The forms in the Appendix suffice under these rules and illustrate the simplicity and brevity that these rules contemplate.” Form 18 in the Appendix is the template for a complaint for patent infringement.

<sup>45</sup> In *McZeal v. Sprint Nextel Corp.*, 501 F.3d 1354 (Fed. Cir. 2007), the Federal Circuit considered whether the bare allegations of the predecessor to Form 18, Form 16, were sufficient post-*Twombly*. The Court approved of the Form as sufficient for pleading direct infringement by a pro se litigant. See, 501 F. 3d at 1357. Courts have split about whether *McZeal*, decided before *Iqbal* and in the context of a direct infringement claim asserted by a pro se litigant, is valid post-*Iqbal* in other patent contexts. See, e.g., *Ingeniador, LLC v. Interwoven*, 874 F. Supp. 2d 56 (2012).

for claims other than direct infringement,<sup>46</sup> counterclaims,<sup>47</sup> and affirmative defenses<sup>48</sup> after *Twombly* and *Iqbal*. The Judicial Conference of the United States has issued its request under the Rules Enabling Act<sup>49</sup> for comments to its proposed amendments to Federal Rules of Civil Procedure, including revision of forms and discovery rules.<sup>50</sup>

*B. The Bill's Fee Shifting Standard Will Favor Wealthy Parties and will Chill Potential Meritorious Claims*

We oppose section 3(b)'s fee shifting requirement because it will favor wealthy corporate parties over individual inventors; is drafted in an over-broad manner to apply in beyond patent infringement actions; deprives courts of discretion; and is unnecessary as the issue is under consideration by the Federal courts. The related enforcement provision allowing for expanded joinder in fee shifting cases—section 3(c)—also raises a host of problematic issues of law and equity.

Our first concern is that fee-shifting always favors the party with greater financial resources, and thus could chill potential meritorious claims. Enacting a mandatory regime into our patent law would not only work an unfairness to independent inventors, it would constitute a very unfortunate precedent in our civil justice system generally. This concern was articulated by the American Association for Justice: “A ‘loser pays’ provision will deter patent holders from pursuing meritorious patent infringement claims and protects institutional defendants with enormous resources who can use the risk of fee shifting to force inventors into accepting unfair settlements or dismissing their legitimate claims.”<sup>51</sup>

Make no mistake, this provision is not a modest or temperate step, instead of requiring that fees be shifted in exceptional cases as set forth in current law, this provision would create a presumption of fee shifting in every single case, not just cases involving so-called “trolls,” with the burden of establishing that fees should not be imposed borne by the non-prevailing party. The dangerous na-

<sup>46</sup> See, e.g., *Selex Commc'ns, Inc. v. Google Inc.*, No. 1:09-CV-2927-TWT, 2012 WL 1681824, at 4, 6 n.3 (N.D. Ga. May 11, 2012) (requiring specific facts to support a theory of joint infringement on ground that Form 18 provides sufficient complaint only for direct patent infringement, and observing that complaint may also support a claim for indirect infringement); *DR Sys., Inc. v. Avreo, Inc.*, No. 11-CV-0932 BEN (WVG), 2012 WL 1068995, at 1 (S.D. Cal. Mar. 29, 2012) (noting that “because Form 18 does not address induced infringement or contributory infringement, the heightened pleading standard of *Twombly* and *Iqbal* apply to allegations of induced infringement and contributory infringement.” (citations omitted)).

<sup>47</sup> See, e.g., *Memory Control Enter., LLC v. Edmunds.com, Inc.*, No. CV 11-7658 PA (Jcx), 2012 WL 681765, at 2–3 (C.D. Cal. Feb. 8, 2012) (finding *Twombly/Iqbal* applicable to counterclaims for patent invalidity, even though infringement claims need only comply with Form 18 under Rule 84, in part because “[j]ust as

*Twombly* and *Iqbal* did not rewrite the Federal Rules of Civil Procedure—thus, Rule 84 still applies, and Form 18 still suffices—a court cannot write into the Federal Rules a form for a claim for declaratory judgment of patent invalidity.”).

