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INNOVATION ACT

HEARING

BEFORE THE

COMMITTEE ON THE JUDICIARY
HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTEENTH CONGRESS

FIRST SESSION

ON

H.R. 9

APRIL 14, 2015

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CONTENTS

APRIL 14, 2015

Page

THE BILL TEXT

H.R. 9, the "Innovation Act" 3

OPENING STATEMENTS

The Honorable Bob Goodlatte, a Representative in Congress from the State of Virginia, and Chairman, Committee on the Judiciary 1
The Honorable Jerrold Nadler, a Representative in Congress from the State of New York, and Member, Committee on the Judiciary 19
The Honorable Darrell E. Issa, a Representative in Congress from the State of California, and Member, Committee on the Judiciary 20

WITNESSES

The Honorable Michelle Lee, Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office
Oral Testimony 22
Prepared Statement 25
Kevin T. Kramer, Vice President, Deputy General Counsel for Intellectual Property, Yahoo!
Oral Testimony 67
Prepared Statement 69
Robert A. Armitage, former Senior Vice President and General Counsel, Eli Lilly & Co.
Oral Testimony 81
Prepared Statement 83
David M. Simon, Senior Vice President, Intellectual Property, Salesforce.com
Oral Testimony 120
Prepared Statement 122
Hans Sauer, Deputy General Counsel for Intellectual Property, Biotechnology Industry Organization
Oral Testimony 135
Prepared Statement 137

LETTERS, STATEMENTS, ETC., SUBMITTED FOR THE HEARING

Material submitted by the Honorable Bob Goodlatte, a Representative in Congress from the State of Virginia, and Chairman, Committee on the Judiciary 33
Material submitted by the Honorable Steve King, a Representative in Congress from the State of Iowa, and Member, Committee on the Judiciary 45
Material submitted by the Honorable Darrell E. Issa, a Representative in Congress from the State of California, and Member, Committee on the Judiciary 58
Material submitted by the Honorable Scott Peters, a Representative in Congress from the State of California, and Member, Committee on the Judiciary 170

Page

APPENDIX

Material Submitted for the Hearing Record

Prepared Statement of the Honorable John Conyers, Jr., a Representative in Congress from the State of Michigan, and Member, Committee on the Judiciary 179
Prepared Statement of the National Retail Federation (NRF) 181
Response to Questions for the Record from the Honorable Michelle Lee, Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office 190
Response to Questions for the Record from Kevin T. Kramer, Vice President, Deputy General Counsel for Intellectual Property, Yahoo! 195
Response to Questions for the Record from Robert A. Armitage, former Senior Vice President and General Counsel, Eli Lilly & Co. 201
Response to Questions for the Record from David M. Simon, Senior Vice President, Intellectual Property, Salesforce.com 203
Response to Questions for the Record from Hans Sauer, Deputy General Counsel for Intellectual Property, Biotechnology Industry Organization 205

INNOVATION ACT

TUESDAY, APRIL 14, 2015

HOUSE OF REPRESENTATIVES
COMMITTEE ON THE JUDICIARY
Washington, DC.

The Committee met, pursuant to call, at 2:18 p.m., in room 2141, Rayburn House Office Building, the Honorable Bob Goodlatte (Chairman of the Committee) presiding.

Present: Representatives Goodlatte, Smith, Chabot, Issa, Forbes, King, Franks, Gohmert, Jordan, Marino, Labrador, Farenthold, Collins, DeSantis, Walters, Buck, Ratcliffe, Trott, Bishop, Conyers, Nadler, Lofgren, Jackson Lee, Johnson, Chu, Deutch, Bass, DelBene, Jeffries, Cicilline and Peters.

Staff Present: (Majority) Shelley Husband, Chief of Staff & General Counsel; Branden Ritchie, Deputy Chief of Staff & Chief Counsel; Allison Halataei, Parliamentarian & General Counsel; Vishal Amin, Senior Counsel, Subcommittee on Courts, Intellectual Property, and the Internet; Kelsey Williams, Clerk; (Minority) Perry Apelbaum, Staff Director & Chief Counsel; Danielle Brown, Parliamentarian; and Norberto Salinas, Counsel.

Mr. GOODLATTE. Good afternoon. The Judiciary Committee will come to order, and without objection the Chair is authorized to declare recesses of the Committee at any time.

We welcome everyone to this afternoon's hearing on H.R. 9, the "Innovation Act." And I will begin by recognizing myself for an opening statement. Today we are here to discuss H.R. 9, the "Innovation Act." The enactment of this bill is something I consider central to U.S. competitiveness, job creation, and our Nation's future economic security. This bill builds on our efforts over the past decade. It can be said that this bill is the product of years of work. We have worked with Members of both parties in both the Senate and the House, with stakeholders from all areas of our economy, and with the Administration, and the courts.

In February, I along with a large bipartisan group of Members, reintroduced the Innovation Act. This bill was the product of multiple discussion drafts and hearings, passing the House last Congress with more votes than the landmark America Invents Act of 2011.

Last week we recognized the 225th anniversary of the U.S. Patent Act. When President Washington signed the bill that laid the foundation for our patent system, even he could not have foreseen the revolution in technology that was yet to come. During these

past two centuries, America has been at the forefront of innovation, from the industrial revolution to the telegraph and telephone, to advances in medicine, modern computers and the Internet. To a whole new era of mobile computing and personal devices. American inventors have led the world for centuries in new innovations, from Benjamin Franklin and Thomas Edison to the Wright brothers and Henry Ford. But if we want to continue as leaders in the global economy, we must continue to encourage the innovators of today to develop the technologies of tomorrow.

The fuel that powers the innovation engine that is America is its people. But the rules of the road require regular adjustment, and during the last 200 years we have seen our patent laws updated and modernized. The most significant reforms took place in 1836, 1952, and most recently in 2011 with the America Invents Act. Of interesting note is that Section 5 of the original 1790 Patent Act, included an early version of fee shifting that was updated by Section 285 of the 1952 act, and today the Innovation Act further modernizes and clarifies that provision of the law.

Many view the AIA as the most comprehensive overhaul to our patent system since the 1836 Patent Act. However, the AIA was in many respects a prospective bill. The problems that the Innovation Act will solve are more immediate and go to the heart of current abusive patent litigation practices. To that end, the Innovation Act includes heightened pleading standards, and transparency provisions requiring parties to do a bit of due diligence up front before filing an infringement suit is just plain common sense. It not only reduces litigation expenses, but saves the courts time and resources. Greater transparency and information makes our patent system stronger.

The Innovation Act's fee shifting provisions are fair, predictable, and will be reliably enforced. If a party's position and conduct is reasonably justified in law and fact, then there will be no fees shifted, but if you bring an unreasonable case that is not justified in law and fact, then you take on the risk that the Court awards reasonable fees against you. The Innovation Act also provides for more clarity surrounding initial discovery, case management, joinder provisions to deal with insolvent shell companies, the common-law doctrine of customer stays, and protecting IP licenses in bankruptcy.

We will continue to work to perfect the customer stay provision and others, and we will work with interested parties to find reasonable solutions to the issue of demand letter abuse. Further, the bill's provisions are designed to work hand in hand with the procedures and practices of the Judicial Conference, including the Rules Enabling Act and the courts providing them with clear policy guidance while ensuring that we are not predetermining outcomes and that the final rules and the legislation's implementation in the courts will be both deliberative and effective.

The bill contains needed reforms to address the issues that businesses of all sizes and industries face from patent troll type behavior while keeping in mind several key principles, including targeting abusive behavior rather than specific entities, preserving valid patent enforcement tools, preserving patent property rights,

promoting invention by independence and small businesses, and strengthening the overall patent system.

First, we are targeting abusive patent litigation behavior and not specific entities or attempting to eliminate valid patent litigation. When we use the term patent troll, it is more of an adjective describing behavior than a noun. Our goal is to prevent individuals from taking advantage of gaps in the system to engage in litigation extortion.

Second, our bill does not diminish or devalue patent rights. The patent system is integral to U.S. competitiveness, and we must ensure that any legislative measure does not weaken the overall patent system or violate our international treaty obligations, and that it comports with the Constitution.

Third, this bill strikes the right balance, pushing for robust legal reform measures while protecting property rights and innovation. Furthermore, supporters of this bill understand that if America's inventors are forced to waste time with frivolous litigation, they won't have time for innovation, and that's what innovation is really all about, isn't it? If you're able to create something, invent something new and unique, then you should be allowed to sell your product, grow your business, hire more workers, and live the American dream. We can no longer allow our economy and job creators to be held hostage to legal maneuvers and the judicial lottery. Congress, the Federal courts, and the USPTO, must take the necessary steps to ensure that the patent system lives up to its constitutional underpinnings. This bill holds true to the Constitution, our founders, and our promise to future generations that America will continue to lead the world as a fountain for discovery, innovation, and economic growth.

We will continue to work with any and all stakeholders that are interested in helping us improve our patent system and this bill. As we take these steps toward eliminating the abuses of our patent system, discouraging frivolous patent litigation, and keeping U.S. patent laws up to date, we will help fuel the engine of American innovation and creativity, creating new jobs and growing our economy.

[The text of the bill, H.R. 9, follows:]

I

114TH CONGRESS
1ST SESSION

H. R. 9

To amend title 35, United States Code, and the Leahy-Smith America Invents Act to make improvements and technical corrections, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 5, 2015

Mr. GOODLATTE (for himself, Mr. DEFAZIO, Mr. ISSA, Mr. NADLER, Mr. SMITH of Texas, Ms. LOFGREN, Mr. CHABOT, Ms. ESHOO, Mr. FORBES, Mr. PIERLUISI, Mr. CHAFFETZ, Mr. JEFFRIES, Mr. MARINO, Mr. FARENTHOLD, Mr. HOLDING, Mr. JOHNSON of Ohio, Mr. HUFFMAN, Mr. HONDA, Mr. LARSEN of Washington, and Mr.

THOMPSON of California) introduced the following bill; which was referred to the Committee on the Judiciary

---

A BILL

To amend title 35, United States Code, and the Leahy-Smith America Invents Act to make improvements and technical corrections, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

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 recommendations of 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 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.".

(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 subsections (b) and (c), 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.—In the case of an action under any provision of Federal law (including an action that includes a claim for relief arising under section 271(e)), for which 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.

"(4) ACTIONS SEEKING RELIEF BASED ON COMPETITIVE HARM.—The limitation on discovery provided under subsection (a) shall not apply to an action seeking a preliminary injunction to redress harm arising from the use, sale, or offer for sale of any allegedly infringing instrumentality that competes with a product sold or offered for sale, or a process used in manufacture, by a party alleging infringement.

"(c) EXCLUSION FROM DISCOVERY LIMITATION.—The parties may voluntarily consent to be excluded, in whole or in part, from the limitation on discovery provided under subsection (a) if at least one plaintiff and one defendant enter into a signed stipulation, to be filed with and signed by the court. With regard to any discovery excluded from the requirements of subsection (a) under the signed stipulation, with respect to such parties, such discovery shall proceed according to the Federal Rules of Civil Procedure.".

(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, identifies the ultimate parent entity of the claimant, 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 Con-

gress 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 1522 of title 11, United States Code, is amended by adding at the end the following:

"(e) Section 365(n) shall apply to cases under this chapter. If the foreign representative rejects or repudiates a contract under which the debtor is a licensor of intellectual property, the licensee under such contract shall be entitled to make the election and exercise the rights described in section 365(n).".

(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 OUTREACH.—The existing small business patent outreach programs of the Office, and the relevant offices at the Small Business Administration and the Minority Business Development Agency, shall 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 18 months 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 1 year 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, using existing resources, 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 1 year 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 procedures 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 necessary criteria for using small claims procedures;

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

(iii) the steps that would be taken to ensure that the procedures used 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, using existing resources, 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, using existing resources, 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 1 year 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.

(g) STUDY ON IMPACT OF LEGISLATION ON ABILITY OF INDIVIDUALS AND SMALL BUSINESSES TO PROTECT EXCLUSIVE RIGHTS TO INVENTIONS AND DISCOVERIES.—

(1) STUDY REQUIRED.—The Director, in consultation with the Secretary of Commerce, the Director of the Administrative Office of the United States Courts, the Director of the Federal Judicial Center, the heads of other relevant agencies, and interested parties, shall, using existing resources of the Office, conduct a study to examine the economic impact of sections 3, 4, and 5 of this Act, and any amendments made by such sections, on the ability of individuals and small businesses owned by women, veterans, and minorities to assert, secure, and vindicate the constitutionally guaranteed exclusive right to inventions and discoveries by such individuals and small business.

(2) REPORT ON STUDY.—Not later than 2 years 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).

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

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

(b) 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 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.".

(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.

(c) 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 individual or individuals as the 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 nonstatutory, double-patenting ground based on a patent described in section 3(n)(1) of the Leahy-Smith America Invents Act (35 U.S.C. 100 note).

(5) EFFECTIVE DATE.—The amendments made by this subsection shall take effect upon the expiration of the 1-year period beginning on the date of the enactment of this Act and shall apply to a patent or patent 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).

(d) 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).

(e) 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 that is pending on, or filed on or after, such date of enactment.

(f) 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.

(g) 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.

(h) 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 by striking "shall execute" and inserting "may be required to execute".

(B) EFFECTIVE DATE.—The amendment 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 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 "18 months".

(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.

Mr. GOODLATTE. I look forward to hearing from all of our witnesses on the Innovation Act and the issue of abusive patent litigation. And now it's my pleasure to recognize the Ranking Member of the Subcommittee on Courts, Intellectual Property and the Internet, the gentleman from New York, Mr. Nadler, for his opening statement.

Mr. NADLER. Thank you, Mr. Chairman.

Thank you, Mr. Chairman, for holding this hearing which will help us to examine the Innovation Act and the problem of abusive patent litigation. I am proud to join you as a cosponsor of this legislation so that we can deter patent trolls and protect individuals and businesses from abusive patent litigation. But as I have said before, and as many have said before, no legislation is perfect, and this hearing will help us to determine how H.R. 9 can be further improved.

Our economy depends on innovation to grow and to thrive, and this has been true since the dawn of our Nation. The founders knew the importance of patent protection in fostering innovation and even wrote it into the Constitution. Last week the U.S. Patent and Trademark Office celebrated a 225th anniversary of the first U.S. patent act just days after issuing its 9 millionth patent. Strong patent protection has helped unleash unmatched creativity in this country, and it's vital that we maintain a strong and vibrant patent system.

Unfortunately the system currently faces a wave of abusive litigation by patent trolls, which stifles innovation and threatens our economy. Patent trolls use litigation or the threat of litigation as a weapon to extort settlements from innocent defendants. They generally own weak patents and make vague claims that will require extensive and time-consuming discovery on the part of the defendant. Many patent trolls prey on end users who have no knowledge or control over the alleged infringing project. Their goal is to drive up the cost of litigation and force the defendant to deter-

mine that it simply makes financial sense to settle even a totally bogus claim early, rather than seeing litigation through to the end and paying the exorbitant legal fees that can go along with such a course of action. Such abusive litigation threatens small and large businesses alike. Those companies that refuse to give in to the patent trolls' demands may be forced to spend millions of dollars defending a frivolous lawsuit. And it is not just businesses that should be concerned about these lawsuits. Patent trolls harm all consumers searching for the next great invention to improve their lives. That is because every dollar spent fending off frivolous lawsuits is a dollar that cannot be spent on research and development or on improving customer service. When patent trolls win, the rest of us lose.

I support the Innovation Act because a strong patent system requires that we protect businesses and consumers from the harm caused by abusive litigation. But I am mindful of the fact that in addressing the patent troll problem, we must not impose too great a burden on legitimate plaintiffs. A strong patent system also depends on inventors having the ability to protect their creations in court. We must be careful to ensure that the reforms included in this legislation do not have unintended consequences. For example, it is no secret that I have traditionally been an opponent of loser pays provisions. People or businesses with legally legitimate disputes should not be punished for trying to protect their interests in court.

H.R. 9 attempts to strike a balance, that will deter patent trolls from filing frivolous suits while protecting those with reasonable but ultimately unsuccessful claims. I have made it clear, however, that my support for this legislation depends in part on a commitment that the fee shifting provision will not get any more stringent than in the current version of the legislation. I hope it can be improved further. In fact, I will be interested to hear from our witnesses their thoughts on whether this bill strikes an appropriate balance in this regard.

I particularly want to welcome Michelle Lee and congratulate her on her recent confirmation as Director of the Patent and Trademark Office. I look forward to her testimony and to the testimony of all our witnesses as we explore the Innovation Act in depth. There are many provisions in this bill that require close consideration, and I appreciate the opportunity to examine them today.

I thank you, Mr. Chairman, and I yield back the balance of my time.

Mr. GOODLATTE. I thank the gentleman.

The Chair is now pleased to recognize the gentleman from California, the Chairman of the Subcommittee on Courts Intellectual Property, and the Internet, Mr. Issa, for his opening statement.

Mr. ISSA. Thank you, Mr. Chairman. I think it's altogether fitting that this be a full Committee hearing because, Ms. Lee, clearly you are at the heart of why we are, in fact, producing H.R. 9. Often Members of this body will talk about patent trolls. They'll talk about weak patents being used by these trolls. They'll talk about our friends in Marshall and Tyler, Texas who seemed to never find a patent they didn't want to consider valid and enforceable and infringed. However, since we passed the landmark legislation in

2011, it has become clear that to this day we still have a problem at the USPTO. This is not a problem of the making of the Patent and Trademark Office. As a matter of fact, as the Chairman just said, celebrating the 9 millionth patent is quite a celebration.

However, my little sister, born in 1961 could have celebrated the 3 millionth patent. We have in my lifetime produced more than three out of every four patents produced since our founding. This epidemic of innovation would be a good thing if, in fact, patents were rigorously defended throughout the process, the Patent Office had ever better information, and to be honest, if the bias had been toward obviousness not becoming the hallmark of innovation.

During my lifetime it has become extremely common for inventors to simply take the inevitable direction of a new technology and re-patent what was previously patented under the previous technology. This occurs in the automotive industry, in all the sciences, including even in health care.

So as we meet with our Under Secretary, it is very clear that our greatest goal in our reform is not just in Article III courts, where heightened pleading and fee shifting clearly will make a difference for trolls, but, in fact, every inventor should have to work harder, narrow further, their claims so that the real patent they receive from the Patent Office, they have patent certainty on.

Often many of the companies in BIO come before this Committee and into my office, and they talk about certainty. And I tell them, if your patent is often reduced or even made invalid when scrutinized either by the Patent and Trademark Office or in an Article III court or even in the ITC, then in fact we have done you a disservice, but you have done yourself a disservice. An inventor is best off having a narrow patent, fully understood, so that he or she can assert that patent when appropriate and understand that innovation comes, quite candidly, from patents that you work around.

So as we go into H.R. 9, as was said earlier, a bill that in the last Congress enjoyed a 33 to 5 in this Committee's support and 325 positive votes on the House floor, I want everyone to understand that like the Chairman of the full Committee and the other Members, I'll work tirelessly to try to find ways to make this bill better in the basic ways of both streamlining the activities that go on once a patent is granted but also work with the Patent and Trademark Office to ensure that in the future we will have patents which are either not granted, or granted more clearly so that once granted, an inventor understands what the limitations of their patent is.

I think today, Mr. Chairman, we will undoubtedly hear from Ms. Lee in detail about the success of the CBM program and re-examinations and where we can work with the Patent and Trademark Office to ensure that post-grant and other ways to improve patent quality are addressed in this bill. And I want to thank the Chairman again for giving us an opportunity for both of these important panels, and I yield back.

Mr. GOODLATTE. The Chair thanks the gentleman.

Without objection all other Members' opening statements will be made a part of the record.

We welcome our distinguished witness for today's first panel, and Ms. Lee, if you would rise, I will begin by swearing you in.

Do you swear that the testimony that you are about to give shall be the truth, the whole truth and nothing but the truth so help you God?

Thank you very much. Let the record reflect that the witness responded in the affirmative.