<sup>48</sup> See, e.g., *Tyco Fire Prods. LP v. Victaulic Co.*, 777 F. Supp. 2d 893 (E.D. Pa. 2011) (concluding that while patent counterclaim subject to *Twombly*'s plausibility standard, the affirmative defense must only provide fair notice of the issue).

<sup>49</sup> 28 U.S.C. § 2071–2077.

<sup>50</sup> Preliminary Draft of Proposed Amendments to the Federal Rules of Bankruptcy and Civil Procedure: Request for Comment (Aug. 15, 2013), available at <http://www.uscourts.gov/uscourts/rules/preliminary-draft-proposed-amendments.pdf>.

An amendment offered by Rep. Jeffries during markup would have mandated pleading parity to ensure that the exchange of information in litigation was balanced and that specificity requirements applied to all parties in a dispute. The Chairman opposed the amendment which was defeated by a vote of 12–23.

<sup>51</sup> AAJ Letter.

ture of this provision was highlighted by a recent article by the American Enterprise Institute which noted:

*By shifting the burden of proof onto the losing party, it will require courts to examine the justification of each and every case . . . it won't just be patent trolls who pay at times, but at times the legitimate companies who occasionally are found to infringe PAE patents . . . [O]ur unique justice system, dedicated as it is to allowing every American person and company its 'day in court' would be immutably changed in the area of patent litigation. We'd be one step closer to adopting the loser-pays model.<sup>52</sup>*

In this regard, we would dispute the Majority's assertion that section 3(b) is fairly based on the Equal Access to Justice Act.<sup>53</sup> EAJA was developed as a means to allow private citizens to obtain legal fees when they prevail in litigation against the U.S. government, not to serve as a model for fee shifting in private lawsuits. Further, although the bill purports to align itself with EAJA, the fees and expenses scheme established by that Act is far more complex and balanced than section 3(b). For example, EAJA permits the court "in its discretion [to] reduce . . . or deny an award, to the extent that the prevailing party . . . engaged in conduct which unduly and unreasonably protracted the final resolution of the matter in controversy."<sup>54</sup> No such balance or flexibility for the court is provided in this bill.<sup>55</sup>

Third, section 3(b) is drafted in an overly broad manner. The higher education community has noted that the language is so broad that it could potentially apply "to any civil action in which any party asserts a claim for relief arising under any Act of Congress relating to patents. That scope sweeps in over 25 statutes containing patent law clauses, including the Space Act, the Atomic Energy Act, the Non-Nuclear R&D Act as well as all titles of the omnibus bills in which the Bayh-Dole Act and amendments became law. The breadth of the proposed amendment will impair parties' ordinary enforcement procedures and litigation activities outside the scope of abusive patent litigation."<sup>56</sup> BIO opposes the fee-shifting provision for similar reasons, writing that it permits "parties to seek reimbursement of their litigation costs from other parties

<sup>52</sup> Patent troll legislation: a closer look (pt. 2)—fee shifting, Tech Policy Daily, November 26, 2013 (emphasis added).

<sup>53</sup> See Section By Section, Innovation Act, available at <http://judiciary.house.gov/news/2013/10232013%20Section%20by%20Section%20Patent%20Bill.pdf>.

<sup>54</sup> 28 U.S.C. § 2412(d)(1)(c).

<sup>55</sup> During the markup, Ranking Member Melvin Watt offered an amendment that would have restored judicial discretion to the determination whether to shift fees by modifying the underlying statute to permit shifting in "appropriate" as opposed to "exceptional" cases. The amendment failed by a vote of 12–23. Mr. Jeffries offered an amendment that retains the mandatory character of the provision, but lowers the standard of justification from "substantially justified" to "reasonably justified" for the nonprevailing party's position in the case. The amendment passed by a vote of 36–2. Ranking Member Watt then offered an amendment that would more accurately align itself with EAJA and permit judges to consider the behavior of both the prevailing and nonprevailing parties in determining whether to depart from the American rule. Ranking Member Watt's amendment would have allowed the court "in its discretion [to] reduce . . . or deny an award, to the extent that the prevailing party . . . engaged in conduct which unduly and unreasonably protracted the final resolution of the matter in controversy." The amendment failed by a vote of 17–21.