Our first witness today is the Honorable Michelle Lee, Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office. In her role as Director, she oversees one of the largest intellectual property offices in the world and serves as the principal adviser to the President on both domestic and international intellectual property matters. Prior to her role as director, Ms. Lee was Deputy Director and also served as the first director of the Silicon Valley USPTO.

Her experience also includes being the first head of patents and strategy at Google while serving as the company's deputy general counsel. She received her J.D. from Stanford Law School and her M.S. and B.S. in electrical engineering and computer science from the Massachusetts Institute of Technology.

Ms. Lee, welcome. Your testimony will be entered into the record in its entirety, and we ask that you summarize your statement in 5 minutes or less. And to help you with that, there's a timing light on the table. We again welcome you.

TESTIMONY OF THE HONORABLE MICHELLE LEE, UNDER SECRETARY OF COMMERCE FOR INTELLECTUAL PROPERTY AND DIRECTOR OF THE UNITED STATES PATENT AND TRADEMARK OFFICE

Ms. LEE. Thank you. Chairman Goodlatte, Ranking Member Conyers, Chairman Issa, and Ranking Member Nadler, thank you for the opportunity to discuss with you our views on H.R. 9, the "Innovation Act." Mr. Chairman, we are pleased that you have reintroduced the Innovation Act to begin the legislative patent reform efforts in the 114th Congress, to curtail abusive patent litigation, to increase patent transparency, and to level the playing field for all innovators.

As a general matter, we believe that the final bill should target truly abusive practices while maintaining a patent owner's legitimate right to enforce his or her patent. Further, we believe that the final legislation should take a fair and balanced approach that neither favors nor disfavors any particular area of technology, industry, or business model. Finally, any current legislative effort should, of course, take into account recent changes in the patent system that have come from the courts through rulings and local rules, by the Judicial Conference via its rule changes and from the USPTO through its implementation and refinement of the America Invents Act post-grant trials, as well as its enhanced patent quality initiative.

With these principles in mind, allow me to focus my limited time on a few key provisions in the Innovation Act. My written statement contains more detailed thoughts, factors to be weighed, and views regarding provisions in the bill.

First, we generally support the bill's proposal to require an award of attorney's fees and expenses in patent cases where it is proven that the losing party's position or conduct was unreason-

able. Fault-based fee shifting will raise the cost for those engaging in abusive tactics, whether plaintiffs or defendants. It gives the financial incentive to prepare and to present their cases responsibly, and it should discourage parties from bringing unjustified cases. This type of attorneys' fee provision will also help ensure consistency in fee awards across the judicial districts.

Second, we believe it is good policy to have patent owners provide more information to defendants in a complaint about why they allegedly infringe a patent than is mandated by current law. Accordingly, we generally support the Innovation Act's requirement that a complaint explain how each element of a patent claim is met by an accused product or process or why such information is not readily accessible.

We believe that requiring the identification of the allegedly infringing products and an explanation of how they infringe at least one claim of each asserted patent is important. But any requirement to plead additional claims in a patent at this early stage of litigation should be weighed in light of the burdens it would place on the patent owner, the potential that it creates for procedural motions that may not materially advance the case, and incentives that it creates to overplead marginally relevant patent claims.

Legislation should account for the fact that a party often lacks a complete understanding of the case at the outset. We recognize that there are ongoing negotiations on how to craft the details of this proposal to address these various concerns, and we are supportive of those efforts.

I would also like to address the Innovation Act's proposal to stay discovery until a court issues a claim construction ruling. Now let me begin by saying that I am well aware of the high cost of discovery in patent litigation cases. Discovery is a significant cost driver in litigation, and we are committed to working with the Committee and stakeholders to find proposals that will reduce these costs. But claim construction is complex, and it can be difficult to perform in a vacuum. Often it takes some amount of additional discovery to understand which claims and which technical terms in those claims are critical and must be construed, and claim construction alone may not dispose of a case, especially when there has been no discovery on infringement and invalidity. In those cases, discovery costs wouldn't be avoided, only delayed. We believe that there may be alternatives to reducing excessive discovery in patent litigation worth considering, and we welcome the opportunity to work with the Committee and stakeholders to develop such proposals.

Finally, we generally support the bill's proposals to protect customers using off-the-shelf products such as a coffee shop that uses an Internet router. A customer stay provision would allow the party who understands the technology, the manufacturer, to handle the case. Of course, appropriate safeguards should be included. For example, the manufacturer and customer both agreeing to the stay, and in exchange for the stay, the customer agreeing to be bound by the ruling. With safeguards such as these, we believe strides can be made to help curtail some of the most coercive patent litigation abuses while simultaneously appropriately preserving limited judicial resources.

We understand that there are extensive, or were extensive negotiations on this topic last year, and we are also supportive of these efforts. I will defer to my written statement for more details on the rest of the many important provisions in this bill, but briefly I will say that the USPTO generally supports the bill's provisions on; transparency, patent licenses in foreign bankruptcy proceedings, demand letters, and the many technical corrections.

Mr. Chairman, thank you for the opportunity to share our views on these important issues. My staff and I are available to help in any way we can toward crafting meaningful, fair, and balanced legislative reforms that are so important to strengthening our patent system for American innovators. Thank you.

Mr. GOODLATTE. Thank you, Director Lee.

[The prepared statement of Ms. Lee follows:]

STATEMENT OF

MICHELLE K. LEE

UNDER SECRETARY OF COMMERCE FOR INTELLECTUAL PROPERTY
AND
DIRECTOR OF THE UNITED STATES PATENT AND TRADEMARK OFFICE

BEFORE THE

COMMITTEE ON THE JUDICIARY
U.S. House of Representatives

Legislative Hearing on H.R. 9, the "Innovation Act"

APRIL 14, 2015

INTRODUCTION

Chairman Goodlatte, Ranking Member Conyers, and Members of the Committee: Thank you for this opportunity to appear before the Committee to discuss H.R. 9, the Innovation Act.

Patent rights are an important driver of technological innovation. The United States is fortunate to have robust protections for intellectual property rights that include a strong patent system. I say this with first-hand knowledge of how important patents can be in incentivizing innovation and creating economic growth. I was born and raised in the Silicon Valley and spent most of my career there. I grew up on a street filled with engineers. Patents allowed these innovators to obtain financing to build companies that took their inventions to the marketplace. Since that time, I have been fortunate to have had a career of my own involving technology, innovation, and our intellectual property system. Prior to law school, I worked as a computer programmer in leading research laboratories. After law school, I clerked for judges who handled patent cases at the trial and appellate court levels. I was also a partner in private practice, where I represented patent applicants and litigants, licensees and licensors, for a wide range of clients, before becoming head of patents and patent strategy at a leading high technology company.

I have prosecuted patents, asserted patents, defended against patent infringement allegations, and licensed, bought, and sold patents in a wide range of technologies. So I understand, from a business perspective, the critical value patents can have for a company looking to enter a market crowded with competitors, as well as the cost to society when a patent issues that should not have. Today I have the privilege of bringing this diverse set of perspectives to bear on the well-being of the entire intellectual property system. As Director of the United States Patent and Trademark Office, I am charged with approaching intellectual property as a steward, ensuring that our nation's intellectual property system continues to promote innovation for the benefit of our society.

OVERVIEW

As the Committee is aware, the past several years have seen the growth of patent litigation practices which have the potential to hurt innovation. These abusive litigation practices can be particularly harmful to new and small businesses, which often lack the resources to defend themselves in these often highly complex and expensive cases. There have been reports of widespread mailing of "demand letters" with vague allegations of patent infringement to people otherwise unfamiliar with patents and patent law. In addition, there is a continuing need to find ways to strengthen the patent system by leveling the playing field for innovators and increasing the transparency of patent ownership information.

Since December 2013, when the House of Representatives passed the Innovation Act, H.R. 3309—which is identical to the bill we address here today—there have been a number of changes to the patent landscape. At the USPTO, we have been busy implementing the new post-issuance proceedings created by the Leahy-Smith America Invents Act, Pub. L. No. 112-29 (2011) ("AIA"). Since these proceedings began, the USPTO has received more than 3,000 petitions—almost three times the number originally projected. The AIA granted the USPTO authority to implement these proceedings within Congress's statutory framework, and we have done so. We always expected that our first iteration of rules would need to be perfected in light of experience. Last spring, we launched an eight-city, nation-wide listening tour, followed by a request for formal written comments. We have now received comments in a number of areas including: discovery, claim construction standards, amendments, hearings that involve live testimony, patent-owner preliminary responses, coordination of multiple proceedings, identification of real-parties in interest, and the composition of the panels of administrative patent judges. After consideration of all the comments, the USPTO has just implemented a set of "quick fixes,"[1] and will issue a series of proposed revisions to the existing rules and to its Trial Practice Guide later this year.

In addition, thanks to the AIA, the USPTO has launched an Enhanced Patent Quality Initiative[2] to focus on further improving patent quality, starting with a recent two-day summit at our headquarters in Alexandria.

Other changes to the patent landscape have stemmed from the actions of the courts, the Judicial Conference of the United States, the Federal Trade Commission, state legislatures, and state attorneys general. Many of these actions have made progress in clarifying patent rights and curtailing some patent litigation abuses, but they are not a complete solution. The recent judicial decisions are limited in their effect because of the limitations of the statutes that those cases interpret. And other actions – particularly the passage of some state laws – have added to the need for federal legislation that provides a uniform national approach. The USPTO also believes that legislation remains necessary to realize the full potential of the changes enacted in the AIA. Although the AIA made a large number of important reforms to the patent system, that law did

[1] For more information, please see <http://www.uspto.gov/blog/director/entry/ptab_s_quick_fixes_for>.
[2] Request for Comments on Enhancing Patent Quality, 80 Fed. Reg. 6475 (February 5, 2015) (announcing this initiative). For additional information, please see <http://www.uspto.gov/patent/initiatives/enhanced-patent-quality-initiative>.

not address all currently outstanding problems—some of which have become more apparent since the AIA's enactment.

INNOVATION ACT PROVISIONS

Upon careful consideration of these issues, and in light of the changes that have happened in the patent system, the USPTO believes that legislation to curtail abusive patent litigation is necessary and appropriate at this time. Of course, any legislative reform must preserve a patentee's ability to reliably and efficiently enforce its patent rights. Legislation must achieve a balance, preventing abuse while ensuring that any patent owner, large or small, will be able to enforce a patent that is valid and infringed. With these principles in mind, the USPTO offers the following comments on the provisions of H.R. 9.

Attorney's Fees

The USPTO generally supports the approach taken in § 3(b) of H.R. 9, which would require an award of attorney's fees and expenses to be made to the prevailing party in a patent case upon a motion by that party unless the non-prevailing party's litigation position or conduct was reasonably justified in law and fact. This proposal would create a fault-based standard under which fees and expenses would be awarded in appropriate cases but would not be automatic. Rather, an award would be made only if the court finds that the non-prevailing party's litigation position was one that no reasonable litigant would have believed would succeed, or that the non-prevailing party's conduct was otherwise unreasonable.

The substantive standard that this proposal would codify is generally consistent with that already being applied in at least some district courts pursuant to the Supreme Court's recent decision in *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749 (April 29, 2014). In *Octane*, the Supreme Court interpreted current law's authorization to make awards in "exceptional" cases, and clarified that "an 'exceptional' case is simply one that stands out from others with respect to the substantive strength of a party's litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated." *Id.* at 1756. Relying on *Octane*, some district courts have awarded fees on the basis that the non-prevailing litigant advanced legal and factual theories that no reasonable litigant would advance or that otherwise lacked a reasonable basis, or engaged in unreasonable litigation tactics and conduct.

However, under the current statutory regime as interpreted by the Supreme Court, district courts retain wide discretion to determine whether a case is exceptional. In particular, district courts have discretion to deny a fee award even <u>after</u> finding that a case is exceptional. Accordingly, some courts may decline to award fees in circumstances when other courts would do so. This uncertainty makes it more difficult for parties to decide whether to vindicate their rights through to a final decision in cases where the other side's position appears indefensible. Section 3(b) of H.R. 9 would help bring consistency and predictability to this area of the law by codifying a standard (namely unreasonable conduct or unreasonable positions) for when courts would be required to award fees.

This provision would apply equally to plaintiffs and defendants. Accordingly, just as a defendant would be awarded fees when the plaintiff's infringement position was unreasonable, a plaintiff would also be entitled to fees when there is no reasonable dispute that a patent is valid and infringed. The USPTO thus believes that the approach taken along the lines of § 3(b) of H.R. 9 is needed and would help curtail litigation abuses committed by plaintiffs and defendants because it would encourage each side to prepare and analyze their cases responsibly. The USPTO also believes, however, that the party seeking a fee award—the prevailing party—should bear the burden of demonstrating that it is entitled to such an award.

Finally, § 3(b) of H.R. 9 appropriately preserves some judicial discretion—and allows courts to prevent inequitable results—by authorizing a court to deny a fee award in special circumstances. For all these reasons, the USPTO believes that § 3(b) of H.R. 9 generally strikes the right balance between discouraging inappropriate litigation while increasing the likelihood that patentees can vindicate their rights.

Pleading Requirements

The USPTO supports heightening pleading requirements in patent infringement cases beyond what is currently required to ensure that defendants have—as soon as the case is filed in court—a basic understanding of why they are allegedly infringing a patent. Thus, the USPTO generally supports the requirement in § 3(a) of H.R. 9 that a complaint explain how each element of a patent claim is met by an accused product or process, or address why such information is not readily accessible. The USPTO believes that requiring an identification of the allegedly infringing products and an explanation of how they infringe at least one claim of each asserted patent would provide needed notice to accused infringers.

Any requirement to plead additional claims in a patent at this early stage of litigation should be considered in light of the burdens that it would place on the patent owner, the potential that it creates for procedural motions that do not materially advance the case, and the incentive that it creates to "overplead" marginally relevant patent claims. Pleading requirements should account for the fact that a party often lacks a complete understanding of the case at the time the complaint is filed. The parties' understanding evolves as the case develops, and it might become apparent that a patent claim other than that which is asserted in the complaint is the most suitable vehicle for relief.

Discovery

The USPTO believes that any changes to discovery rules should facilitate the early resolution of disputes, avoid needless costs, and promote efficiency and fairness. The USPTO supports § 6 of H.R. 9, under which the Judicial Conference of the United States would develop rules and procedures that would address the asymmetries in discovery burdens and costs in patent cases. The Judicial Conference has already recommended that the Supreme Court adopt changes to the Federal Rules of Civil Procedure to promote discovery "proportionate" to the needs of a case, and we believe building on that work would be productive.

Section 3(d) of H.R. 9 stays discovery in patent cases pending a ruling by the court on claim construction, except for that discovery which is necessary for construing the claims. Patent claim construction can be complex. Often, absent some understanding of validity and infringement issues via discovery, knowing which terms to construe and adequately construing such terms can be difficult. Limited discovery on these issues can often help crystallize aspects of a patent claim that are important to resolution of a given case, and can even facilitate early settlement. For this reason, numerous district courts, such as the Northern District of California, have established local patent rules requiring early disclosure of contentions of infringement and invalidity alongside production of a targeted set of documents.

Moreover, claim construction alone often is not dispositive of a patent case. It can be difficult to win an early summary judgment motion without some discovery, even if there is a claim construction ruling. And where a case continues after claim construction, discovery would also proceed. In such cases, the proposal of § 3(d) of H.R. 9 would not avoid discovery, but simply delay or duplicate it.

Other features of H.R. 9 will likely help to address some of the current abuses that may occur during discovery. Increasing the chances that attorney's fees and litigation expenses are awarded against litigants advancing unreasonable cases will help curtail the ability of both abusive plaintiffs and defendants to coerce settlement through imposition of high discovery costs on the opposing party. And, heightened pleading requirements will help to focus discovery. The USPTO also believes there may be better alternatives for achieving the goal of reducing excessive discovery in patent litigation cases, and would welcome the opportunity to work with the Committee and stakeholders to develop such proposals.

Stays of Customer Suits

The USPTO generally supports § 5 of H.R. 9, which would allow consumers and retailers of off-the-shelf products to agree to have the manufacturer of the product litigate a patent infringement suit concerning the product. Infringement suits against the consumer or retailer would be stayed while the manufacturer's action proceeds. Such lawsuits against consumers for using a product, or against retailers for selling a product, are often coercive and almost always inefficient. By staying the suit against the customer or retailer while a manufacturer suit is litigated, § 5 places the party that is in the best position to understand the accused product and its technology in charge of defending the lawsuit.

In exchange for having its case stayed, however, the consumer or retailer should be required to agree to be bound by the result of the manufacturer's suit. Absent this requirement, a patentee might have to litigate a case against a manufacturer, prevail, then need to bring an entire second suit against the customer if such further suit is needed to make the patentee whole. Importantly, if a customer or retailer believes that its interests will not be adequately represented in the manufacturer's action, it does not have to agree to a stay. Also important to any stay proposal is a requirement that the defending parties <u>all</u> consent to the stay. A stay should be entered only if the customer or retailer <u>and</u> the manufacturer agree. This requirement protects a defendant manufacturer in scenarios where the "customer" is not simply an off-the-shelf

purchaser, but rather a sophisticated purchaser whose instructions and specifications to the manufacturer may have caused the alleged infringement.

Finally, any proposal should make clear that a stay remains within a court's equitable discretion in other situations not directly addressed by the proposal. At common law, courts currently enjoy the authority to enter a stay in other circumstances where the equities so require, such as those involving component manufacturers and intermediate suppliers.

Transparency of Patent Ownership

The USPTO generally supports § 4 of H.R. 9, which would require certain mandatory disclosures of patent ownership when a patent is enforced through litigation. This would allow an accused infringer to understand who, besides the named plaintiff, may have an interest in the litigation. Such enhanced transparency may facilitate settlement of litigation—and, importantly, help ensure that a settlement is as comprehensive as desired between the parties.

The USPTO recommends, however, that the Committee ensure that an accused infringer knows who is truly behind a lawsuit, but avoid requiring the gathering of information that may provide little benefit to the parties. In addition, the section as currently written requires disclosure only by a plaintiff—thereby apparently exempting from its requirements a party that asserts infringement only in a counterclaim. Disclosure should be required any time a patent is asserted in litigation.

The USPTO would also support a general requirement that ownership information be periodically updated at the USPTO for all patents even before litigation, though it remains for further discussion what level of detail and periodicity might be most appropriate. The public would benefit the most from having access to ownership information at the USPTO <u>before</u> an infringement suit is filed to better inform licensing and patent clearance activities could take place.

Demand Letters

The USPTO shares the view expressed in § 3(e) of H.R. 9 that it is an abuse of the patent system to send purposely evasive demand letters to end users alleging patent infringement. It is important that any demand letter legislation be reasonably-tailored and balanced to preserve patent owners' abilities to license their patents in good faith.

The USPTO also believes that there is a growing need for a national approach to demand letter regulation. At least eighteen states have recently enacted laws that govern patent demand letters, and bills are pending in others. These state laws impose a variety of requirements for patent demand letters, creating a patchwork regime that makes nationwide compliance with these laws extremely challenging. A national standard that promotes uniformity would address these concerns and encourage the transfer of patented technology from universities, companies and individual inventors for use in society.

Recovery of Attorney's Fees

The USPTO supports the principle embodied in § 3(c) of H.R. 9 that an abusive litigant should not be allowed to insulate itself from accountability under § 285 of title 35 by carrying out its patent-enforcement activities via a "shell" entity that will be unable to satisfy a fee award. Section 285, as amended by § 3(b) of H.R. 9, would deter parties from advancing unreasonable litigation positions or engaging in abusive tactics. That deterrent effect would not be fully realized if a party that profits from and controls the litigation could nevertheless readily immunize itself from § 285 liability by operating through limited-liability entities.