<sup>56</sup> Statement from the Higher Education Community on H.R. 3309, The Innovation Act, at 1, Nov. 8, 2013 (hereinafter Universities' letter) (on file with Committee on the Judiciary Democratic staff).

under a vaguely-defined and potentially broad set of patent-related cases.”<sup>57</sup> The inclusion of language in the managers amendment defining a non-prevailing party as one who offers a “covenant not to sue” may have the effect of increasing litigation, with the Coalition for Twenty First Century Patent Reform noting the provision may also have the unintended effect of discouraging early settlement and prolonging costly discovery.<sup>58</sup>

Fourth, the fee shifting provision is again wholly unnecessary because both the Supreme Court and the Federal Circuit are preparing to rule on litigation concerning the phrase “exceptional cases.” The Supreme Court has granted certiorari in two cases that focus on fee shifting in patent cases.<sup>59</sup> The Court of Appeals for the Federal Circuit, which is the appellate court for patent cases, is also preparing to issue an opinion in a case on fee shifting in patent cases.<sup>60</sup>

Finally, we would also note that the joinder provision included in section 3(c) in order to help enforce the fee shifting provision raises a host of potential additional concerns. Among other things, it is drafted in a one-way manner that benefits alleged infringers. Deep pocketed defendants would be guaranteed satisfaction of fee awards but small companies, startups, and independent inventors would not be similarly protected when they prevail as plaintiffs against defendant infringers that hide their assets, file for bankruptcy, or otherwise evade payment of fee awards. This provision also raises constitutional concerns because it creates standing for parties that would otherwise not have it. In other words, a defendant may join a third-party at the end of the case for purposes of fee shifting, but the third-party had no standing to assert or defend themselves during the course of the legal proceedings. The joinder provision may allow defendants to “bring higher education institutions and their inventors, non-profit technology transfer organizations associated with those institutions, federal laboratories, and federal agencies within the fee-shifting purview.”<sup>61</sup> Defendants already have other avenues to join plaintiffs, including Federal Rules of Civil Procedure 19 and 20. As a result, a broad range of patent stakeholders, including 21C,<sup>62</sup> AIPLA,<sup>63</sup> and BIO,<sup>64</sup> have raised concerns with this new joinder provision.

### *C. The Bill’s Discovery Limitations Will Prolong Litigation and Increase Costs*

The legislation’s limitations on discovery prior to holding hearings to construe patent claims and determine their scope set forth in section 3(d) are objectionable because they will delay litigation

<sup>57</sup> Letter from James C. Greenwood, President and CEO of the Biotechnology Industry Organization to Representative Robert Goodlatte, Chairman of the House Committee on the Judiciary (Nov. 14, 2013) (hereinafter BIO letter).

<sup>58</sup> Summary of 21C Position, at 3–4.

<sup>59</sup> See *Highmark v. Allcare Health Management*, No. 12–1163 (cert. granted); *Octane Fitness v. Icon Health & Fitness Inc.*, No. 12–1184 (cert. granted); *Sidense Corp. v. Kilopass Tech., Inc.*, No. 13–1193 (Fed. Cir. argued Oct. 9, 2013).

<sup>60</sup> See *Sidense Corp. v. Kilopass Tech., Inc.*, No. 13–1193 (Fed. Cir. argued Oct. 9, 2013).

<sup>61</sup> Universities’ letter, at 2.

<sup>62</sup> Summary of 21C Position, at 5.

<sup>63</sup> AIPLA letter.

<sup>64</sup> BIO letter.

and lead to greater expenses for the parties and can be more properly dealt with by the courts.

First, the discovery provision is likely to extend litigation and increase costs.<sup>65</sup> Numerous participants in the patent system, including many large patent holders have stated that the provision will be harmful and counterproductive. For example, PhRMA has written section 3(d) will “impose restrictions on discovery that could serve to delay ultimate resolution of patent litigation and increase costs.”<sup>66</sup> Similarly, BIO asserts the legislation creates “opportunities for systematic delays in patent litigation by inviting piecemeal discovery and adjudication that would push back a determination of patent infringement liability until much later in the case.”<sup>67</sup> The Coalition for Twenty-First Century Patent Reform agrees that “under proposed sec. 299A, discovery that might otherwise be undertaken concurrently . . . will be postponed, thus delaying trial while the postponed discovery is completed, delaying the resolution of all patent cases. Such an . . . approach would be less efficient and likely more costly . . . The Innovation Act’s approach to patent case discovery reflects a narrow and one-sided view of patent litigation, in essence legislating that each case be managed in the manner that a defendant in an action brought by a non-practicing entity would seek to have the case managed. This unbalanced and inflexible approach to all cases is reflected in the automatic stay of discovery pending claim construction.”<sup>68</sup> The IP Law section of the ABA concurs, writing, the subsection will “further delay the resolution of patent litigation.”<sup>69</sup>