While there seems to be general agreement on these principles, implementing them through legislation is difficult. The limited liability of corporate employees and shareholders is a long-established feature of American law. Overriding it may serve as a substantial deterrent to investment in new enterprises and potentially job creation, particularly a number of high-growth sectors. Individual investors, for example, may not be willing to invest in a start-up company if the risks of doing so included not just the loss of their initial investment, but also personal liability to the investor for the company's subsequent patent litigation decisions.

Legislation should be narrowly drawn with clear boundaries. Given the relatively low number of fee awards that were made before last year's decision in *Octane Fitness*, there currently is little public evidence of what tactics abusive litigants may use to evade enforcement of awards.

With these principles in mind, it would be helpful to clarify § 3(c)'s definition of the entities that are subject to joinder—those with "no substantial interest in the subject matter at issue other than asserting such patent claim in litigation." It is unclear, for example, whether the named inventor would have a "substantial interest" in the subject matter simply because she invented the subject matter. In addition, to help ensure that the prospect of joinder does not chill investment in new companies, § 3(c) should include some kind of clear exemption for passive investors—those who lack the ability to direct or control a company's litigation. Such an exemption would better allow an investor to know whether investing in a company may subject her to personal liability.

Other Provisions

Section 9(b) of H.R. 9 would require the USPTO's Patent Trial and Appeal Board ("PTAB") to interpret patent claims in AIA trials as they would be construed in district court litigation, rather than based on their broadest reasonable interpretation. If legislation were to direct the PTAB to employ the district court approach to claim construction in AIA trials, consideration should also be given to repealing the right to amend claims in those proceedings consistent with the historical use of these two standards.

Other provisions of H.R. 9 include important changes including provisions to protect patent licenses in foreign bankruptcy proceedings and to clarify the estoppel effect of post-grant

review proceedings. Additional provisions, such as those addressing double patenting and patent term adjustments, should be revisited in light of recent case law development.

CONCLUSION

To summarize, the principles that the USPTO supports would help curtail abuses and increase transparency in our patent system as well as level the playing field for innovators, while preserving the right of patent owners to legitimately exercise their patent rights when needed. Specifically and collectively, the package of legislative proposals supported by the USPTO would: (1) provide the financial incentives to pursue meritorious claims and defenses, but not more; (2) increase the notice provided both in demand letters and complaints in patent disputes; (3) help focus discovery, including by heightening pleading requirements and shifting fees in unreasonable cases; (4) protect customers and retailers while the manufacturer of the allegedly infringing product litigates the dispute; (5) provide important ongoing license rights to U.S. patents repudiated or rejected in a foreign bankruptcy proceeding; and (6) increase transparency of patent ownership information.

The USPTO appreciates the momentum toward these goals that H.R. 9 represents. We look forward to working with members of the House and Senate and all stakeholders both on this specific legislative effort, and in the ongoing effort to achieve meaningful and balanced reforms. Such reforms will necessarily take into account the many recent changes to our patent system resulting from recent court rulings addressing fee-shifting, patent eligible subject matter and other issues; the admirable work by many district court judges to actively manage their patent cases; the Judicial Conference's proposed rule changes; and the USPTO's continued implementation and refinement of the AIA post-grant review proceedings, its work on the Enhanced Patent Quality Initiative, and its implementation of seven White House Executive Actions.[3]

[3] For more information, please see < http://www.uspto.gov/patent/initiatives/uspto-led-executive-actions-high-tech-patent-issues> and <http://www.uspto.gov/patent/initiatives/enhanced-patent-quality-initiative>.

Mr. GOODLATTE. And I'll begin the questioning. I appreciate your testimony, and seeing that the Administration continues to be committed to seeing patent reform enacted into law and that they view this as a high legislative priority, in that vein I'd like to ask for unanimous consent to submit the White House's Statement of Administration Policy on H.R. 3309, the "Innovation Act" from last Congress, which expresses strong support for our bill.

[The information referred to follows:]

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

December 3, 2013
(House Rules)

STATEMENT OF ADMINISTRATION POLICY

H.R. 3309 – Innovation Act
(Rep. Goodlatte, R-VA, and 16 cosponsors)

The Administration supports House passage of H.R. 3309, as reported with a strong, bipartisan vote by the House Judiciary Committee. The bill builds on the important patent reforms contained in the America Invents Act (P.L. 112-29) and successfully implemented by the U.S. Patent and Trademark Office. The bill would improve incentives for future innovation while protecting the overall integrity of the patent system.

On June 4, 2013, the Administration recommended seven legislative measures to the Congress designed to protect innovators from frivolous litigation and ensure the highest-quality patents. The Administration appreciates the inclusion of many of these measures in H.R. 3309 and supports the bill's provisions to require disclosures in patent infringement cases, streamline actions involving end-users, and provide educational resources for small businesses. By reducing unnecessary costs of patent litigation, it also represents significant progress on the efforts to level the playing field for small innovators. The Administration supports the effort to discourage abusive court filings, but hopes that, as final legislation is crafted, appropriate recognition is given to the importance of judicial discretion in balancing competing interests. Finally, the Administration continues to have concerns about the bill's provisions on post-issuance review proceedings, including those pertaining to patent claim construction.

The Administration looks forward to working with the Congress to advance this important bipartisan legislation and to include additional provisions that the Administration recommended to help protect innovators, including transparency of demand letters and pre-litigation patent ownership.

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Mr. GOODLATTE. Director, I'd also like to ask you to talk more about three things. First, the importance of the Innovation Act's fee-shifting provisions; second, the ways to make the joinder provisions clearer that they apply to insolvent shell companies that file frivolous suits and not legitimate startups and universities; and, third, on customer stay. As we look to improve that provision, do you support the customer stay language negotiated last May in the Senate?

Ms. LEE. Thank you very much for your question, Mr. Chairman. Let me start with the first of the issues that you raised, fee shifting. As I mentioned, we are generally supportive of the provision introduced in H.R. 9 on fee shifting. We believe it raises the cost for those who are engaging in abusive tactics, and it provides the right financial incentives for both plaintiffs and defendants.

With regard to ways to improve the joinder provision to make sure that we are targeting the right individuals but yet excluding others, I think as a general matter it is critical that we ensure that passive investors, those who do not have the ability to control or direct the litigation, are not subject to any kind of joinder or fee liability. We need to protect that because otherwise we can chill investment in some very important new enterprises which is so critical to our Nation's continued economic success.

And as to universities, my thought there is the university's business model happens to be education, but we shouldn't distinguish between what people's business model is. If they're engaged in abusive behavior, as much as I appreciate universities and their ability to contribute to innovation, it's important that if they're engaged in abusive behavior and they direct and control abusive litigation, that they too should be responsible. So, whatever your business model, if you control or engage in abusive litigation, you should be able to bejoined or held liable. And the final issue was——

Mr. GOODLATTE. Customer stay language.

Ms. LEE. Customer stay, we're generally supportive of the concepts in it.

Mr. GOODLATTE. And last May the Senate negotiated some language. If you're familiar with that, do you have an opinion on that?

Ms. LEE. I think we are generally supportive with the concepts there.

Mr. GOODLATTE. Thank you. We have all heard about plaintiff-friendly venues and patent cases being brought in jurisdictions where neither party is conducting any business whatsoever. What are your thoughts on addressing the issue of venue.

Ms. LEE. So venue is a very important issue, and many courts are working hard to actively manage their cases and control discovery in their district courts. A few courts permit broader discovery, and it appears to be limited to a small number of courts and Federal districts. So one option might be to focus on reducing the opportunities for forum shopping and the advantages of forum shopping by increasing or tightening the venue requirements. Making sure that the parties who end up in a district, have real ties, meaningful business ties, to that district, I think would benefit patent litigation throughout the entire process, not just early on in terms of discovery pre-claim construction, but at time of ruling for summary judgment, at trial, and so forth. So there are clear advan-

tages to be had in considering proposals related to tightening venue restrictions.

Mr. GOODLATTE. Thank you. One last question. Just last week we saw that the Electronic Frontier Foundation succeeded in an inter partes review of Personal Audio's notorious podcasting patent. If someone is bringing a legitimate post-grant or IPR to the USPTO showing that there are problems with the patent, then that clearly goes to patent quality. But if someone is bringing a frivolous case or demanding cash settlements not to file, then that would appear to be a clear abuse of the system. I believe that the USPTO has full authority under the America Invents Act to address the latter. Understanding that any legislative fixes could potentially impede the USPTO's ability to address such issues, what is the USPTO doing to prevent the IPR process from being abused.

Ms. LEE. Thank you very much for the question, Mr. Chairman. You are right. The USPTO is working hard to make sure that the proceedings, the AIA post-grant review proceedings are as efficient and fair as possible.

And one of the first initiatives that I undertook when I became the head of the office, first as Deputy Director, was to reach out to the public who had been using the post-grant review proceedings and get input on what we were doing right, what was working, and what was not working, and what we could improve upon. And we engaged in an eight-city listening tour which I have to say each of the cities the attendance was very well attended, and we also solicited written comments on how to improve those proceedings. We have gotten that input. We have already issued some quick fixes, and by summertime you will see some proposed rules on how we can again strengthen the post-grant review proceedings, trials, and make them fairer and more efficient, and we hope to complete that process by the end of the year.

So Congress has given us the authority to implement those proceedings. We have implemented it. We also have the authority to refine it, and where we can within the congressional mandate we are doing everything that we can to make sure those proceedings are fair and efficient.

Mr. GOODLATTE. Thank you. The Chair recognizes the gentleman from New York, Mr. Nadler, for his questions.

Mr. NADLER. Thank you, Mr. Chairman. Ms. Lee, in your testimony you say that a plaintiff should only be required to notify the defendant of a single representative claim. If the plaintiff conducts, as we would expect, the necessary investigation to determine how his or her patent was infringed, why would they not be able to bring all the claims alleged at the outset?

Ms. LEE. Thank you, very much, Congressman Nadler, for the question. As a general matter, certainly earlier and greater notice with respect to claims pled, helps expedite the resolution of the case and streamline discovery. And we support, of course, the removal of Form 18 which provided a very low threshold for pleadings in patent cases and a complaint requiring as a baseline for at least one claim, a description of how each element is met by an accused product or process or the reasons why that information is not readily accessible.

The issues of pleading and how much should be included in the complaint are complex and have many competing considerations that should be weighed. And a concern we have is that requiring the pleading of additional claims with greater specificity at the beginning of a litigation might unduly burden a patent owner, might encourage needless and early procedural motions in the form of motions to dismiss and not materially advance the case when all that is required is an appropriately pled, single claim in order for the case to move forward. Patent owners oftentimes lack full information about the case at the beginning when they're filing the complaint, but we recognize the need to have to balance on the one hand notice to defendants against the burden and fairness of the plaintiffs, and we recognize that there are negotiations going on to address these very important concerns and issues, and we look forward to supporting those and providing help where we can.

Mr. NADLER. But pursuing the same vein, complaints, of course, can be amended as the discovery progresses; but if a plaintiff knows what other claims they believe are infringed when they initially file their complaint, why should they not be required to put all their complaints—of their claims in that complaint? Couldn't it be considered being deceptive if they only put some of them in?

Ms. LEE. So if there is a heightened pleading requirement in the complaint, clearly there is an incentive to get every claim in that you think is allegedly infringed, including perhaps some of them that you have not fully developed. So, there maybe an incentive to over plead, and we have seen cases where you have patent litigation where there are multiple patents, and within each patent there are multiple claims asserted. Sometimes you can have upwards of tens if not close to a hundred claims. And that's a very voluminous complaint you have there if you're going element by element. All of that said, certainly greater specificity is beneficial, and you've got to weigh that against the burdens on the plaintiff pre-discovery for providing that sort of information.

Mr. NADLER. Okay. Now patent trolls, as we know, seek to leverage the cost of discovery to extort settlements from defendants. That's the whole point of—one of the major points of patent trolls. Everything we can do to focus discovery on genuine issues and eliminate the extraneous demands would both limit the trolls' leverage and enhance the efficient progress of the litigation. Do you agree that a district court is competent to manage such a process that would limit the parties' exchange to the core documents actually essential to the claimed infringement, and do you agree that parties could be required to pay for materials outside that core? And if not, why not?

Ms. LEE. So, the question is, do we think a district court is competent to manage the production of core documents requiring the parties to pay for the production of core documents and the parties the other costs. I think there's a lot of sense to that proposal, and I think certainly many district courts across the country are very capable of doing that. And then the question is do we want a uniform standard across all district courts in the country, and do we want to legislate that to make sure that that happens?

Mr. NADLER. And do you think——

Ms. LEE. I think there's an advantage to uniformity in our system.

Mr. NADLER. And therefore we should legislate that?

Ms. LEE. It should be something that we consider amongst many others, but yes.

Mr. NADLER. Thank you. I yield back.

Mr. ISSA [presiding]. Thank you. I recognize myself now. I'm going to follow up with the Ranking Member went through that. Is this something that we should allow the Fed circuit input into, so that in fact, we work in harmony with those rules? Essentially I think his point is a good one which is if you know that your elements on appeal are one court and you know that there is one USPTO, shouldn't we find a way, whether working with the courts or on our own and with you, to mandate a sufficient similarity of the courts that, in fact, forum shopping is less valuable?

Ms. LEE. I'm in favor of anything we can do to decrease the opportunities and advantages of forum shopping. I think that it imposes a discipline across all district courts to provide consistency.

Mr. ISSA. And to that extent, I'd like to shift to the CBM program. Obviously that's a program designed to dramatically reduce the caseload on Article III courts. Could you give us an update on what it's done to reduce low-quality patents?

Ms. LEE. Yes. Thank you very much, Chairman Issa, for that question. The USPTO has successfully implemented the CBM program pursuant to the America Invents Act, meeting its congressional intent. And it was meant to provide a faster, more efficient low-cost alternative to district court litigation with regard to a certain category of patents, those pertaining to financial services. And we have implemented those, and I want to share some statistics with you about them.

We have received 321 filings to date with 206 institutions and 43 written decisions, and for the most part based upon the input that we've received from the roundtable discussions, the eight-city listening tour, I think stakeholders have found the proceedings to be helpful; and we have also heard from the stakeholders areas we can improve on it, and we are certainly working on that.

Mr. ISSA. And staying on the subject of patent improvement, the IPR process, you know, when I was producing products and applying for patents, it was an interesting world because there was a one-way exchange where I gave all the information to the patent examiner, and he or she may or may not have had the other side of the story in catalogues. And then if somebody presented a patent and I wanted to narrow that patent that somebody else had, I went through a reexamination process where I essentially threw material at the Patent Office and hoped that they would take it up and reconstruct the claims, but I had no input. So, can you give us the important difference in the IPR process?

Ms. LEE. So I think, Chairman Issa, you hit exactly the point which is that in the IPR proceedings, you have two sides to a proceeding or——

Mr. ISSA. Three if we include you.

Ms. LEE. I'm usually not a party to it, although I could be. But you have two sides, so by virtue of advocacy, each side is putting forth their best arguments as to either why the patent is valid or

why it is invalid, and there is a benefit to that. So, the IPR proceedings, as Members of Congress intended, was meant to be a quality check on the patents that were already in the system. The USPTO is working on the quality of the patent it issues during an examination before it issues, but the IPR, the post-grant review proceedings, and the covered business method, those three categories of proceedings were meant to be a check on the quality of the patents in the patent system after issuance.

Mr. ISSA. Straightforward question; do you think the CBM program should be extended, or continued would be another way of putting it?

Ms. LEE. So it is scheduled to expire, and the question is should it be extended? And I believe the intent of the CBM proceedings was to address some patents that had issued out of the United States Patent and Trademark Office in the area of business methods related to financial services. And that this program would be in effect for a period of time and that patents that should not have issued would be removed. And that's why it was meant to be a temporary program. As to whether it should be extended or not, I think that's up for——

Mr. ISSA. Let me ask you a leading question if I may.

Ms. LEE. Okay.

Mr. ISSA. Isn't it true that in reviewing those financial patents, what you often discover is that there was a trade practice that was widely known but was not presented when the patent application was applied for; and, in fact, today aren't there many business practices that are widely used but not at your researchers' disposal?

Ms. LEE. So the question is?

Mr. ISSA. Do you still not know what you find out later on in the CBM process at the time that you're granting new patents?

Ms. LEE. I think we know many more things now than we did when some of the patents that are at subject or issue in the CBM proceedings were issued, because the USPTO's resources and databases are much richer and deeper. So, I think the USPTO has done a much better job at issuing the patents that should issue.

Mr. ISSA. Well I have so many more questions and no more time. With that is the Ranking Member ready? It's my pleasure to recognize the gentleman from Michigan, the Ranking Member, Mr. Conyers, for 5 minutes.

Mr. CONYERS. Thank you, Mr. Chairman. Excuse my tardiness. And of course Ms. Lee, I really wanted to be with you at your testimony. I thank you as the Director and Under Secretary. In your opening statement I believe it's been indicated whether the USPTO supports Section 3(d) of H.R. 9. And I wanted to give you an opportunity to enlighten us on that. The provision stays discovery in patent cases pending a ruling by the Court on claim construction. That provision might lead to duplication in discovery. Does USPTO or you support this as written, or are there other preferred alternatives?

Ms. LEE. Well, thank you very much for the question. And I think I mentioned an alternative which is considering tightening the venue requirements. Another alternative might be to consider staying discovery pending a ruling by the district court on motions

to transfer. Those are two alternatives that might be a possibility. But we recognize that discovery is a big, important driver in many patent litigations in terms of incentives and cost and so forth. And we certainly support H.R. 9's provision to have the Judicial Conference look at imbalances between plaintiffs and defendants in discovery, and we believe that H.R. 9's stay provision on discovery pending claim construction, needs to be weighed carefully, both the benefits of delaying discovery in an attempt to save some costs up front against the cost of preventing the parties and the Court from developing a more complete understanding of the case through earlier and fuller discovery.

And based upon my experience and also serving on the Northern District of California Local Patent Rules Committee, which is a committee that promulgates case management and discovery rules on patent cases, claim construction of technical terms is complicated. And one concern might be that it's hard to construe claims in a vacuum, in the abstract. And even a minimal amount of information early in a case including on validity or infringement, can facilitate an early resolution or settlement of a case. So further claim construction is oftentimes not always dispositive. So in that instance, discovery wouldn't be avoided. It would just be delayed.

And there are differences, too, in patent infringement cases. In some cases claim construction and infringement is critically important, and the stay mentioned might actually just work out just fine. In other cases, you've got other issues that might be case dispositive such as inequitable conduct or laches. So, I think there are differences in patent cases, but we should definitely be considering all proposals to ensure that discovery facilitates early resolution, avoids excesses, and is fair to both plaintiffs and defendants.

Mr. CONYERS. Well, I'm glad to hear that you have some recommendations to make this a better bill. I had even more than you. I'm interested in working on it. I think H.R. 9 could be seriously improved, and this would be a start. Let me just ask about the written testimony in which you assert that the USPTO generally supports the concepts of Section 5 of H.R. 9, which provides for stays of customer suits in patent cases. Do you have offhand any recommendations for how we might improve that language?

Ms. LEE. It's generally a good provision in concept. We're supportive of encouraging a stay of a case against retailers and customers while the case is being litigated by the manufacturer. We believe that the end user and the retailer, they oftentimes lack the technical understanding of how the product works. The manufacturer has that information, and the manufacturer also has the incentive to fight vigorously and defend vigorously, so they have the information, and they have the incentives and therefore they're probably the appropriate party.

And so some thoughts into what might be necessary or included in such a provision are that you want to make sure that the manufacturer and the end user retailer are in agreement that that stay should be in effect. And secondly, you want to give the end user and retailer the option to opt out.

Mr. CONYERS. Let me get——

Mr. ISSA. I'd ask unanimous consent the gentleman have an additional minute. Without objection.

Mr. CONYERS. Thank you, sir. Let me just ask you in conclusion about the expansiveness of the joinder provision in 3(c) in the bill, especially if it might be used to chill investments. Does that leave you as concerned as I am about that portion of the bill?

Ms. LEE. I think that's an issue that is of great importance. I mean, you don't want to chill investments in new enterprises because those who are passive investors in a company are subject to a possible fee-shifting award or possibly being joined in a lawsuit.

Mr. CONYERS. Thank you very much. Thank the Chairman.

Mr. ISSA. And I thank the Ranking Member. We now go to the gentleman from Virginia for 5 minutes. Mr. Forbes.

Mr. FORBES. Chairman, thank you. Ms. Lee, thank you for being here today. You stated in your testimony that the USPTO believes that identification of the allegedly infringing products, an explanation of how they infringe in at least one claim of each asserted patent, would provide needed notice to accused infringers. This is a lot less information than is currently required by H.R. 9, but it was my understanding that you had stated previously that H.R. 9 struck the right balance between placing burdens on the patent owner and the need to provide adequate information for defendants. Why the shift in policy and in your opinion?

Ms. LEE. So, we definitely favor heightened notice to patent defendants in patent pleadings, and a proposal to heighten the pleading requirements for at least one claim, and certainly the removal of Form 18, would go a long ways and certainly accomplish that. Now, what beyond one claim, we need to require heightened pleading and specificity for a patent infringement claim. I think we need to take into account all the factors that I discussed. Right. We have to weigh and take into account the burden on the plaintiff, their access to information, and really trying to avoid over pleading of marginally relevant claims to make sure that our litigation process is streamlined.

Mr. FORBES. But did you previously state that you felt that H.R. 9 struck the right balance between placing burdens on the patent owner and the need to provide adequate information for defendants.

Ms. LEE. What we said is we generally agree with the heightened pleading requirements in H.R. 9, including an element-by-element explanation of how the product infringes a claim. But on the issue of the claims and which claims are required to be pled with specificity, at least one, and beyond one we should definitely weigh factors.

Mr. FORBES. So it's your position today that you haven't changed your policy. That's always been your policy?

Ms. LEE. Correct.

Mr. FORBES. So you don't think that more information for defendants to adequately address the claims asserted would help improve the patent litigation system?

Ms. LEE. More information would help, and certainly requiring heightened pleadings for at least one claim is an improvement. And the question is is that enough, and you need to take into account the other factors of determining. It's a balance. I mean, there are many competing factors, and we want to be fair to both the plaintiffs and defendants.

Mr. FORBES. Now, as someone with extensive background in the technology industry, do you think that the technology industry is unique compared with other industries such that tech companies are more vulnerable to patent trolls than other IT-intensive industries due to its unique ecosystem? Do you think the current patent system hurts innovation and the ability of U.S. technology companies to compete globally?

Ms. LEE. I think we have got one of the best intellectual property systems in the world. And now that I have had the privilege of having the job that I have and serving in it for 1 year and having the opportunity to meet with individuals in foreign countries who lead other intellectual property offices, they all want to know what we're doing in the United States to incentivize the innovation that we incentivize. All of that said, I think I feel an obligation, and I think all of us want to make sure that we continue ensuring that the patent system in the United States is as strong as it can possibly be, and I think that's why we're all here today.

Mr. FORBES. So you don't think that tech companies are more vulnerable to patent trolls than any other industry?

Ms. LEE. I think patent litigation abuse can occur in a variety of industries. It's not limited to any one. So as we craft proposals, we want to craft proposals that are not industry-specific and that are just good policy.

Mr. FORBES. Do you think in your analysis that the problems surrounding abusive patent litigation are the result of certain plaintiff-friendly judicial districts?

Ms. LEE. The question one more time?

Mr. FORBES. Yeah, do you think that the problems surrounding abusive patent litigation is the result of certain plaintiff-friendly judicial districts?

Ms. LEE. I think the system would benefit by consistency across all Federal districts.

Mr. FORBES. What can Congress do to send a better message to those districts to get that consistency?

Ms. LEE. All the issues that you're considering in H.R. 9.

Mr. FORBES. Okay. Thank you, Mr. Chairman. I yield back.

Mr. ISSA. Would the gentleman yield?

Mr. FORBES. I would be happy to.

Mr. ISSA. I want to follow up on what Mr. Conyers said about, and your response on heightened pleading briefly. If I understood correctly, you're saying well—and without discovery sometimes it's hard to know what the, the product in the patent in suit is really about. In other words, you don't know enough about the defending product. Is that what you said, that would affect your heightened pleading in the beginning of the case?

Ms. LEE. I think before you've conducted discovery, it's very hard to know all the claims that will be infringed or will be the cause of an infringement.

Mr. ISSA. Sure. But let me just be the devil's advocate for a moment. Let's assume for a moment you have the leave to amend when you discover more about the product than you knew in the beginning, and let's assume that you have the leave to add additional claims. But, as a basic concept, shouldn't you know everything about what your patent means on the day you file? In other

words, in the heightened pleading one element is, you say this is what my patent means, which is what you live and die by whether you're overly broad and thus invalid based on prior art, shouldn't that be part of the heightened pleading early on so that you're held by the breadth or the narrowness of your claim? And don't you know all there is to know about your patent at the time that you file?

Ms. LEE. So, yes, Mr. Chairman, as the patent owner I know everything about my patent claim hopefully, or I should. But what I don't know is how the alleged infringer's device may work. Many of these devices——

Mr. ISSA. Sure. And I know we'll get back to that. I was taking a limited amount of time. I just wanted to say that from a standpoint of—often what happens is the breadth of a claim by the plaintiff, widens and narrows through discovery and even morphs leading up to the last days of the Markman. So from a heightened pleading, I believe the bill intended—and Ms. Lofgren may follow-up on this—intended to both have you disclose what your patent means and then, of course, what you believe the product does. I was only asking about the former part of it, which is, as you said, you do know all about your product on the day that you filed.

Ms. LEE. You should know about your patent.

Mr. ISSA. Thank you. Your patent. Thank you. Ms. Lofgren.

Ms. LOFGREN. Well, thank you very much. And, Ms. Lee, it's great to see you here. And just a quick report, the Silicon Valley office that you left to come here to Washington is proceeding apace, and we hope to have it open toward the end of this year or early next; so thank you for the leadership that you showed. You really got it off to a great start, and the people that you have selected to follow through on it are following your lead. So I didn't want to go further without thanking you and the City of San Jose for what they are doing to make this all possible.

I had a couple of questions that have really been asked, in one case a proposal made to me by somebody in the Valley on demand letters. Now, in the bill we're doing a study of demand letters. It was suggested to me by an engineer that if we simply required all the demand letters to be posted and searchable, that that would have a very positive impact in terms of abusive demand letters, and it would allow people who are being victimized to actually find each other and solve problems together. What do you think of that idea?

Ms. LEE. That's an interesting question. And, in my prior life I did a lot of patent licensing. And, I think you have to be careful. I mean, on the one hand, transparency and identifying who the senders of large volume, vague patent claim demand letters is helpful, because if you see somebody else who has been on the receiving end of that, you can perhaps work together, et cetera. On the other hand, if I'm a legitimate business. I've invented something, and my business is licensing, you know, I oftentimes put some confidential information, some business information in there; and I'm not so sure I would want everybody to see all the financial terms that I'm offering one particular recipient of a letter. So I guess it depends what is being put in the database; would there be portions redacted and what the problem is that we're trying to solve for.

I do believe that transparency and patent ownership information is helpful. At the time you're doing a design of a product, you should know who owns government-granted monopoly rights and make intelligent and informed decisions at that time.

Ms. LOFGREN. Would you just think some more about it and ask around the office? I know that there is a small business education outreach information provision that requires posting of the filings. You know, I just promised this engineer I would raise it, and it sort of intrigued me as a sort of non-legalistic approach, although the issue that you have raised, I certainly do understand that it maybe would preclude it.

I want to ask another question. In 2010 the University of Michigan School of Law had a law review article trying to assess the number of patents per product by industry. And what they found or reported was that the average number of patents for a pharmaceutical drug is about 2.97 with a median of two per product and that the number of patents covering a drug varied from therapeutic classes from 1.79 to a high of 4.23 per drug.

So in 2012, there was a study by another group that concluded that there are around 250,000 active U.S. patents relevant to smart phones, and I think other hardware-software products are similarly situated. Now, I think as we think about patent reform and litigation reform and how it hits, we need to think about startups. We need to think about the pharma-biotechnical industry, the technology industry, and we value all of those elements of our economy. The discrepancy, though, between the number of tech patents and BIO patents makes the business completely different and makes IT products particularly vulnerable to abusive efforts.

Now, the TRIPS agreement requires that patent rights be enjoyed without discrimination as to the place of invention, the field of technology, and whether products are imported or locally produced, but it doesn't say anything about the number of patents per product. I've been thinking, what would you think about an approach that made distinctions in remedies between products that have less than 10 patents versus more, as a way to kind of preserve the value for different industries without violating TRIPS?

Ms. LEE. Well, that's a very interesting proposal, and I think it's the first I heard of it, but it's probably worthy of some consideration; and let me get back with you on that item as well. I think that's a very interesting idea because if nothing else, it's clear and it's simple; and it goes to the issue that there are fundamental differences amongst technology sectors, but it also goes to the value of the patent for a product in one industry versus another, which seems to be a lot of the tension in some of the proposals we're considering. So I think that's worthy of consideration. Absolutely.

Ms. LOFGREN. Thank you. I look forward to hearing your further comments.

Mr. ISSA. I thank the gentlelady. We now go to the gentleman from the State that candidates in both parties seem to be flocking to, Mr. King.

Mr. KING. Thank you, Mr. Chairman, and Director Lee. Thanks for your testimony. I think your responses have been very well done and on point here today. I'm very respectful of anyone who can emerge in the patent business, especially as a patent attorney

and then given that there's so much knowledge base that has to be encompassed to be able to do a real job with this, with all of the other disciplines plus the legal discipline added together, and I just don't want that to be lost on this Committee or the people that are watching this hearing today.

So these questions get complex and intricate, and there are a few patent holders in this Congress that focus their attention on this a great deal. And I would just ask you to give me a broader description if you could. If you have a sense of what it costs to establish a patent and get it commercialized?

Ms. LEE. Yes. In my prior life I was head of patents for a company, and we filed for a lot of patents, and it does vary somewhat by industry. And certainly I would imagine in the biotech and pharmaceutical industries that there might be some additional costs because you do additional searching to determine more fully what has been done before.

The most expensive costs for filing for a patent are not necessarily the USPTO filing fees. Those fees are relatively modest. It's really the attorney's fees, so the attorney's fees for writing the application, for conducting, interacting with the USPTO, and then another big variable is the cost in how much you spend on doing a prior art search. So when you add those pieces together, that's the actual cost of getting a patent; and after that you have to pay certain fees to maintain it.

To commercialize it, I mean, you have your business people writing letters, reaching out to various licensees and whatever cost that is, and if you have to enforce it in patent infringement in order to get the licensing revenue, average cost of litigation in patent litigation it ranges from on the order of millions on up. Right. So it's an expensive endeavor to litigate. But to get the patent, it's relatively modest, more modest, and hopefully that answers your question.

Mr. KING. Typically, if we were talking about to get the patent and to commercialize, would we be looking at a figure typically under or over $100 million?

Ms. LEE. Under or over how much?

Mr. KING. Under or over $100 million.

Ms. LEE. Oh, less than that. I mean, it varies. To get a patent, maybe it is $20,000 including the attorney's fees. I am just ballparking right now. And then after that, to commercialize it, depending on whether or not there is litigation, on the order of millions, right. $100 million is a lot of money.

Mr. KING. Yes.

Ms. LEE. So, I think in some instances, absolutely, probably that number could be hit. But I wouldn't think in most instances.

Mr. KING. Mr. Chairman, I have a letter here in my file that has about 15 cosigners on it that stipulate some of these costs. I would ask unanimous consent to enter it into the record.

Mr. ISSA [presiding]. All 15 will be entered without objection.

[The information referred to follows:]

April 13, 2015

The Honorable Charles E. Grassley
Chairman
Committee on the Judiciary
U.S. Senate
Washington, D.C. 20510

The Honorable Patrick J. Leahy
Ranking Member
Committee on the Judiciary
U.S. Senate
Washington, D.C. 20510

The Honorable Robert W. Goodlatte
Chairman
Committee on the Judiciary
U.S. House of Representatives
Washington, D.C. 20515

The Honorable John Conyers, Jr.
Ranking Member
Committee on the Judiciary
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairmen Grassley and Goodlatte and Ranking Members Leahy and Conyers,

We write as leading agricultural companies and producer organizations to urge caution as the Congress considers changes to the U.S. patent system. There is a concern that the *Innovation Act*, as currently drafted, will discourage investment in modern agricultural tools important to rural America by making patent rights more difficult to enforce and more challenging for companies and universities to cross-license agricultural technologies.

Agricultural innovation depends upon clear, predictable, and enforceable patent rights. Without these patent rights, new products used to produce healthful food, protect crops, preserve the environment, and improve human & animal health will be more costly to develop. Companies and universities expend tremendous resources to research and develop economically and environmentally beneficial technologies to help feed, fuel, clothe, and heal people and animals. But developing new products is a slow, uncertain, and expensive process. It can easily take a decade or longer and more than $100 million to commercialize a single product. Strong patents are critical to ensure a return on investments of time and money, which in turn supports future investments in the industry that directly benefit American agricultural producers.

Given the critical role that innovation plays in modern farming, we urge Congress to carefully consider the impact of any changes to the patent system on the agricultural community. We look forward to working with you and your colleagues to ensure that any changes to the U.S. patent system are narrow, targeted, and drafted to avoid damaging agricultural innovation.

Sincerely,

Agricultural Retailers Association
Agrivida, Inc.
American Farm Bureau Federation
America Seed Trade Association
American Society of Sugar Beet Technicians
American Sugarbeet Growers Association
AquaBounty Technologies
BASF
Bayer CropScience, LP
Beet Sugar Development Foundation
Biotechnology Industry Organization
Chromatin, Inc.
Dow AgroSciences
DuPont
Eli Lilly and Company
HM.CLAUSE, Inc.
JoMar Seeds
Monsanto
National Corn Growers Association
National Cotton Council
National Council of Farmer Cooperatives
National Milk Producers Federation
National Sorghum Producers
Novozymes
Syngenta US
U.S. Beet Sugar Association

CC: Senate Committee on Agriculture, Nutrition, and Forestry
House Committee on Agriculture

Mr. KING. Thank you, Mr. Chairman. Returning to our witness, I appreciate that testimony. And I also would state that in some of the discussions I have had with patent holders, I have seen those numbers go up to 7-,$800 million, or even $1 billion in the extreme cases that are extensively litigated. So I am concerned that it is getting more and more difficult to establish a patent, and that this great creative country that we are is losing its international edge. Do you think that this bill helps our international edge that we have traditionally held since the time of the founding of the republic? Or does it, perhaps, diminish our edge?

Ms. LEE. So I do believe that the issues in this bill are critically important, that Congress needs to act. And some of these issues that we are considering in H.R. 9 are what is needed to make sure that our IP system continues to incentivize innovation.

Mr. KING. Thank you. And then I see also that the bill allows defendants to join other parties, or other parties to join the defendant and the distribution of the loser pays component of this. Would there be any reason for plaintiffs not to be able to also have that same opportunity?

Ms. LEE. The attorney's fees shifting provision should apply equally to plaintiff and defendant. So if you are a plaintiff and you have pursued a case too aggressively, and you lost and the other side won and won fees, you should pay. If you defended too vigorously, then you should also be required to pay.

Mr. KING. I appreciate your testimony. And that concludes my questioning. And I would yield back the balance of my time.

Mr. ISSA. I thank the gentlemen. And we now go to the gentlelady from Texas.

Ms. JACKSON LEE. Thank you very much, Mr. Chairman.

Mr. ISSA. Ms. Sheila Jackson Lee. I am sorry.

Ms. JACKSON LEE. You had a moment?

Mr. ISSA. I had a moment and I got the Texas—you had just come back and I——

Ms. JACKSON LEE. I was in the anteroom here.

Mr. ISSA. Well, you were missed.

Ms. JACKSON LEE. Thank you so very much.

Mr. ISSA. The gentlelady is recognized for a full 5 minutes.

Ms. JACKSON LEE. As you know, Mr. Chairman, we do double duty with our constituents, and we must be in a number of places. So thank you for your courtesy. Let me thank our witness for serving our Nation, and particularly let me thank you for the many in the patent bar who have indicated that they have found the Patent Office to be responsive and sensitive under your leadership. So, again, we appreciate very much your service. Thank you so very much. Can I just start with your assessment of this bill. Are you and the Administration supporting it in its present form?

Ms. LEE. In my written testimony, I think we have gone through sort of issue by issue the areas that we support, where we think other considerations might be taken. We are generally supportive of the goal. And many of the issues here, in one form or another, we believe are necessary to ensure meaningful and balanced reforms necessary to continue to incentivize innovation in the United States.

Ms. JACKSON LEE. I think that is a very important point. I am going to have a series of questions. I know the Chairman is listening intently, that it will be important as we proceed with a markup.

Mr. ISSA. And the sooner the better.

Ms. JACKSON LEE. That we are open to the concerns expressed in your testimony and some of the concerns that we will be expressing as we go through this. Let me ask the Chairman to allow me to submit into the record a letter from the Texas Bankers Association, I am submitting it as a Texan, and on April 13, 2015, to let the Texas Bankers Association know that we are concerned of their issues and we will discuss the merits of the issues, but we are concerned of their issues. Ask unanimous consent to put this letter into the record.*

Mr. ISSA. The letter will be placed in the record without objection.

Ms. JACKSON LEE. Thank you very much. Let me just ask, Ms. Lee, on the issue of an increase in abusive patent litigation, whether or not you believe it has been and how the abusive patent litigation has harmed inventors and innovation? And specifically, do you see this legislation mitigating that?

Ms. LEE. This legislation with the various proposals I think will go a good part of the way to helping to curtail abusive patent.

Litigation. But I think change will occur throughout our system; you are already seeing the courts through the court rulings, including on issues on attorney's fees, including on issues on what is patent-eligible subject matter, making improvements to the patent law. You are seeing the USPTO implementing the post-grant review proceedings which allow parties to remove patents from the system that should not have issued. You are seeing the USPTO focus on patent quality.

So, all the pieces and all the stakeholders in the patent ecosystem really need to work together. And legislation is a necessary piece of that.

Ms. JACKSON LEE. Let me quickly move to my next question. Thank you very much. I have always raised the question of the impact of legislation dealing with innovation and patents on small businesses. So I specifically ask whether H.R. 9 would assist new and small businesses that often lack the resources to defend themselves in these very complex and expensive lawsuits.

Ms. LEE. Right. So in H.R. 9, I think a provision that would be helpful to small businesses in particular is the customer stay provision. This is meant to protect the end user and retailer. So, for example, in the case of the Internet router and the coffee shop, often times the retailer or the end user is a small business. So I think there are protections to be had there for the smaller businesses and so forth. But a lot of the changes that we are talking about in the patent system, making sure that discovery is streamlined; making sure that there is heightened pleadings so everybody knows roughly what the case is about, and ensuring that there is fee shifting where there is behavior that exceeds that's what should happen or

*Note: The submitted material was not received by the Committee at the time of the printing of this hearing record on June 25, 2015.

overly aggressive behavior, pursuing claims overly aggressively, whether you are on the plaintiff side or the defense side. All of those have benefits, I think, to players big and small.

Ms. JACKSON LEE. Let me follow up with this question and specifically go to the USPTO's enhanced patent quality initiative. As I often hear, there needs to be improvements made to the quality of the patents at the Patent Office. And so I want to ask whether this initiative has improved patent quality? Are there additional steps that Congress should take?

And then specifically, I want to ask if you would comment on whether H.R. 9 properly assesses the kind of research that is done in universities, particularly those that have institutes, who have a number of endowed chairs, where there are professors who are designated, or teams that are designated specifically for very sophisticated research to be produced. It comes to mind the universities in my community, but particularly M.D. Anderson, not an institute, a university, but it is very much engaged in research among other hospitals that we represent in the area. So would you respond to that please.