Second, these new limitations on discovery ignore the role of the courts in setting proper discovery time lines. It was recently opposed by Judicial Conference’s Court Administration and Case Management Committee. In particular, they oppose this provision because it unnecessarily removes judicial discretion in setting discovery.

The mandatory nature of the discovery limitation ignores the fact that Federal courts with the most experience and skill in managing patent infringement cases have adopted local rules that specify the timing and scope of discovery, but none have adopted rules automatically staying discovery pending claim construction.<sup>70</sup> The Judicial Conference shares this concern and also observed that the proposed change will create confusion in relation to the local rules the patent pilot courts have developed to manage discovery. The Federal Circuit is also dealing with the precise issue of potentially excessive discovery cost, as their Advisory Council released a Model Order Regarding E-Discovery in Patent Cases to strike a “balance between the value of discovery and its costs.”<sup>71</sup> Of note is that the

<sup>65</sup> Further, the provision’s rigidity in restricting judicial discretion only in cases with a statutory deadline (specifically including cases where a pharmaceutical company submits an abbreviated application for approval of a new drug), “when necessary to resolve a motion properly raised,” or “as necessary to prevent the manifest injustice” could also lead to the loss of evidence as witness recollection can fade over time, documents may be lost or destroyed, and witnesses may become unavailable.

<sup>66</sup> PhRMA letter.

<sup>67</sup> BIO letter.

<sup>68</sup> 21C letter.

<sup>69</sup> American Bar Association Section of Intellectual Property Law, at 24.

<sup>70</sup> Summary of 21C Position, at 6.

<sup>71</sup> See Federal Circuit Advisory Council’s Model Order Limiting E-Discovery, *available at* [http://www.ca9.uscourts.gov/images/stories/announcements/Ediscovery\\_Model\\_Order.pdf](http://www.ca9.uscourts.gov/images/stories/announcements/Ediscovery_Model_Order.pdf).

Model Order Regarding E-Discovery specifies that both abusive or “disproportionate” requests and “nonresponsive or dilatory discovery tactics” are relevant factors for “cost-shifting considerations.”<sup>72</sup>

#### IV. THE MANDATE ON THE COURTS WILL UNDERMINE THE FEDERAL JUDICIARY

We oppose section 6 of H.R. 3309, dictating that the Federal judiciary adopt a series of new rules and judicial changes, because the provision undermines the judiciary by intruding on the cherished principle of comity between coequal branches of government and ignores the very real expertise the courts are able to bring to the issue of developing rules and procedures for patent cases.

First, the very idea of Congress dictating procedures to the Federal courts is an anathema to our system of government. As a matter of fact, the Obama Administration took a strong stand against such a mandate on November 12 when they opposed the H.R. 2655, Lawsuit Abuse Reduction Act, which would have also overridden the Rules Enabling Act.<sup>73</sup> We believe the Administration’s objections to LARA are applicable here, namely that the Innovation Act “would circumvent the usual procedure for amending the Federal Rules of Civil Procedure . . . raise the amount and cost of civil litigation and provide more opportunity for unnecessary delay and harassment . . . could chill meritorious claims by deterring worthy plaintiffs from challenging existing laws or seeking novel interpretations of them . . . [and] is an attempt to amend the rules directly, over the objections of the Judicial Conference.”

This is also why Section 6 is so strongly opposed by the Federal judiciary and the American Bar Association. The Committee on Rules of Practice and Procedure of the Judicial Conference wrote to the Committee that “legislation that mandates the contents of the Federal rules contravenes the longstanding Judicial Conference policy opposing direct amendment of the Federal rules by legislation instead of through the deliberative process Congress established in the Rules Enabling Act. . . . We worry that this kind of approach will undermine rather than further, the development of sound rules and practices.”<sup>74</sup>

The ABA also objects, writing “Our primary concerns regard provisions of the bill that call for Congress, rather than the courts, to establish certain rules of procedure for the Federal courts, thereby circumventing a rule making process that has served our justice system for almost 80 years . . . This unhealthy precedent could prompt calls to Congress to provide special rules of procedure in still other areas of the law, leading to the balkanization in the administration of justice—precisely the opposite result that the Rules Enabling Act process was designed by Congress to avoid.”<sup>75</sup>

Second, Congress’ historic deference to the courts on matters involving judicial rules and procedures is not some arcane notion. It is based on the reality that the courts are far better equipped and

<sup>72</sup> See *id.*, at 6 ¶ 3.

<sup>73</sup> See Statement of Administration Policy, H.R. 2655, the Lawsuit Abuse Reduction Act, available at

<sup>74</sup> Judicial Conference Letter.

<sup>75</sup> ABA letter.

less partial in making these intricate determinations. As the AIPLA wrote: “We fear that . . . these [changes] would intrude on the established role of the Judicial Conference and would overly restrict the traditional discretion of district court judges to manage their cases. In this regard, AIPLA is concerned that the bill will mandate inflexible rules, many of which have unintended consequences including impeding access to the courts, and we further believe that the Judicial Conference in its own discretion is in a better position to work with the district courts to institute appropriate case management rules.”<sup>76</sup>

In this regard, the Rules Enabling Act provides for a deliberative process for the Judicial Conference to amend court rules and allows input from interested parties, including the public and Congress. Recently, the Judicial Conference issued a request for comments to its proposed amendments to the Federal rules, including revision of forms and discovery rules.<sup>77</sup> Before the proposed amendments become final, Congress has the authority to reject, modify, or defer any final rule. Yet, this legislation ignores that reasonable process. A far more appropriate and traditional means of indicating Congress’ interest in a rule making matter include describing specific concerns in a committee report.

Though our fundamental concern with section 6 is that it undermines the independence of the Judiciary, it is important to note that section 6 includes two unrelated substantive amendments to the Bankruptcy Code. Section 6(d) of the Innovation Act makes two significant amendments to the Bankruptcy Code, first by requiring that U.S. law be applied to patent licenses in international bankruptcy cases, whether or not it should apply to that license, and second by requiring bankruptcy trustees to perform certain duties under trademark licenses even where it has no assets or ability to do so. Both of these changes are strongly opposed by the National Bankruptcy Conference, a leading group of non-partisan bankruptcy legal experts.

The first change is an attempt to pre-empt an appeal currently pending in the 4th Circuit Court of Appeals.<sup>78</sup> The issue before the court is whether the U.S. bankruptcy court erred in ruling that Bankruptcy Code section 365(n) may be applied to a German insolvency proceeding to constrain the application of German law. Given the gravity of this issue and its international ramifications, the United States filed an *amicus* brief in that case.

The second change regarding the treatment of trademarks is also significant because it could result in an impossibility, i.e., requiring a debtor that essentially has gone out of business to perform certain affirmative duties, even where there are no assets available to fund the execution of such duties. In effect, section 6(d) imposes an affirmative duty on a debtor-licensor that has rejected a license contract to monitor and control the quality of the licensed product or service.<sup>79</sup> This provision would apply to all types of bankruptcy,

<sup>76</sup> AIPLA letter.

<sup>77</sup> See Preliminary Draft of Proposed Amendments to the Federal Rules of Bankruptcy and Civil Procedure: Request for Comment (Aug. 15, 2013), available at <http://www.uscourts.gov/uscourts/rules/preliminary-draft-proposed-amendments.pdf>.

<sup>78</sup> *In re Qimonda AG*, 462 B.R. 165 (Bankr. E.D. Va. 2011) [give subsequent history].

<sup>79</sup> This provision would apply to all types of bankruptcy cases, that is, liquidating chapter 7 cases, reorganizing chapter 11 cases, and transnational chapter 15 bankruptcy cases. For exam-

including a chapter 7 case where the debtor has gone out of business, but would nonetheless be required to perform certain duties with respect to this form of trademark. As with the other aspect of section 6(d), this provision has nothing to do with the issue of abusive patent litigation. Obviously, careful consideration of the implications of a change is necessary if we are to avoid unintended consequences. Although we believe the issues presented by section 6(d) are worthy of further consideration, in the absence of any substantive analysis or deliberative process of these issues, we cannot support them.