Ms. LEE. We certainly need to do all that we can to continue to ensure that our universities are an engine of innovation. And I think the changes that we are contemplating in H.R. 9 give everybody confidence in our patent system. If we can make these improvements and we can achieve them and we can achieve the necessary changes in legislation and beyond, to the extent that everyone has greater confidence in the patent system, that will benefit universities, that will benefit businesses and so forth.

And with regard to what the USPTO is doing in terms of enhancing quality, I could probably go on and on on that topic. But just let me just say that we have launched an enhanced patent quality initiative. We had a 2-day summit where we are looking at everything, internally, externally. We have engaged stakeholders. We had over a thousand participants. I have appointed a deputy commissioner for patent examination quality to focus on patent quality now and in the future. And I have to say the funds that we have received, because Congress has given us the right to set our fees and we are now able to, for the most part, collect the full amount of our appropriated fees and keep it and have an operating reserve, make a huge difference in terms of USPTO's ability to be able to focus on initiatives really long-term, deep initiatives that cost money, like the patent quality initiative.

Mr. ISSA. I thank the gentlelady.

Ms. JACKSON LEE. Thank you. And I will just put this on the record for your contemplation. I hope as we proceed, one of the issues that I mentioned to the patent director, I am very interested in small and new businesses. I really want to see an emphasis through this legislation. And specifically as well, universities I think need to be addressed. Those are the innovators, the next level of innovation in America. So I thank the gentleman for yielding to me and I yield back.

Mr. ISSA. I thank the gentlelady. We now go to the next person from Texas, the gentleman from Corpus Christi, Mr. Farenthold.

Mr. FARENTHOLD. Thank you very much, Mr. Chairman. Ms. Lee, we have heard a lot of discussion about discovery. And one of the

solutions that has been batting around is a stay of discovery pending a motion to transfer venue. In your opinion, is that a good idea?

Ms. LEE. I think that is an idea that is worthy of consideration. And there is a lot of merit to it for a couple of reasons. One is that a motion to transfer occurs early on in a patent litigation case. Oftentimes, it doesn't take long for a judge to rule on it. And it doesn't involve extensive discovery on the substance of the patent case. So the claim construction, the infringement, any of that, you don't have to touch that. It is oftentimes where is the principal place of business? Where do they have an R&D center? Do they have ties to the area? So staying discovery pending transfer, ruling on a motion to transfer perhaps in combination with the venue restrictions and tightening that might be a good combination in terms of really helping and improving the system overall, whether it be discovery or other abuses that may be occurring.

Mr. FARENTHOLD. Right. Now, I have, heard a lot about how IPR supposedly knocked out nearly 80 percent of claims. But looking at the USPTO website, I noticed this chart from earlier this year, that out of 9,000 claims challenged, 2,200 had been found unpatentable, which is far less than 80 percent. What am I missing here? Is the kill rate of IPR being dramatically overstated?

Ms. LEE. Well, thank you for the question. And, you know, I think at the USPTO, we keep track of the statistics. And you can characterize statistics however you would like. Some may say it is a lot; Some may say it is not a lot. But the bottom line is our judges work very, very hard to work on each and every single case. And they look at the facts and they look at the record and they apply the law in as accurate a manner as possible, given the case and the record. And I would like to say that the good work so far, knock on wood, all of the cases that have come out of the Patent Trial Appeal Board when they have gone up on appeal have been affirmed. So we hope to keep up that good record. And we will let the statistics fall where they may.

Mr. FARENTHOLD. All right. Great. As someone who supports the BRI standard to weed out weak patent claims, I would also be interested in finding out ways to alleviate some of the concerns so that we can preserve it. Is there a reason that amendments have largely not been allowed to claims, according to some of the interested parties, at least that is what they are saying? And is there a fix in place to help deal with this concern? Also, to use district court construction. And can you tell me why it is important to repeal the right to amend?

Ms. LEE. Yes. Thank you very much for the question, Congressman. And the issue of amendment is an issue that came up when we went on that eight-city listening tour as we evaluated the Patent Trial and Appeal Board proceedings. And we got a lot of input on that. And that is one of the issues that we are looking at, which is we are reviewing the procedures and the requirements and even the page limits that are permitted in filing a motion to amend. So we are looking at everything. And we want to make sure that it is as flexible and as effective as possible.

Mr. FARENTHOLD. Great. You got all my questions in record time.

Mr. ISSA. If the gentleman would yield.

Mr. FARENTHOLD. I would be happy to yield.

Mr. ISSA. Because I think Mr. Farenthold asked a great question and I would like to follow up on it. If I apply for a patent and I fail to disclose all the inventors, I could have an invalidity problem. If I fail to disclose known prior art, I can have an invalidity problem. If I fail to honestly state any number of items, the patent is invalid. If I claim a broader claim than I can have, and I then take that forward and sue somebody, why wouldn't that be another wrongful act that would essentially invalidate the claim? In other words, following up on the gentleman's statement about amendments, when is it too late to amend?

Is it too late to amend while you are going through the process of applying for your patent? Of course not. Is it too late to amend once you have asserted a very broad claim that really doesn't exist and you are now trying to save your patent, either before an Article III court or before the USPTO? If you touch on that, it is important to us because we are looking at legislation and we want to know do you have the tools and do you think it is an appropriate balance today?

Ms. LEE. Obviously, during the application process, you can always pull back on your claims. After the patent issues, as a patent owner, through supplemental examination, you can always put your patent back into that process, put it back before the USPTO, introduce prior art and——

Mr. ISSA. You can reexamine your own patent?

Ms. LEE. Exactly.

Mr. ISSA. But if, in fact, you go before an Article III court and you expand the meaning of your patent dramatically, and then once they accept that, if that is true, then, in fact, there is lots of prior art, should you be able to amend your assertion at that point?

Ms. LEE. One more time?

Mr. ISSA. Everybody goes through a patent process and they narrow and narrow and narrow what their patent means. As soon as they receive a patent, they almost always think that it is a pioneering patent with broad everything when they look at their competition. Historically, the Article III courts have been inconsistent on whether or not you have hoisted yourself by asserting a broader claim than you should. Because of the heightened pleading that we are asserting, what level of accountability should entities have when they receive a patent by saying I am fairly narrow, just give us a simple patent, and then they assert it against others and broadly claim that you violate their patent even though you are much beyond what they actually claim?

Ms. LEE. Thank you for clarifying that question. There are rules in the Federal Rules of Civil Procedure which require you to make your assertions in good faith after due diligence and so forth. So if you don't have a basis for bringing the lawsuit, it is not grounded upon actual diligence and investigation, and then later on the discovery that you get about the allegedly infringing product, then you are asserting the case in bad faith.

And I want to go back and correct one thing. I believe with regard to go to supplemental examination, you cannot invoke it at any time. I believe that if there is an IPR proceeding going on, you can't actually take the patent out of that proceeding to supplemental examination. So I just wanted to clarify that as well.

Generally speaking, when there is not anything going on and you think the patent issued more broadly or maybe you are getting ready to assert it, supplemental examination is a tool created to allow you to make sure that your claims are solid.

Mr. ISSA. And I think, without trying to do your job better than your job, because you do it well, if you are in reexamination by a third party, you can supplement information. You can actually further say you are absolutely right and I have discovered something else. But you are right, you can't take it out of that for good reason. We now have the pleasure of going to the gentleman from Georgia next, Mr. Johnson.

Mr. JOHNSON. Thank you, Mr. Chairman. You make a good point, Ms. Lee, about needing to be specific, complaints, particularly. And if a complaint is not complete or is not legally sufficient, one can always file under Rule 12(e) for a motion for a more definitive statement, isn't that correct?

Ms. LEE. You can amend to clarify.

Mr. JOHNSON. Well, you can amend and you can force, a defendant can force someone to amend their complaint by filing a motion for a more definitive statement. And if that doesn't work, a motion for judgment on the pleadings. But you, in your testimony, you state that the USPTO supports the Innovation Act's limits on discovery, fee shifting provisions, and heightened pleading requirements. Although I might point out that as far as heightened pleading requirements are concerned, that only applies to a complaint filed by a plaintiff alleging patent infringement. It does not apply to a defendant who can generally deny, just generally deny the allegations set forth in a petition or in a complaint. Isn't that correct?

Ms. LEE. That is correct.

Mr. JOHNSON. And this legislation that we are here about today does not impose any heightened pleading requirements on a defendant, just the plaintiff. This heightened pleading requirement, it would make it harder and more costly for small businesses to assert their patent claims and, indeed, large businesses too, isn't that correct? And individuals, be they rich or poor, it would be more costly?

Ms. LEE. There would be additional obligations earlier on with the goal of streamlining discovery.

Mr. JOHNSON. It would make it tougher for the plaintiff. But the defendant would be left to just generally deny and to continue to infringe if, in fact, the allegations of the——

Ms. LEE. Well, I think there are benefits here to the defendant as well. The fee shifting provision is party neutral. And even——

Mr. JOHNSON. But the defendant already has the ability to hold the plaintiff accountable under Rule 11 for fees for abusive litigation, isn't that correct?

Ms. LEE. I am sorry, the question was?

Mr. JOHNSON. The defendant already has the ability to hold the plaintiff accountable for attorneys fees and costs under Rule 11 should the complaint be found to be vexatious, or not in good faith or for a number of other reasons.

Ms. LEE. If it rises to that level, if it rises to the level of not meeting Rule 11 requirements?

Mr. JOHNSON. I think it is pretty well known that under Rule 11, courts can award attorneys fees and costs to defendants to punish plaintiffs from bringing frivolous lawsuits.

Mr. ISSA. Would the gentleman yield?

Mr. JOHNSON. Yes, I will.

Mr. ISSA. Briefly, I believe Rule 11 is against the counsel, the attorneys for their actions. And this is slightly different than what we do in the bill. But I know the point you are making.

Mr. JOHNSON. Attorneys and parties can be held accountable under Rule 11. Let me ask this question, ma'am: The Supreme Court decided six patent cases in 2014, including the *Alice* case and the *Octane Fitness* case which make it easier for district courts to award attorneys fees and costs to prevailing parties in meritless cases. And the judicial conference has adopted rules to raise pleading standards in patent cases to match those in all Federal cases. And, in addition, the America Invents Act, which was the largest overhaul of the patent system in half a century, has only been fully implemented for 2 years. And the AIA's new post-grant inter partes review procedures are proving very popular as a litigation alternative. So shouldn't we wait to assess the impact to the patent system of these new measures over the past couple of years before we put our thumb on the scale and tip the scales in balance of patent infringers?

Ms. LEE. Thank you very much for the question, Congressman. You are right, there are a lot of changes that are going on in the patent system now. But we still need the legislative reform on a handful of issues because these are issues that only Congress can address. And any change that Congress addresses needs to take into account the changes in the courts, the changes at the USPTO, the procedures we are implementing and so forth so that we collectively and comprehensively have meaningful and balanced reform.

Mr. JOHNSON. Thank you, Mr. Chairman.

Mr. ISSA. I thank you. We now go to the gentleman from Idaho, who has been patiently waiting, Mr. Labrador.

Mr. LABRADOR. Thank you, Mr. Chairman. Ms. Lee, thanks for being here. The Federal Circuit recently decided in the case of In Re: Cuozzo Speed Technologies, which you are very familiar with, and in that decision, the majority determined that because Congress enacted the AIA with full awareness of the 100-year-old tradition at USPTO of applying the broadest reasonable interpretation, or the BRI standard, and gave no indication that a different standard should obtain, they decided that the BRI should continue to apply in IPR decisions, correct? That are coming before the board? Do you agree that legislative ratification compels application of BRI in board reviews of patents in different review proceedings?

Ms. LEE. So the application, when the USPTO implemented these post-grant review proceedings, we implemented it with the BRI standard and not the district court claim construction. The idea is that in the proceedings before the Patent Trial and Appeal Board, we have the ability to amend claims. And oftentimes when you have the ability to amend, it is in the public interest, in terms of improving quality, to come to the applicant or the patent owner with as much prior art as possible and say you tell me how your

invention is different from the prior art. So that was the thought behind it.

And we are grateful that the Federal Circuit said that we were within the congressional intent. And all I would say is that if there is a change to district court claim construction from the broadest reasonable interpretation, that we revisit the issue of whether or not amendments should be permitted. If we are applying district court claim construction, then there shouldn't be an ability to amend.

Mr. LABRADOR. That was going to be my follow-up question. What else should we be looking at?

Ms. LEE. Besides?

Mr. LABRADOR. Besides what you just said with respect to allowing amendments in?

Ms. LEE. Well, we are looking at many other aspects of the Patent Trial and Appeal Board proceedings. We are looking at the ease and the ability for litigants to amend. We are looking at how we staff the trials with the judges, whether you get the same three-panel of judges at the time of institution as well as determining of the merits. So we are really revisiting and trying to improve everywhere we can to make sure that those proceedings are more efficient and more fair, at least within the congressional mandate to the extent that we can.

Mr. LABRADOR. And are you advocating for eliminating the BRI standard?

Ms. LEE. Not advocating. All I am simply noting is that it is a quality issue. I mean, the broader the pull of prior art that you bring before the applicant or the patent owner, you put upon them the opportunity to hem in and tighten their claims. But whichever way Congress deems is best appropriate as far as standards go, we would apply it. But just keep in mind that the standard oftentimes is related to the ability to amend.

Mr. LABRADOR. Okay. You have no position. You are not advocating for a change. And you wouldn't be recommending that we don't change it?

Ms. LEE. For consistency purposes, I mean a lot of our proceedings at the USPTO are conducted using the broadest reasonable interpretation, during examination, during a lot of our other proceedings. So it would be a little odd, too, if we had a patent or a claim being construed in a different proceeding, that is being construed under broadest reasonable interpretation. But under the PTAB proceeding, it is being construed under district court. So there is a possibility of an inconsistency there.

I also flagged the quality issue. But these are multifaceted issues. And you have to take into account competing interests.

Mr. LABRADOR. Thank you very much. I yield back, Mr. Chairman.

Mr. ISSA. I thank the gentleman. We now go to the gentlelady from California, Ms. Chu.

Ms. CHU. Director Lee, first I would like to congratulate you on your confirmation as USPTO's new director. As one of your first acts, you launched an initiative to enhance the quality of patents that are granted. I am so glad to hear this, because we often hear about the problem of vague or overly broad patents. Could you talk

about the core elements of the enhanced patent quality initiative and what you are trying to achieve? Also, I know that this is one of several actions taken administratively to address potentially frivolous patent litigation, and you have stated that legislation is still necessary to fully tackle abusive patent litigation. Could you address that as well?

Ms. LEE. Yes. Thank you very much, Congresswoman Chu, for the question. I launched the enhanced patent quality initiative last fall. And now is the time to really, for the USPTO, to focus on patent quality. We have always had it as a priority. But when your backlog and pendency are going up and up, it is your first duty to make sure you get that under control. And I have to say recently, our backlog and pendency numbers have gone down. And they continue to go down. And we will continue to drive them down.

And in light of all the discussion we are having here today about the importance of patents and the abuses in the system, it is even more incumbent on the USPTO to issue the very best quality patents possible. So we are looking at a bunch of things. We have three pillars. One is making sure that we have excellence in the quality of our prosecution. Second is we make sure that we have excellence in customer service, of course. And the third pillar is that we have excellence in terms of measurement of patent quality. And that is not such an easy thing to address. But we are engaged with stakeholders. We are getting lots of ideas from our own internal examiners. We are going to gather all the ideas and everything is on the table. And that which we can implement, we will do. That which will take longer, we will also take a look and make sure we take steps to do it to the extent we can.

So, that is the patent quality initiative. I am very excited about it. I can go on much further. But I also want to get to your second question. The second question was with regard to frivolous litigation and sort of is it still necessary in light of all the changes. And as I have said, I think it is. I mean, there are only certain things that Congress can do. You have the ability to establish uniformity across this country where there are variances in district court application of law.

So we have law from the Supreme Court on the issue of attorneys fees. And it is being applied, in some cases, varyingly over the various different district courts. So I think it would help to have legislation, for example, in that area for uniformity. That is just one issue. Discovery, heightened pleading also as well. So there is still a need.

Ms. CHU. In fact, that brings me to my second question. Many of us here are concerned about the downstream users of products. Oftentimes they receive demand letters alleging patent infringement, even though they had no part in manufacturing the product. You state that there is a growing need for a national approach to demand letter regulation, and that at least 18 States have enacted laws on this matter.

Could you discuss what effect this patchwork approach may have on stakeholders who use and rely on patents? How is compliance more difficult? And how different are the State laws from one compared to the other?

Ms. LEE. Thank you very much, Congresswoman Chu, for that question. I was on the business side, in fact, I did a lot of patent licensing in my prior life. And if, for example, a business has invented something, files for a patent, and their business model is to license patent technology rather than to manufacture it, think about it, if you have to go into 50 States and reach out to potential licensees in 50 States, but before you do that, you need to consult the regulations in each of the 50 States to determine to make sure that your letter, reaching out to that business, complies with that State's laws, that is rather inefficient. I am not saying they are different in all 50 States. But I did have my office conduct a study of the legislation that had passed and some of the pending legislation. And while there is a fair amount of commonality, there are quite a few differences. So that is why, I think, an even greater need for a Federal standard that is clear, if nothing else, as a business matter.

Ms. CHU. And, finally, you stress in your testimony that with regard to customers' stay, customers should be bound or should be required to be bound by the outcome of the manufacturer's case. Why do you believe that this should be the case?

Ms. LEE. I think that is only fair because if you think about it, you are a patent owner, you have now stayed your case against end users and retailers while you are litigating a case against the manufacturer. Let's say you get the ruling you want. You shouldn't have to re-litigate that case, the same issues, against every end user and every retailer. That is just simply unfair. So we are trying to both be fair to the patent owner, but also conserve judicial resources. That is not an efficient use of our very limited, very precious judicial resources.

Ms. CHU. Thank you. I yield back.

Mr. ISSA. Could the gentlelady yield to me for a follow-up question?

Ms. CHU. Certainly.

Mr. ISSA. In your case, though, if the manufacturer loses, you are envisioning that the fees wouldn't come from the downstream anyway, because you only collect once. So your assumption is the indemnification inherently goes with the damages provision, that if you collect from the manufacturer, you have no further collection from the retailer possible.

Ms. LEE. Yes. Under patent law, you can only collect once. You cannot collect multiple times downstream.

Mr. ISSA. So there is an inherent indemnification in this process, would you say?

Ms. LEE. I am not sure what you mean by indemnification.

Mr. ISSA. Well, if you take on the case, the manufacturer, and you win, then there is no fee. And if you lose, then, by definition, you are going to pay the damages on behalf of that product that was originally sued, is that right?

Ms. LEE. I think that is right.

Mr. ISSA. I think that sort of brings an answer to your question. I now would ask unanimous consent that letters from Mr. Conyers: a coalition letter from PhRMA, BIO, and others; a letter from the agricultural companies and organization; a letter from the Big 10 universities; a letter from several conservative groups; a letter from

the Eagle Forum; a letter from the Federal Circuit Bar Association; a letter from the American Universities; a letter from USIJ, the Alliance for U.S. Start-Ups; a letter from the Medical Device Manufacturers, MDMA; and a letter from the Innovative Alliance be placed in the record.**

Without objection, so ordered. As long as I am doing Mr. Conyers, I would ask unanimous consent that the excerpt page from Popular Mechanics, March 1951, Page 158, be placed in the record, in that it congratulates America on the 2,500,000th patent which was granted in March 1951. And it includes some key information on milestones and the speed and acceleration of innovation throughout the 18th and 19th and early 20th centuries. Without objection, so ordered. We now go to Mr. Deutch.

[The information referred to follows:]

**Note: The submitted material is not printed in this hearing record but is available at the Committee and can be accessed at: *http://docs.house.gov/Committee/Calendar/ByEvent.aspx?EventID=103304*.

YOU SPEND six months or a year perfecting a can opener that not only works, but seems to have every similar device beat by a mile. You test it. Your wife and your friends test it. Everyone is enthusiastic and you begin dreaming about bundles of green bills. You spend another few hundred dollars and many hours perfecting your invention so that nothing can possibly go wrong.