There are numerous other provision in the bill which like the bankruptcy amendments are also unrelated to the issues of patent “trolls”, yet they somehow made there way into the legislation. For example, section 9(a) repeals section 145 of the patent law, granting patent owners the right to a de novo review of the denial of a patent application.<sup>80</sup> Section 9 (i) for some reason extends the time period for bringing judicial discipline proceedings, even though we understand the PTO does not need this authority, as they can use tolling agreements if time is running out in a disciplinary matter. These are just two examples, but the legislation includes numerous so-called “technical changes” which clearly warrant further vetting.

#### CONCLUSION

We have stated repeatedly that we are willing to work with the Majority and any and all stakeholders and interested parties to develop a fair process to consider common sense solutions that would improve the patent system and respond to the problems posed by asymmetries in the patent litigation system. That is why we all voted for a Democratic Substitute that would have pursued such a reasonable legislative route.<sup>81</sup> We also strongly believe that any serious reform of the patent laws must include once and for all an end to fee diversion from the USPTO to ensure adequate hiring, proper training of examiners, and sustained patent quality. How-

ple, in a chapter 7 case where the debtor has ceased to exist because it has gone out of business, this provision would require the bankruptcy trustee to perform certain duties even where there are no assets available to fund the execution of such duties.

<sup>80</sup> Currently, the patent applicant has an option to appeal an adverse decision by the USPTO on their patent application directly to the Federal Circuit under 35 U.S.C. § 141 or to initiate an action against the USPTO in district court under 35 U.S.C. § 145. While the scope of review on appeal to Federal Circuit is narrowly based upon the record that was before the USPTO, the district court considers the denial de novo. Therefore, proceedings before the district court may consider new evidence and subpoena witnesses that were unavailable or unwilling to appear before the USPTO. The Supreme Court in *Kappos v. Hyatt* recently affirmed the expansive breadth of evidence that a patent applicant may introduce in a § 145. There the USPTO argued that a district court should only admit new evidence if the patent applicant had no reasonable opportunity to present it to the USPTO during its consideration of the application. The USPTO also argued that even when new evidence was permitted to be introduced, the district court should consider that evidence along with the findings of the agency under a deferential standard of review. The Supreme Court rejected both arguments finding instead that an applicant in a § 145 proceeding was limited only by the Federal Rules of Evidence and the Federal Rules of Civil Procedure with respect to new evidence that could be introduced and that the district court’s determinations of disputed questions of fact based on new evidence would be de novo.

<sup>81</sup> At the markup, Democratic Members of the Committee overwhelmingly supported a substitute that responded to the real problems of patent abuse without upsetting the entire patent law system. In addition to including provisions concerning real parties in interest, customer stays, and small business assistance, the substitute, offered by Ranking Members Conyers and Watt, included a revolving fund to end fee diversion, required a study on the practice of deceptive demand letters and a report with tailored recommendations on changes to laws and regulations that would deter the use of those letters. Unfortunately, the substitute failed 13–17 on a nearly party line vote. We believe that the substitute provides a better baseline legislative approach from which to begin to address abusive tactics by the “patent trolls.”

ever, we are unwilling to support changes that go well beyond the problems of patent “trolls,” would create an imbalance in the patent system skewed in favor of big corporate interests, negatively impact all patent owners thereby undermining innovation, and would encroach on our longstanding deference to the prerogatives of the Judiciary. For these reasons, we dissent from H.R. 3309.

JOHN CONYERS, JR.  
ROBERT C. “BOBBY” SCOTT.  
MELVIN L. WATT.  
SHEILA JACKSON LEE.  
HENRY C. “HANK” JOHNSON, JR.

### **Additional Views**

We support a reasonable and fair approach to address the issue of abusive patent litigation. Nevertheless, we continue to have concerns about how H.R. 3309, the “Innovation Act,” would impact the independence of the federal judiciary, impose limits on pleadings and discovery, and place intrusive mandates on the court system. We are also very concerned that the legislation, as currently drafted, is overly broad. We write separately to highlight some of the concerns that we continue to have with the bill.