Then—wham! You come down to earth with a bang. You discover that someone patented the exact device 39 years and 5 months before you thought of it!

That's the sad story that occurs all over the United States almost daily. Is there a way to prevent it? You bet there is—Uncle Sam's Search Room at the Patent Office in Washington is always "eager and willing" to save you time, money and heartaches. If you feel the urge to apply for a patent on the greatest can opener of all time, then don't do it before a search has been made through the files of the Patent Office. There are just about 1000 patents on can openers in the Search Room files and chances are that your brain child is a pretty old hag even if you think it's flushed with youthful freshness!

The Search Room, a monument to American ingenuity, is a high-domed chamber in Washington's Commerce Building. Its stacks today bulge with over 2,500,000 U. S. patents, with more being added weekly. Next to the inventor's own workshop, no other room in the world is quite so important to him as the Search Room. Here, he can learn how to avoid pitfalls and how to spot the paths along which the "pot of gold" may be found.

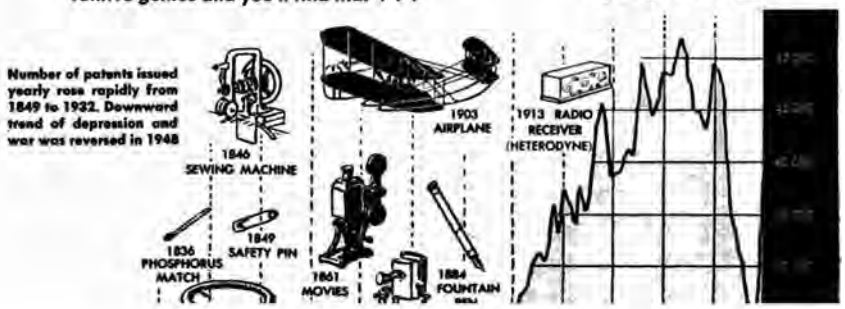
Head of the Search Room is soft-spoken Elton H. Brown, who has been on the job some 27 years, and has seen over 1,000,000 patents filed in that time. He warns inventors that, before applying for a patent, they should have a search made to make certain the alleged invention is not shown in some prior patent.

But even with the help of Brown and his staff, the job of looking for a particular device can be an all-day or all-week proposition. Take bottle openers, for example. About 1000 patents have been granted in 22 subclassifications. By the way, the Patent Office calls them "Receptacle Closure Removers."

If it's a wonderful idea for a spark plug that you have, take it easy—there are 1500

First stop of inventors is the Search Room of the U. S. Patent Office. Join the parade of inventive genius and you'll find that . . .

SOME



Mr. DEUTCH. Thank you, Mr. Chairman. Thanks to you and the Ranking Member for continuing the Committee's efforts to address abusive practices in patent litigation. And I think Director Lee for being here and offering her testimony and your expertise. From the start of this Congress, we continue to explore patent reforms that may be necessary to stop the well documented and abusive tactics of so-called patent trolls. And I have long agreed that we have to curb these abuses, many of which result from a lack of transparency. However, I also believe that Congress must take care not to push our system of patent litigation too far beyond the direction the courts are already taking it. Why? Because in every sector of our economy, the strength and the reliability of our patent system has helped drive investment and innovation.

Our goal must be to address the abuses of bad actors without undermining the work of all the good ones, the independent inventors, the medical researchers at our universities, scientists and engineers leading corporate research and development. And simply to highlight the work that is being done in 2013; 719 new commercial products were made available. And the net product sales arising from research through these products from U.S. universities, hospitals, research institutions, and Federal labs exceeded $22 billion annually.

That is what is at stake. And the goal in addressing the problems is a goal that is reflected by my own legislation, the End Anonymous Patents Act. My bill would help curb the abuses of patent trolls who often hide behind a web of shell companies and subsidiaries in order to avoid accountability. The End Anonymous Patents Act would require transparency of ownership and real party interest for new patents, patent transactions, and updated information as part of regular patent maintenance. These requirements would go beyond the transparency provisions in section 4 of H.R. 9, which are limited to disclosure requirements of plaintiffs who have filed infringement claims in court.

Now, Director Lee, in your testimony, you offer support for disclosure by those filing patent claims in court required by section 4 of the bill. Would you expand on some of the benefits from expanding transparency more broadly throughout the patent system.

Ms. LEE. Thank you very much, Congressman, for the question. And transparency of patent ownership information is something that the USPTO has looked deeply into and thought deeply about. And we believe it is a benefit to our overall ecosystem, the patent ecosystem. We had a number of round tables in 2013 and 2014 exploring the benefits of patent transparency, increasing patent transparency ownership information. And, basically, to the extent that businesses know who else have and hold government granted monopoly rights, at the time that they are making important design decisions, engineering design decisions, they can make a more informed decision.

If you know that your arch rival competitor has the way of doing a certain thing and you are never going to get a license, you are going to do a design-around. Or if you know it is somebody else and you can get a license, then that will inform your decision. You can make a better informed cost-benefit decision,rather than building the product, building the factory, selling the product, having the

product in channel, and then after the product is in channel, you find out it is infringing and then having to stop it.

Mr. DEUTCH. That is very helpful. I would like to shift gears for a second. You support the joinder and fee shifting provisions, you have spoken to that. You have also said that you want our universities to continue to be innovative. You recognize the contributions that they make. There are concerns that the universities have raised about losing funding and incurring fees when they don't control litigation. Can you address those, are you, is the suggestion that you are making or that the Administration is making that the concerns of the universities are unfounded? I would just like to understand it better.

Ms. LEE. Thank you very much for the opportunity to clarify it because that is certainly not what I meant. All I meant is that whether you are a university or you are a business, if you are investing in a company and that company engages in patent assertion behavior that is abusive, and later on fees are, they must pay fees, you have to be careful about protecting the passive investor. And whether that passive investor is a private company or a university, if they don't control or direct the litigation, we need to be very careful not to put them, or expose them to liability for some of the fee shifting.

Mr. DEUTCH. I only have a second left. I appreciate your saying that. The concern as it has been addressed by the universities is that this legislation would do exactly that. Are they wrong?

Ms. LEE. Which, provision would do exactly what?

Mr. DEUTCH. When you talk about the concerns for investors and what would happen if they are not, if they don't control litigation and ultimately the liability would accrue to them.

Ms. LEE. If universities are not controlling, directing the litigation, they, too, should be protected just as private, a passive investor should be protected, because we want to incentivize the universities to license their technology out. We want to incentivize investors to invest in companies and development of technology. So we do need to make sure we protect both passive investors or the situation where you have got a university and they are not actively controlling or directing the litigation, you need protections for those entities. Thanks for the opportunity to clarify.

Mr. DEUTCH. Thank you.

Ms. LEE. Thank you.

Mr. ISSA. I thank the gentleman. Now we go to the gentlelady from Washington, Ms. DelBene.

Ms. DELBENE. Thank you, Mr. Chair. And thank you, Director Lee, for being with us for so long today. We appreciate it. I just wanted to follow up on the past comments on transparency. The Innovation Act requires the plaintiff in a patent suit to provide detailed information about all interests in a patent. But I understand that the USPTO is currently proposing rules and holding some of the discussions you just talked about on procedures that might achieve a similar result through a different approach. So I wanted to get your feedback on any insights you have gleaned so far and your views on addressing transparency through rulemaking versus section 4(a) of the Innovation Act.

Ms. LEE. Thank you very much for that question. And we did do extensive stakeholder outreach on some of the transparency proposed rules that the USPTO has put forth, and basically concluded that, after reading a lot of input and talking to a lot of stakeholders, that it is really Congress is in the best position to enact rules on transparency, because you have better authority to ask for that kind of information at time of litigation. I mean, keep in mind the patent has already left the Patent and Trademark Office, oftentimes for many years. And we are not, we don't have a touch point with a patent after it leaves, except for certain very discrete points after it issues and maintenance fees are paid. But if you want transparency at time of litigation where there is potential for abusive assertion and even if you want transparency of patent ownership information before the assertion of the lawsuit, our view is that really Congress is in the best position to implement those laws and rules.

Ms. DELBENE. Thank you. I know you are preparing to open a satellite office in Dallas, I believe, later this year. I wondered if you could elaborate on the impact of having satellite offices on your ability to serve innovators, and do you consider opening any other offices or do you think this is a good way to help innovators in a local area.

Ms. LEE. I was the first head of the Silicon Valley satellite offices, Congresswoman Lofgren knows. And I am a huge fan of the satellite offices. And I think having the USPTO outside of the Washington, D.C. Area, in the innovation communities, reaching out to the small inventors, the small businesses who don't have the funds to fly out to Washington to participate in our round tables, to provide input on how what we do affects them benefits all of us.

So I could go on and on. But these satellite offices, as far as us being able to serve the American innovation community, better serving their needs and really enabling us to do the job as best we can are invaluable. And all I would like to say is with regard to additional offices, I get that question asked frequently, is that we are focused on getting those four up and running. And after we are done with that, then we need to make sure they are integrated into the work of the USPTO. And we went through a pretty rigorous process in selecting, we tried to choose across the country to get broad representation. And I think we have done a pretty good job.

Ms. DELBENE. So kind of following up on that, like myself, I know you spent time with start-ups earlier in your career. And there was a question asked earlier about small businesses. But, in particular, you look at it from the view of a start-up, how do you think the Innovation Act either benefits or gets in the way, maybe, of some of the work happening at start-ups and facilitating future innovation?

Ms. LEE. I think addressing the issue of abusive litigation is critically important to big businesses and small businesses. But I think it is really important for small businesses because coming from the start-up world, an average round of capital venture funding is on the order of several million. And patent litigations, one patent litigation in that same range, you can easily see how, if you are pulled into an abusive patent litigation, that could easily con-

sume basically all your resources for a round of funding or possibly two.

So I think it is critically important that we curtail abusive litigation where we can, as best we can. And that is for the benefit of both the small and the big, but especially for the small companies.

Ms. DELBENE. Thank you very much for all your time and feedback. And I will yield back.

Mr. GOHMERT [presiding]. Thank you. And we do appreciate your being here. I haven't been able to be here for much of the hearing. But, Director Lee, we appreciate your service. And as we have gone through bills in past Congresses, one of the common things we have heard over and over is we have got to do something about patent trolls. And as a former judge and chief justice, I would review the law and go this really doesn't address what we are being told it addresses. The patent troll issue still is alive and well. And so here we come back again. I am curious, what do you think would be the single biggest help to businesses, small businesses that are named as defendants who really unknowingly were using, for example, banks, processing checks, what would be the best way to, or the best item in any bill that you have seen to address that particular issue? I think the stay seems to be a big help. What is your opinion?

Ms. LEE. I think the customer stay is incredibly helpful. As I described, it tends to benefit the smaller players, the less patent savvy players. I also think that the Patent Trial and Appeal Board proceedings provide an attractive, cost-efficient alternative to district court litigation. And it can happen much more quickly than district court litigation. And if a patent is being asserted against you that should not have issued, with a little bit less discovery and a little bit less money and a panel of three technically-trained judges looking at the issue, you may have a solution to your problem.

Now, that is not a guarantee because, of course, it may not come out of a Patent Trial and Appeal Board, the allegedly infringed claim may not be invalidated. But I would also say that all the other factors working together are all needed. You need the heightened discipline in terms of the actions of the attorneys in prosecuting and defending these cases.

Mr. GOHMERT. Okay. But when we don't have that, then where do we go? The heightened discipline among the attorneys? That is why we are in the trouble we are in.

Ms. LEE. Heightened discipline, I mean prompted by things like attorneys fees and the shifting of attorneys fees.

Mr. GOHMERT. So a loser pays system?

Ms. LEE. What is set forth in H.R. 9. And then heightened pleadings also provides both parties greater information about the issues in the litigation and, therefore, streamline the discovery and the motions practice and so forth. So I think you really need a combination of many of those other pieces. But if I were to point to a handful that are particularly useful to small players, it would certainly be the end user customer stay. It would certainly be, for example, having available to them the Patent Trial and Appeal Board proceedings. And we have a patent litigation tool kit that USPTO has stood up where we pool together resources that all the patent

attorneys probably in this room have access to in their law firms and know how to get to that information, but if you are not a sophisticated and frequent user of the patent system, this is a single place where you can go to get some very, very basic information. We think that will help too.

Mr. GOHMERT. Do you see a shift from first to invent to first to file? Did you see that being any assistance in dealing with the patent troll issue?

Ms. LEE. I don't think that affects the patent troll issue so much. I think it goes to clarity of patent rights. And it also goes to harmonizing the system in the United States with the rest of the world. And there are important reasons for that. But it doesn't really go to the issue of abusive patent litigation.

Mr. GOHMERT. Well, we share that opinion. And that is why I was telling people making that change doesn't help the patent troll issue. But, anyway, we obviously have a lot of work to do. There are lots of businesses that suffer unnecessarily. And the last thing that I would want to do is eliminate the ability for entrepreneurs to be encouraged and be properly remunerated in coming up with their innovation. And so it is a delicate balance. And I appreciate your servicein trying to pursue that. I get the impression that is what you are doing. So we appreciate that very much. I understand Mr. Jeffries will be next for 5 minutes, recognized for 5 minutes.

Mr. JEFFRIES. Thank you, Mr. Chair. And thank you, Director Lee, for your service and for your presence here today. I think we could all agree that the litigation system is an important part of our democracy in the context of making sure that we resolve disputes in a manner consistent with the rule of law. But in order for the litigation system to work, I think we have got to make sure that disputes that are brought into the litigation context are resolved or the parties to those disputes are incentivized to resolve them based on the merits of the underlying claim, as opposed to, for instance, in the context of abusive patent litigation, the high, burdensome cost of litigation, particularly centered around discovery.

So I think what many of us have attempted to do in the context of dealing with this problem is to address that discovery issue in a way that is fair to both sides. But I want to focus on another area that I think raises some concernand that relates to venue. I think there are 94 district courts that are in this country. Would it be fair to say that a disproportionately high number of abusive litigation matters are brought in just a handful of those district courts?

Ms. LEE. I appreciate the question, Congressman. I haven't done a study, but I know there is a lot of good work going on in a lot of district courts in terms of establishment of local patents rules and active management of patent cases and controlling of discovery. So I couldn't give you a number.

Mr. JEFFRIES. I think there was a recent study that suggested that for a period of time, I believe between 2007 and 2011, approximately a third of patent troll type litigation matters were brought in just three of the 94 district courts. So if you will posit that there is a venue problem as it relates to forum shopping, would you agree that part of making sure that there is fundamental fairness

in the litigation system is making sure that the matter is being litigated in the correct forum, is that fair to say?

Ms. LEE. I couldn't agree with you more. As I said earlier, to the extent that we can decrease the opportunities and advantages for gamesmanship and venue shopping, I think the system will be better off.

Mr. JEFFRIES. Now, when a someone in a party finds itself in what they believe to be an inappropriate venue, I think it is section 1404, permits that party to move, to transfer venue. But if you look at 1404, there is no requirement in statute that sets forth a time frame within which a district court judge needs to make a venue transfer decision, is that correct?

Ms. LEE. That is my understanding. And that is why, perhaps, as we contemplate tightening the new restrictions, perhaps that in combination with staying discovery pending a court's ruling on a motion to transfer would incentivize an early and prompt ruling on that. And if it belongs in that district, great. It should stay there. But if it doesn't belong there, it should be moved.

Mr. JEFFRIES. Well, you anticipated my question. I am pleased to hear that you agree with that is something we should at least consider in terms of this Committee. Because if you have got someone who is inappropriately brought into a jurisdiction as a result of gamesmanship, resulting from forum shopping because of a belief that within that jurisdiction, perhaps in Delaware, Central District of California, wherever the case may be, because of a belief that justice may not be served in that particular venue, it seems like before the litigation proceeds, particularly deeply into discovery, which is what allows for some to abuse the system and use as a hammer the high cost of discovery, that you have a decision up or down in terms of whether you are in the appropriate venue.

I think my time is running out. But let me focus on something you also touched on with Representative Deutch, and that is this notion of the passive investor. I think in your written testimony, you mention that section 3(c) should include some kind of clear exemption for passive investors, those who lack the ability to direct or control the company's litigation. Could you give us some color in terms of who you would view as a passive investor? How we might define that?

Ms. LEE. That is a hard issue and we will probably have to spend quite a bit of time discussing the precise language of that. But drawing the lines that we have roughly—appropriately would be critically important. What is the definition of control? What does directing mean? What is directing? What is indirect? Those are all issues that I think certainly my team would look forward to working with stakeholders and Members of Congress to iron out. But that is critical to protecting the passive investor.

Mr. JEFFRIES. Thank you. I yield back.

Mr. ISSA [presiding]. Thank you. We now go to the gentleman from Rhode Island, Mr. Cicilline.

Mr. CICILLINE. Thank you, Mr. Chairman. Thank you, Director Lee. Congratulations on your confirmation and congratulations also on your initiative for the enhanced patent quality. I think that will bear fruit many generations into the future. And I also want to thank you for your approach to satellite offices and hope that you

think about smaller and midsize cities and the impact that a patent office will have in those communities as well, like Providence, for example.

I want to first turn to the issue of attorneys fees. It sounded like from reviewing your written testimony that H.R. 9 requires the award of attorneys fees upon motion of a party. And then the burden shifts to the losing party to prove that the litigation position was reasonably justified. It sounds like in your written testimony, you are suggesting that it makes sense for the party seeking the award to bear the burden of demonstrating that they are entitled to it. It seems as if you are suggesting a modification or an amendment to H.R. 9 that would incorporate, designate who really bears the burden of proof.

Ms. LEE. Thank you for reading my written testimony so carefully. And you are absolutely right.

Mr. CICILLINE. Do you have a recommendation as to what that burden of proof should be, what the standard should be?

Ms. LEE. How much? We haven't, no.

Mr. CICILLINE. I would love to know your thoughts on that, what the standard of proof should be. And also would you just sort of tell us why you think that that is the appropriate place for the burden of proof to rest?

Ms. LEE. In many areas of American jurisprudence, if you are the party that is requesting some thing, you both bear the burden of moving or the burden of production, and the burden of proof, why do you think you are entitled to? Why do you think the other side's behavior was unreasonable? What specific elements? Right, at least articulate that. It seems only fair.

Mr. CICILLINE. Thank you. With respect to the discovery provisions, you also, again, in your written testimony, said that the U.S. Patent and Trademark Office believes that there may be better alternatives for achieving the goal of reducing excessive discovery in patent litigation cases. Would you share with us what some of those might be?

Ms. LEE. Absolutely. So clearly, discovery is a big cost driver in patent litigation. And we support H.R. 9's provision to have the Federal Judicial Conference look at it and consider further. But our thought is that many district courts and Federal districts are taking active steps to manage their cases and to control discovery. But certain courts are not per Congressman Jeffries' point.

So to the extent that we can focus on tightening venue requirements, to make sure that parties are in a jurisdiction where they have real meaningful ties, where they have an R&D center, where they have a principal place of business, and they are not just there because they find that venue attractive for a variety of reasons that have nothing to do with their contacts to the location, their business contacts, I think it makes good sense.

I think it provides an incentive for district courts to apply the law as is handed down and that you don't get any more clients because you favor one side or another. So tightening venue requirements, perhaps in combination with a stay of discovery, pending a ruling on a motion to transfer would encourage district court judges to rule quickly and promptly to get the litigation in the proper district.

Mr. CICILLINE. Thank you. And, finally, you made reference in testimony just a moment ago about what was happening with the patchwork of demand letters, 18 legislatures have enacted provisions. And this bill, H.R. 9, has a set of requirements for demand letters in the context of willful infringement. Does it make sense to think about those same requirements in the context of demand letters generally in terms of establishing a national standard? Should we look at that? And are there other things we should be looking at that particularly protect the small innovator, the small entrepreneur who is really challenged in the current environment and maybe not have the resources or support staff to defend against or to prosecute those claims?

Ms. LEE. So does it make sense? H.R. 9 has a provision which requires, you are not entitled to enhanced damages unless you identify the patent, identify the allegedly infringing product, identify the patent owner and who the ultimate current entity is, and how the infringement is occurring. And I think those sorts of things would be helpful to have in demand letters as well.

Mr. CICILLINE. As a national standard?

Ms. LEE. Certainly to consider, right, the precise details and so forth all to be worked out. But there should be some level of notice, so you avoid the problem of these vague patent demand letters where you receive it and you really have no idea what the issue is or what is allegedly the infringing product even.

Mr. CICILLINE. Thank you very much. I yield back, Mr. Chairman.

Mr. ISSA. Thank you. Ms. Lee, I understand that you have a plane to catch.

Ms. LEE. Who told you?

Mr. ISSA. You have a very good staff. We have a second panel. Is there anyone that truly needs any further questions? Or can we let the first panel be dismissed?

In that case——

Mr. JOHNSON. Mr. Chairman, anytime I hear anybody ask that question, I am always prompted to respond in the affirmative. But since our witness has a plane to catch, I will defer.

Mr. ISSA. I thank the gentleman from Georgia. Ms. Lee, obviously after today's testimony, the discussion will continue. I think that a lot of people recognize your willingness to engage in specific dialogue. And we welcome that. So when you return from this got to catch the plane now, we look forward to working with you further on each of these issues.

Ms. LEE. Thank you. Thank you for your work on this important bill.

Mr. ISSA. Thank you. We will now take a very short recess to set up for the second panel.

[Recess.]

Mr. ISSA. The Committee will come to order. We now welcome our second panel: Mr. Kevin Kramer, Vice President, Deputy General Counsel for Intellectual Property at Yahoo!; Mr. Robert Armitage, former Senior Vice President and General counsel at Eli Lilly & Company; Mr. David M. Simon, Senior Vice President Intellectual Property at Salesforce.com; and Mr. Hans Sauer, Deputy

General Counsel For Intellectual Property Biotechnology Industry Organization.

Pursuant to the Committee Rules, I must ask you to please rise, raise your right hand, and take the oath.

Do you solemnly swear or affirm that the testimony that you are about to give will be the truth, the whole truth and nothing but the truth?

Thank you, please be seated. Let the record reflect that all witnesses answered in the affirmative.

I want to thank all of you. I noticed you were here for the first panel, and it was informative for all of us. As you can see, the second panel might go slightly shorter, but we do have votes coming within the next hour, so our hope is to conclude by that time. And with that I'll go right down the row, starting with Mr. Kramer for 5 minutes.

TESTIMONY OF KEVIN T. KRAMER, VICE PRESIDENT, DEPUTY GENERAL COUNSEL FOR INTELLECTUAL PROPERTY, YAHOO!

Mr. KRAMER. Thank you. Thank you, Mr. Chairman, Members of the Committee. Thank you for inviting me to testify today. I appreciate the opportunity to appear before the Committee for the second time on reducing abusive patent litigation. This issue is extremely important to Yahoo.

Patent trolls are bad for our business, bad for our industry, and bad for innovation in America. Trolls are typically shell corporations that use the law as a sword to extract money from operating businesses. Businesses that conduct research, create products, employ people, and take all the risk of driving the economic engine of our country.

I believe in the patent system, and I want to make sure that it thrives so that it can be used by operating businesses for its intended purpose.

Yahoo holds over 2,000 U.S. patents, and we have enforced those patents against our competitors when we felt the need to do so. We also have an active licensing program. In short, we are active participants in the system. Because Yahoo has been both a defendant and a plaintiff in the system, we appreciate how very important it is for Congress to get this issue right. We need a solution to the patent troll problem that curtails abuse and understands that patents matter.

H.R. 9, the "Innovation Act," is that solution. The Innovation Act would help reduce—excuse me, would help restore the balance between encouraging innovation and discouraging abuse. It would do that by focusing the litigation from the start, prioritizing important decisions like claim construction, limiting unnecessary discovery, joining real parties in interest to the litigation, and establishing a presumption toward fee shifting for unreasonable cases. These common sense changes would benefit both plaintiffs and defendants while giving the courts the autonomy to manage their dockets.

Yahoo's experience highlights why we need Congress to act. Between 1995 and 2006, at any given time during that time period, we faced only two to four cases on our docket. Since 2007, that number has increased almost tenfold, and we have spent more than $100 million defending ourselves in outside counsel fees alone

in these types of cases. That number does not include confidential settlements, and it also doesn't include the untold lost hours of our engineers and others who get pulled away from projects to do document production, give depositions and go to trial. All this time and money could be spent more productively researching new technologies, developing new products, and employing people. Instead, we continue to devote time and attention to fighting patent trolls, and the rest of the industry does too. In fact, patent litigation brought by trolls remains at historically high levels.

Unified Patents, which is a company that tracks patent troll assertions, reported that the first quarter of this year saw 13 percent more new district court cases than the prior year. Unified also reported that troll assertions made up 84 percent of new cases against high-tech companies in Q-1 2015, compared to only 70 percent in 2014.

Clearly patent troll litigation is not going away. Neither Supreme Court case law, nor USPTO post-grant procedures have deterred new cases. In our experience, the cases being filed are still overreaching. For example, Yahoo was recently accused of infringing patent claims requiring a digital camera apparatus. We don't sell those devices. Another case was filed against us simply to provoke a settlement from a third-party patent aggregator to which we have no relationship.

Cases are also still inefficient. When a complaint is filed against Yahoo, 90 percent of the time we're left guessing as to the true scope of the case. We have to spend typically 3 to 6 months of litigation to find out, during which time we spent several hundred thousand dollars. It takes another 6 months to a year before the court provides a claim construction decision, during which time we have typically spent another million dollars on the case. If we go to trial, that's another several million dollars on the case. All this points to the need for Congress to pass H.R. 9. The bill is a bipartisan bill and makes common sense reforms that would make a real difference. It includes requiring genuine notice pleading in patent cases, prioritizing important decisions like claim construction, providing presumptive limits on discovery, and ensuring that only reasonable cases are brought.

These provisions would give companies the ability to better defend themselves against patent trolls. We encourage Congress to pass H.R. 9 quickly.

Again, thank you for attention to this important issue. Yahoo looks forward to working with you as the bill moves through Congress, the legislative process, and I welcome your questions.

Mr. ISSA. Thank you.

[The prepared statement of Mr. Kramer follows:]

HEARING: H.R. 9, "THE INNOVATION ACT"

HEARING

BEFORE THE

COMMITTEE ON THE JUDICIARY

HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTEENTH CONGRESS

April 14, 2015

Testimony of Kevin T. Kramer

Vice President and Deputy General Counsel

Intellectual Property

Yahoo! Inc.

Testimony of Kevin T. Kramer,
Vice President and Deputy General Counsel Intellectual Property
Yahoo! Inc.
Before the House Committee on the Judiciary
"H.R. 9, the Innovation Act"
April 14, 2015

Chairman Goodlatte, Ranking Member Conyers, and members of the committee, thank you for convening this hearing and for inviting me to testify today about reducing the impact of abusive patent litigation on American innovation, job creation and economic growth in the high-tech sector. Thank you, also, for listening to countless innovators and entrepreneurs for whom abusive patent litigation represents a real drain on resources, and for the excellent legislation you have put forward.

I'll speak about our experience at Yahoo with patent assertion entities, commonly referred to as patent trolls, and some of the common sense reforms that we think would make a difference. In particular, I discuss below the proposed reforms related to genuine notice pleading, prioritizing claim construction, establishing presumptive limits on discovery, and clarifying when prevailing parties can be awarded attorneys' fees.

Yahoo is a founding member of the Internet Association, a trade group representing the fastest growing sector of the US economy – the Internet. Through the Internet Association, we have been working with fellow Internet companies raise awareness of how abusive patent litigation harms our economy.

To begin, I'd like to offer some background about Yahoo's experience with patent trolls.

Introduction

Yahoo was one of the early pioneers of the World Wide Web and today serves more than 1 billion Internet users around the world. We are a global technology company focused on being an indispensable guide to digital information for our users. We provide products and services, many personalized, including search, content, and communications tools—all of them daily habits for hundreds of millions of users, on the Web and on mobile devices. Most of our products are available in more than 45 languages in 60 countries.

I came to Yahoo in 2009 to run IP litigation after many years in private practice litigating patent cases. Prior to that, I litigated cases for the US Patent and Trademark Office as a trial attorney in the USPTO Solicitor's Office. I also previously worked at the World Intellectual Property Organization, where I helped administer the Patent Cooperation Treaty.

As a patent litigator, I understand the need for companies and individuals to assert their intellectual property rights in a responsible manner to protect their investments in innovation.

However, I believe that the current patent system is being abused. I'm here today to share Yahoo's experiences with patent trolls and to tell you why Yahoo believes changes are still needed to restore balance to the system and to discourage abuse.

Our Experience with Patent Litigation Abuse

First, let me make clear that Yahoo believes in patents and the patent system. Patents have a positive role to play in society: they encourage investment, enable entrepreneurship and facilitate employment. At Yahoo, we have over 2,000 issued United States patents, a substantial portion of which cover software-related inventions. We invest millions of dollars every year on research, development and innovation to advance the technology that underpins our services and the Internet. Our patents help protect that investment against unauthorized use by competitors. We also currently have an active licensing program. Simply put, we value patents, participate in the system, and generally believe that the patent system works well for its intended purpose.

However, the patent litigation system is out of balance. Systematic abuse has led to increasing waste, inefficiency and unfairness. The historical trend of litigation illustrates the problem well. For example, from 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 18 and 25 cases on its active docket at any given time. This dramatic increase in patent litigation is not unique to my company. Patents covering inventions applicable to the Internet are litigated nine times more often than other types of patents.[1] Accordingly, the dockets of many of our peer companies in the Internet industry have risen dramatically in the last eight years compared to historical norms.

Along with the increase in numbers, many cases filed against Yahoo have been of questionable merit. A few examples illustrate this point:

- In a case brought by a patent troll called Bright Response, the patent-in-question described ways to process incoming electronic messages, such as emails and voice messages. However, Bright Response overstretched the meaning of its patent claims and accused Yahoo's paid search advertising of infringement. Moreover, the asserted patent was based on a provisional application which explained that the claimed invention had already been in public use more than one year prior to the filing of that application. Thus, the patent, by its own admission, was invalid. Despite this, Bright Response pursued the case all the way through trial anyway. Although Yahoo prevailed as the jury found the patent both invalid and not infringed, it required years of litigation and a significant investment in money and resources to do so.
- In another case brought by a patent troll called Eolas and the University of California, Yahoo was successful in obtaining a jury verdict of invalidity of two asserted patents,

[1] John R. Allison, Emerson H. Tiller, Samantha Zyontz, Tristan Bligh, Patent Litigation and the Internet, STANFORD TECH. L. REV. 3, 7 (2012).

only to see Eolas continue to assert those same patents against others in the Internet industry.

- In yet another case, brought by a patent troll called Portal Technologies, the patent described a method for easily updating the information on a public kiosk. However, Portal overstretched the meaning of its patent claims in an attempt to cover the My Yahoo product, which offers personalized web pages for individual users – the exact opposite of a public kiosk.
- In a case brought by a patent troll called API, the patent disclosed a computerized method for conducting automobile diagnostic tests, yet API overstretched the meaning of the claims in an attempt to cover Yahoo's application programming interfaces.
- Another troll accused our maps service of infringing an Audubon Society patent for tracking the migration of birds.
- We were recently accused of infringing patent claims requiring a digital camera apparatus, which we do not sell.
- Recently, one troll filed a complaint against Yahoo in an effort to trigger a settlement with a third-party patent aggregator to which we have no relationship.
- And, one of our customers has been sued on a patent covering package tracking technology, even though we do not offer such technology or provide it to our customers. This patent is so broad that it could arguably be infringed it by someone shipping you something, watching UPS pick it up, then calling you to tell you they picked it up and asking if you want to contact UPS. The troll has asserted this patent in at least 70 other cases.

These types of cases are not substantially justified and impose needless burdens on our company. They should not have been brought in the first place.

The burdens imposed by patent trolls are real. Yahoo has spent about $100 million since 2007 on outside counsel fees defending baseless cases like these. Every time a complaint is filed against Yahoo, it typically takes about two years to resolve and costs several million dollars. If the case actually goes to trial, it typically lasts at least another year and costs several million dollars more.

All of this represents lost opportunity. The time and money spent defending against abusive patent litigation could be spent more productively on jobs, new products, equipment or other investments.

Troll Litigation Remains at Historically High Levels

Opponents of patent litigation reform argue that patent troll cases are declining. In fact, patent litigation brought by trolls remains at historically high levels and the recent trend is upward.

According to Unified Patents, a company organized to track and combat patent troll assertions, in the first quarter of this year there were 13% more district court patent cases initiated

compared to the same period in 2014 and 29% more than in the last quarter of 2014. Unified reports that troll litigation accounted for 62% of cases filed in the first quarter of 2015, which is comparable with the percentage of cases filed in the first quarter of 2014. Unified also reports that troll assertions made up 84% of Q1 2015 high-tech cases, compared to 70% in Q1 2014 anc 63% in Q4 2014.[2]

Companies and the PTO Have Roles but Cannot Solve the Problem

Two issues that deserve discussion are the role that defendants play in the system, particularly large corporate defendants who are often the target of patent troll litigation, and the ability of the PTO to curtail abuses through the patent process.

Yahoo believes we should do our part to address the troll problem. As such, we do several things to shape the landscape as best we can. First, we defend ourselves zealously and try cases when we have to. Second, we look to participate as a friend of the court in other significant cases before the United States Court of Appeals for the Federal Circuit or the United States Supreme Court. Third, we act responsibly when prosecuting our own patents before the USPTO. As a result, we have pursued fewer applications than we otherwise might have and have published more papers instead. Finally, we act responsibly when selling patents. Our policy is to sell patents only to operating entities rather than to non-practicing entities. We do not want our patents to be obtained by trolls and irresponsibly asserted against others in the Internet industry. But absent legislation, activities such as these will not restore balance to the litigation system.

Nor will improving patent quality through better initial examination, which is often discussed as a solution to the problem. Software development is an iterative, ongoing, evolutionary process that takes place on computers and servers around the world. That work typically does not find its way into patents or printed publications that the examiners at the PTO can easily access. As a result, the hard-working examiners at the PTO will never have all of the art needed to comprehensively examine every software patent application. Consistent with this reality, the law already recognizes that the PTO is not omniscient and never will be. This is why the Patent Act provides that issued patents are entitled only to a presumption of validity and gives defendants the ability to challenge patent validity in the context of infringement cases.

Congress Must Pass Common Sense Reform

By instituting common sense reforms that level the playing field and make patent litigation more just, speedy and efficient for all entities, Congress can make a meaningful difference.

Thank you, Chairman Goodlatte, and members of this committee for your straightforward approach to addressing a significant problem. I applaud the reintroduction of the Innovation

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[2] See www.unifiedpatents.com for reports.

Act, H.R. 9, and urge this Committee to pass it again without delay so that countless American companies like Yahoo will have the tools to defend against patent trolls.

Below, I would like to highlight the legislation's provisions that would make patent litigation more efficient throughout the lifecycle of a case: genuine notice pleading, prioritizing claim construction, establishing presumptive limits on discovery, and clarifying when attorneys' fees should be granted to prevailing parties.

1. **Require Genuine Notice Pleading**

Meaningful reform would start by requiring genuine notice pleading in patent cases. We support the Innovation Act's provisions on this point.

Our experience may help shed light on the problem. More often than not, when a complaint is filed against Yahoo, we are left guessing as to the scope of the case. Since 2007, 79 patent cases have been filed against Yahoo. Only 15 of these cases -- just 19% -- identified the asserted claims of the patents in their complaints. Because patent claims are infringed, not patents, it is insufficient to identify only the asserted patent and not the asserted claims of that patent. Furthermore, although 61 of the complaints against us identified at least one accused product, only 28 identified the accused feature within the product that was alleged to have infringed. Because asserted patents are typically much narrower in scope than our products, such as Yahoo Sports, Finance or News, the relevant information is the accused feature, which is only provided about 35% of the time. Finally, only six patent complaints against us since 2007 provided both asserted claims and accused features of products. Thus, only in about 7% of our cases do we have genuine insight at the pleading stage into what those cases are about. In the other 93% of cases, we are required to litigate just to determine what is really at issue.

Yahoo's experience is consistent with patent infringement litigation as a whole. Yahoo recently commissioned Lex Machina, a leading legal analytics company, to conduct a study of complaints filed in patent cases in 2014. They found that in a sample of 500 cases filed last year, less than 1% of complaints identified a particular product feature or function and compared that feature to the specific claims at issue. That is, regardless of industry, *most patent cases get started without either party committing to what is specifically at issue*.

Consequences of lack of information.

Without this basic information, it is very difficult to begin to defend ourselves. For example, we cannot identify potentially relevant witnesses in order to institute hold notices to prevent inadvertent document destruction or determine our potential non-infringement arguments. We are forced to wait months until sometime during discovery when plaintiffs are required to provide infringement contentions or expert reports 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.

Notice pleading not a burden.

Opponents of reform argue that heightened notice pleading is not possible because plaintiffs do not know whether a product infringes until they have obtained discovery. But that is false and highlights the problems with the current system.

There is no reason that patent plaintiffs cannot be more detailed in their complaints and identify both asserted claims and the accused features of the defendants' products at issue. Right now, Rule 11 of the Federal Rules of Civil Procedure requires plaintiffs to conduct adequate pre-filing investigations prior to filing complaints. These investigations should include a comparison of the asserted patent claims to the accused products. Given that plaintiffs typically are required to do this work anyway, it is no burden to require more than bare-bones pleading in a patent complaint.

In fact, complaints filed in the International Trade Commission under Section 337 are often very detailed, including the identification of asserted claims and a detailed comparison of those claims to the features of the products at issue. If complainants before the ITC can plead patent cases with particularity, there is no reason not to expect the same from plaintiffs in district court cases.

Filing a complaint comes with responsibility.

We believe that filing a complaint comes with a social responsibility. When filing, plaintiffs are asking the levers of government to act on their behalf, including judges, juries, clerks and administrative staff. Plaintiffs absolutely have the right to come to court seeking justice for their perceived injuries; however, they should be fully prepared when they do so and should be encouraged to focus the litigation from the outset. In the patent context, this means providing more than just simple notice that they have a patent and a lawsuit. Rather, as proposed in the Innovation Act, this means "identification of each claim" of the patent allegedly infringed, and "identification of each accused process, machine, manufacture, or composition of matter. . . alleged to infringe the claim." If the plaintiff cannot include this information about each asserted claim, then that claim should not be included in the complaint.

These common sense proposals in the Innovation Act will help to focus litigation from the start, and make it more efficient for all parties.

2. <u>Limit Discovery Pending Claim Construction</u>

Another area where Congress can bring meaningful reform is in the staging of events in patent cases. In particular, we support the Innovation Act's presumptive limits on discovery pending claim construction.

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 to be

litigated, if any. In fact, claim construction often determines infringement. To this point, Yahoo has had numerous cases be resolved either on summary judgment or through outright voluntary dismissal by the plaintiff shortly after the district court has issued claim construction. In several other cases, claim construction has resolved the district court phase of the litigation pending review by the Federal Circuit.

Given the potential impact of claim construction, it is only logical that it take place early in the case and before any unnecessary discovery is required. In fact, several of our cases have previously adopted this type of a schedule, including in the Western District of Texas and a recent case in Delaware. The Innovation Act would simply encourage that this common sense approach be adopted more broadly.

Appropriately, the proposal in the Innovation Act allows the district court discretion to expand the scope of discovery during the claim construction phase when the facts of the case warrant. Accordingly, we believe that the proposal in the Innovation Act presents a balanced approach.