It is essential that we strike the appropriate balance between addressing the issue of abusive patent litigation and avoiding unintended consequences. Inventors, start-ups, and tech entrepreneurs must be protected. Although the process leading up to the markup was not perfect, we are encouraged that some of the bill’s provisions have been improved. For example, we appreciate that the fee shifting provision was slightly improved. Accordingly, we look forward to working with our colleagues to further improve this bill so that the final version is one that we can continue to support.

While many of the provisions currently in the bill are designed to limit patent litigation abuse, it is critical that these provisions do not harm inventors and small entrepreneurs. As the Government Accountability Office study on patent litigation found, the patent troll problem accounted for only 19 percent of the cases between 2007 and 2011, demonstrating that the extent of the problem does not merit this rushed effort.<sup>1</sup> This underscores why we should proceed with caution to ensure against unintended consequences and legislative overreach.

Several Democratic amendments that would have addressed many of these concerns were offered and defeated during the markup of the bill. We hope as the bill moves to the floor many of these recommended revisions will be made. In addition, we supported the substitute amendment that was offered by Ranking Member Conyers and Congressman Watt because it would respond to the real and identifiable problems without upsetting the entire patent law system. And, we agreed that the substitute addressed one of the most important issues, making sure that there is an end to fee diversion, so that the Patent and Trademark Office has access to all of its fees.

We have traditionally been opponents of fee shifting for many years. Although there was a fee shifting amendment accepted at markup, which we view as an incremental improvement, we continue to have concerns that the language remains broad. While we agree that we should work to address abusive patent litigation, we do not believe that it should be addressed in a way that hurts honest inventors trying to enforce their patents. This legislation must

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<sup>1</sup> Government Accountability Office, *Assessing Factors That Affect Patent Infringement Litigation Could Help Improve Patent Quality*, GAO-13-465, at 17 (Aug. 22, 2013).

be viewed from both the perspective of the small company that is sued and the small inventor who may have a valid case.

We also have concerns that the provisions in section 3 would unduly limit a patent holder's rights. In particular, section 3 could harm legitimate inventors who are seeking to defend their patents. Specifically, Section 3(d) would limit discovery in every patent infringement case until the court has construed the patent claims at issue. The language in the bill restricts the discretion of judges to manage cases in their courts, and presents the prospect of prolonging patent litigation and substantially increasing its already-high cost. This unbalanced approach limits a judge's discretion and could harm patent owners seeking to protect their patented technologies and products against infringement quickly and expeditiously.

Section 6 of the bill also remains problematic. The Judicial Conference warns that it will "undermine, rather than further, the development of sound rules and practices."<sup>2</sup> This provision is an unnecessary imposition on the independence of the judicial branch of government. The Conference explains:

[L]egislation that mandates the contents of federal rules contravenes the longstanding Judicial Conference policy opposing direct amendments of the federal rules by legislation instead of through the deliberative process in the Rules Enabling Act. . . .

By dictating the outcome of the Rules Enabling Act process with respect to potential rules, Section 6 of H.R. 3309 runs counter to that process. . . . Instead of mandating the outcome of the Rules Enabling Act process, Congress may wish to urge the Judicial Conference's Rules Committee to study whether certain rules should be amended to address abusive patent litigation tactics and/or to implement the provisions of the Innovation Act. That approach would allow Congress to express its interest in addressing these problems *and* would respect the long-established virtues of the deliberative process created by the Rules Enabling Act.<sup>3</sup>

We concur with the Conference's concerns. Section 6 will not further the development of sound rules and practices.

For these reasons, we believe the bill should continue to be improved and we hope these changes are made as the bill progresses to the floor.

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JOE GARCIA.  
STEVE COHEN.



<sup>2</sup>Letter from Jeffrey S. Sutton, Chair of the Committee on Rules of Practice and Procedure of the Judicial Conference of the United States, and Jonathan C. Rose, Secretary of the Committee on Rules of Practice and Procedure of the Judicial Conference of the United States to Representative John Conyers, Jr., Ranking Member of the House Committee on the Judiciary (Nov. 6, 2013).

<sup>3</sup>*Id.* (original emphasis).