3. **Establish Presumptive Limits on Discovery**

Discovery is a vital part of the legal process. However, discovery without limits enables abuse. Because placing sensible, presumptive limits on discovery will help level the playing field between patent trolls and those defending themselves, we support the Innovation Act's provisions on this point.

Again, our experience sheds light on why presumptive limits are necessary. In a typical troll case, we are asked to provide *hundreds of thousands of pages of documents*, including emails from *anyone* with relevant information, their attachments to those emails, such as word processing documents, spreadsheets and presentations. For typical defendants, the more information processed for discovery, the more costs are incurred given both processing fees and time for attorney review. Despite all of this cost and production, emails and their attachments do not typically describe how our products perform or why. As a result, in the four trials that we have had, relatively few emails or electronic documents got introduced as evidence or exhibits. In my experience, *less than 1%* of the electronic documents that get produced actually get used at trial.

In contrast, because patent trolls are typically shell corporations that do not make any products or services and have few employees, they are immune from the rigors of the discovery process. That is, trolls are free to harass defendants with repeated overbroad discovery requests without fear of reprisal because their own discovery obligations are negligible given that they have no documents or electronic information to identify, collect, process, and produce.

In the typical case, what is needed to assess whether a Yahoo product infringes a patent claim is the source code for that product or feature at issue. In fact, in each of the three trials we have had where our infringement was at issue (one trial only covered invalidity of the plaintiffs' patents), our source code was a central part of the case.

As a result of this experience, it makes practical sense to presumptively limit discovery in the first instance to core documents. We applaud the prior effort of the United States Court of Appeals for the Federal Circuit, which had previously issued a model order that district courts could use to help alleviate the burdens in troll litigation by placing presumptive limits on discovery. In addition, we believe that it makes practical sense for the Judicial Conference to develop rules that will allow for additional discovery "if such party bears the reasonable costs, including reasonable attorney's fees, of the additional document discovery" as proposed in the Innovation Act. Such rules would encourage all parties in litigation to act more responsibly by focusing the case on those things that matter to the outcome of the litigation.

4. **Clarify When Prevailing Parties Can Recover Fees**

One of the most beneficial things Congress can do to bring balance to the system is to clarify the fee-shifting provision that exists in current law. We appreciate the Innovation Act addressing this important issue.

The concept of fee-shifting is not new or radical. In fact, the Patent Act has included fee-shifting in Section 285 since 1952. The current standard for awarding fees is that the case must be "exceptional." Last year, the Supreme Court clarified that "exceptional" means "exceptional" and rejected the prior requirement to show that a losing party's case was both objectively baseless and brought with bad faith. However, the Supreme Court also held that district courts have the discretion to determine what "exceptional" means in any given case.

Given that the discretion to award fees remains with the district court judges, and that discretion may be exercised differently by different judges, the plaintiff's choice of forum will impact a winning defendant's ability to recover fees. For example, the judge with the largest patent docket in the country, in the Eastern District of Texas, recently gave an interview in which he said that he did not see the Supreme Court's cases on this issue "changing what we would have determined was appropriate for an award of fees even before that case came out."[3] Of course, before the Supreme Court cases on this issue, the award of attorneys' fees to a prevailing defendant was extremely rare.

Despite prevailing at trial three times and winning eight summary judgments in the last seven years, Yahoo has not been awarded attorneys' fees. The prevailing wisdom in our cases seems to be that we should be happy we won and simply walk away without continued motions practice, regardless of how egregious the merits of the underlying case brought against us. Without a change in the law, this judicial reluctance toward granting attorneys fees will continue. And without that threat of fees, there is no disincentive for plaintiffs to file weak cases or, worse yet, bring weak cases to trial and force defendants to spend large amounts of money to defend themselves.

[3] "Judge Gilstrap Keeps Eastern District's Tight Ship Afloat," IPLaw 360 (March 6, 2015).

The Innovation Act would ensure that judges shift fees in unreasonable cases, creating a presumption of fee shifting unless the non-prevailing party's position and conduct are reasonably justified in law and fact or special circumstances indicate that an award would be unjust. That is, if the non-prevailing party has a reasonable case, then the court should not award fees. As a society, that seems like the least we should expect from the parties to a civil action -- reasonable behavior. Accordingly, we support these provisions.

5. Identification of, and Joinder of, The Real-Parties-in-Interest

In most cases, a defendant goes to court knowing who is on the other side. In stark contrast, the troll 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 whether and when to settle.

Again, our 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 the litigation against Yahoo. 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 ensure that the parties at the bargaining table are the ones with the ability to settle the litigation.

Further, it is worth noting that 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 should be greater in patent cases given the ability to enforce that right through litigation and the strict liability for infringement.

Finally, there is a fundamental fairness about transparency of ownership that should be considered. In any case, a defendant should be entitled to face their accuser. Absent transparency of ownership, and the ability to join real-parties-in interest to the litigation, a patent defendant may not have that opportunity.

For these reasons, we support the proposals in the Innovation Act to require the disclosure of those who own a financial stake in the patents in lawsuits and the plaintiffs in those lawsuits, as well as those proposals which allow courts to join interested parties such as assignees, those who have a right to enforce or sublicense, and those with a direct financial interest in the patent or patents at issue.

The Courts Cannot Legislate

Opponents of patent litigation reform argue that reform is not needed because a series of decisions by the Supreme Court have greatly changed the landscape. This is wrong for several reasons.

First, the Supreme Court's rulings, while touching on some of the issues causing abuse in the patent system, are constrained by the letter of the patent statute and make only incremental changes to the common law that are directly applicable to the litigants before them. In sharp contrast, Congress can change the law for everyone and can provide more comprehensive changes necessary to balance the playing field.

Second, although there have been cases benefiting patent defendants, many cases make paten litigation more complex and difficult. For example, whereas the Supreme Court's *KSR* decision made the obviousness inquiry more flexible and less mechanical, the Supreme Court's *i4i* decision upheld the high burden of proof needed to prove a patent claim invalid. Whereas the Supreme Court's decision in *Nautilus* clarified the indefiniteness standard, the Supreme Court's decision in *Teva* determined that there are indeed fact questions underlying the claim construction inquiry. This last case may result in longer and more complex claim construction proceedings in which expert testimony may be required. While *Alice* should help rein in assertions on patents claiming only abstract ideas, its applicability will have to be assessed on a case-by-case basis and it will likely not impact cases in which the asserted patents claim specific computer hardware apparatus.

Third, federal judges must treat all corporations as equal in the eyes of the law. That is, they cannot draw distinctions between non-operating shell corporations and operating companies that make products and employ thousands of people and decide which one is better for American society. In sharp contrast, Congress has the freedom, privilege and power make broad policy changes through legislation and distinguish between certain types of activity. Onl Congress can change the law to prevent the federal courts from being used as a sword to extor money from operating companies.

Finally, developing the common law is a long and slow process. The patent troll phenomenon has been particularly acute since 2007, and despite the dedication of zealous litigants and hard-working judges, the problem continues and has recently been on the upswing. In sharp contrast, Congress has the ability to act decisively to restore balance and transparency to the system so that patent litigation levels return to prior levels.

Conclusion

Thank you again to the Committee for your ongoing leadership in promoting American innovation, and for your time today discussing how to reduce meritless patent litigation by giving defendants the tools to defend themselves, and restore needed balance to the system.

The bottom line is that abusive practices by patent trolls harm our business, the Internet industry, the US economy and the innovation ecosystem. To make the entire system work better we understand that we in industry need to do our part, but some common sense reforms are needed too. Only Congress can advance these reforms.

Because Yahoo has been both a defendant and plaintiff in patent litigation cases, we appreciate how very important it is that Congress get this right. We need a solution to the patent troll problem that curtails abuse, but allows for the assertion of reasonable cases. H.R. 9, the Innovation Act, is that solution. The Innovation Act would help restore the desired balance between encouraging innovation and discouraging abuse. It would do that by focusing the litigation from the start, prioritizing important decisions like claim construction, limiting unnecessary discovery, joining real parties in interest to the litigation, and establishing a presumption toward fee shifting for unreasonable cases. These common sense changes would benefit both plaintiffs and defendants alike, while still giving the district courts the necessary autonomy to manage their dockets.

Thank you to the members of this committee who supported the Innovation Act in the 113th Congress. For those who did not, I hope the facts I have laid out for the committee today will allow you to lend your support now. We encourage Congress to move quickly to pass H.R. 9.

Mr. ISSA. Mr. Armitage.

TESTIMONY OF ROBERT A. ARMITAGE, FORMER SENIOR VICE PRESIDENT AND GENERAL COUNSEL, ELI LILLY & CO.

Mr. ARMITAGE. Thank you, Chairman Issa and Members of the Committee. Thanks for the opportunity to appear here today to testify. Let me begin right way with the loser pays provision. I believe the loser pays default rule could be a significant check on abusive patent litigation practices, whether they're undertaken by the patent owner or by the accused infringer. It should in reality make strong patents even stronger and questionable patents more problematic to assert. I would urge the Committee to maintain this provision as-is as a centerpiece of its patent reform litigation efforts.

Second, H.R. 9 would make deferral of most types of discovery in patent lawsuits until a so-called Markman ruling on claim construction has been decided, a mandatory provision. This provision, however, has been criticized even today as potentially overreaching. However, I think the provision could be readily recrafted so it poses fewer fairness issues for patent owners. In this respect the Committee might wish to consider whether this section of the bill should instead mandate discovery stays pending resolution of venue disputes and drop all together the Markman-related provision.

Third, H.R. 9 heightens pleading requirements on plaintiffs filing patent infringement complaints. This is another provision where concerns expressed by critics could readily be addressed while preserving the early disclosure intent of this provision. Mandatory initial disclosure requirements now exist under local patent rules in several district courts and apply in equal measure to both patent owners and accused infringers. The mandated initial disclosures under these rules track, at least in part, the heightened pleading standards currently in H.R. 9. These local patent rules therefore create an opportunity for rewriting H.R. 9's provisions.

First, the bill could set out a set of heightened pleading standards that simply mirror the best practices among the existing local rules and, second, impose new pleading standards only on plaintiffs where the district court's initial disclosure rules don't meet the best practices standard. This formulation could have a number of benefits, including spurring more district courts to adopt optimal patent case management procedures.

Next, the customer stay, patent transparency, and judicial conference mandate provisions in H.R. 9 appear to have broad support across a wide spectrum of interests. Any concerns that have been expressed go more to the details of the operation of these provisions rather than their substance. Further, H.R. 9 contains laudable provisions addressing what the bill characterizes as abusive demand letter practices that limit the patent owner's ability to secure treble damages while leaving unaffected the patent owner's right to be made whole in the case the patents are found to be infringed.

The bill, of course, has other provisions of significant importance. H.R. 9 would make needed corrections to the America Invents Act, the most important of which is correcting a legislative error that resulted in a too broad judicial estoppel provision in post-grant review. Tied to this change is a related provision on claim construc-

tion that would apply both to post-grant review and to inter partes review procedures. These changes are essential to the PGR and IPR laws. They are needed to assure that USPTO adjudications on the validity of patent claims are not premised on the assumption that the patent covers more than it actually does.

This brings me to the topic of IPR, the inter partes review procedure. Let me here jump right to the conclusion. Congress needs to make statutory changes to the IPR process to assure that this procedure treats the patent owner fairly and to assure that this procedure has the appearance of fairness. In my view this can best be accomplished if Congress makes changes now to the IPR law to provide a presumption that patents in IPR proceedings are not only valid, but assure that evidence of invalidity is clear and convincing. I would urge the Committee to place the issue of IPR remediation at the top of the list of things to be accomplished as H.R. 9 proceeds through the legislative process.

My hope is that the hearing today will provide the impetus for making the adjustments in H.R. 9 that will not only assure that it will again overwhelmingly pass the House, but also assure that House action spurs the Senate into moving forward with its patent reform agenda to the common end of producing another set of much needed improvements to our Nation's patent laws. Thank you.

Mr. ISSA. Thank you.

[The prepared statement of Mr. Armitage follows:]

Statement of
Robert A. Armitage

Before

The United States House of Representatives

Committee on the Judiciary

On

"H.R. 9 – The Innovation Act"

2:00 p.m.
April 14, 2015
2141 Rayburn House Office Building

Committee Chairman Goodlatte, Ranking Committee Member Conyers, and Members of the Committee:

My name is Robert Armitage. I am pleased to have this opportunity to testify on H.R. 9, the "Innovation Act," a bill "To amend title 35, United States Code, and the Leahy-Smith America Invents Act to make improvements and technical corrections, and for other purposes."

My last appearance before this Committee was on October 29, 2013, when the subject was H.R. 3309, the version of the Innovation Act that was introduced in the 113th Congress and that passed the House on December 5, 2013.

I applaud the persistence of the Committee in its pursuit of legislation that will improve the operation of the patent system. Its continuing work on a major patent bill is particularly gratifying to supporters of a strong and effective patent system, particularly in light of the Committee's many-year efforts that led to the enactment of the Leahy-Smith America Invents Act of 2011.[1]

The effort that led to the enactment of the AIA began in the House Judiciary Committee with Chairman Smith's bill H.R. 2795 (109th Congress, June 8, 2005). Thus, the continuous efforts by the Committee to secure major reforms—providing much needed improvements to our Nation's patent laws and the operation of our patent system—now span an entire decade.

My testimony in the last Congress on H.R. 3309 was no less than 60 pages, inclusive of a 38-page appendix that offered a look ahead at additional legislative changes I believe are important to further secure the AIA's central reforms to the U.S. patent system.[2] Given that document is already of record, my intention is to focus my efforts today to address developments over the past 18 months. In the main, these developments have largely cinched the case for proceeding now with additional patent litigation reforms.

With that focus in mind, let me begin with a discussion of the attorney fee-shifting or "loser-pays" provisions in H.R. 9.

H.R. 9 Should Mandate Fee-Shifting as Its Primal Patent Litigation Reform Initiative

Nearly 70 years ago, Congress spoke to fee-shifting in patent cases by enacting a statutory provision that provided for a non-prevailing party to be awarded a prevailing party's attorney fees. This 1946 amendment was discretionary, *i.e.*, the trial court "may in its discretion award reasonable attorney's fees to the prevailing party upon the entry of judgment in any patent case."[3] The 1952 Patent Act recodified the 1946 amendment by adding the "exceptional case" limitation currently to be found in 35 U.S.C. § 285. This

[1] Pub. L. No. 112-29, 125 Stat. 284 (2011).
[2] See http://judiciary.house.gov/_files/hearings/113th/10292013/Armitage%20Testimony.pdf.
[3] See 35 U.S.C. § 70 (1946 Ed.); R.S. 4921 (§ 70).

addition—at least according to the legislative history—was to affirm the original intent of the 1946 amendment.[4]

Even before the "exceptional case" standard was included in title 35, the courts generally were awarding such fees only by exception. The judicial antipathy to "loser pays" is clear from reading any number of decided cases.[5] The term "in exceptional cases" was implemented more as "in the rare case." That said, such awards were occasionally made, including to patent holders in Hatch-Waxman cases.[6]

The Supreme Court recently set out a revised framework for the courts to address the current attorney fee award provisions under 35 U.S.C. § 285. Subsequent to this Committee's October 2013 hearing on the Innovation Act, the Court decided the *Octane Fitness* case.[7]

In the view of many commentators, the Supreme Court used *Octane Fitness* to demystify what had become an overly complex law that had developed on the standard required to demonstrate that the litigation represented an "exceptional case." Today, an *exceptional* case means nothing more than the case is uncommon or not run-of-the-mill.[8] The Court jettisoned from the law any Federal Circuit holdings to the contrary.[9]

Since the Supreme Court's holding, there have been numerous not-run-of-the-mill findings by trial court judges that have resulted in the award of attorney fees. However, many prevailing parties continue to be denied attorney fees. During the month of March, the Intellectual Property Owners Association reported decisions made on sixteen motions for attorney fees. Of these sixteen requests, attorney fee awards were denied 9 times and were granted 6 times, with one decision deferring on the merits.[10]

I offer this outline of the developments on this issue since my October 2013 testimony in part because it helps to frame the obvious question that the Committee must

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[4] Reviser's note to Title 35 U.S.C. A. § 285, "'in exceptional cases' has been added as expressing the intention of the present statute as shown by [the 1946] legislative history and as interpreted by the court."
[5] The facts in *Phillips Petroleum Co. v. Esso Standard Oil Co.*, 91 F. Supp. 215 (D. Maryland 1950) suggest the reluctance even before the 1952 Patent Act to make an award of attorney fees.
[6] *Eli Lilly and Co. v. Zenith Goldline Pharm., Inc.*, 264 F. Supp. 2d 753 (SD Indiana 2003).
[7] *Octane Fitness v. ICON Health & Fitness*, 134 S. Ct. 1749 (2014).
[8] "We hold, then, that an 'exceptional' case is simply one that stands out from others with respect to the substantive strength of a party's litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated. District courts may determine whether a case is 'exceptional' in the case-by-case exercise of their discretion, considering the totality of the circumstances. As in the comparable context of the Copyright Act, '[t]here is no precise rule or formula for making these determinations, but instead equitable discretion should be exercised 'in light of the considerations we have identified.' *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 534, 114 S.Ct. 1023, 127 L.Ed.2d 455 (1994)." 134 S. Ct. at 1756.
[9] Among other aspects of Federal Circuit law declared inapplicable, the Court rejected "the Federal Circuit's requirement that patent litigants establish their entitlement to fees under § 285 by 'clear and convincing evidence.'" 134 S. Ct. at 1758.
[10] See *March Fee-Shifting Reports*, http://www.ipo.org/index.php/2015/04/march-fee-shifting-reports/.

wrestle with—*given what the courts have done on this issue since 2013, is there more for Congress to do on this issue in 2015?*

Let me suggest that there is more—perhaps much more—that Congress might do at this juncture to address attorney fee awards for the good of the patent system.

First, for the good of the patent system as a whole, I'd submit that there is far too much patent litigation that is brought and pursued. Patent lawsuits, as the Committee has heard time and time again, can produce abusive litigation conduct, whether on the part of the patent owner or the part of the accused patent infringer.

Why—at least from the vantage point of the long-term health of the system as a whole—might there be an inverse correlation between the quantity and intensity of patent lawsuits and the effectiveness of the patent system as an engine for promoting progress in the useful arts?

At its core, the patent system is a property rights system. Investments are made, products are developed, and businesses are built based on the expectation of exclusive rights under patents. In addition, for the patent system to work in some state of balance, those who create new products and new businesses need to be able to discern whether or not they will be free to market their creations, that is, be free to operate without infringing competitors' valid patent rights.

The hallmark of any property rights system should be the efficiency with which valid property rights can be established and defended—and bogus claims can be eliminated. In a high-functioning property rights system, the speed to determination and the predictability of the outcome must be extremely high. Most critically, however, the associated costs with such assessments and enforcement activities must be low in relative terms—ideally, a tiny fraction of the intrinsic value of the property rights at issue.

In the real world, how does the U.S. patent system today stack up against these very fundamental criteria for evaluating a high-functioning property rights system? I do not have actual data to answer this question empirically. However, my own personal experience, both from my 13 years of experience as head of a corporate IP organization for two major biopharmaceutical companies and from my six years of working with clients in private practice here in Washington, D.C., provide me with both insights and some prejudices.

Whether a patent lawsuit arose 30 years ago, 3 years ago, or 3 months ago, the dilemma faced by a large percentage of patent litigants is pretty much the same.

For many accused infringers, when confronted with an infringement allegation of no likely merit, outsized litigation costs can render it economically irrational to pursue the available defenses. When this happens, the time, uncertainty and cost involved in vindicating an invalidity or non-infringement position permit even a bad patent to be assigned a substantial economic value. This value arises solely because the alternative is

millions of dollars and years of effort to secure a favorable result that—as most patent litigators will advise—is at best probabilistic.[11]

I've been involved in situations where a simple reading of a patent was enough to establish an overwhelming likelihood of ultimate success in defeating a patent infringement claim, only to see the accused infringer—sometimes after spending millions of dollars in attorney fees—make a rational business decision to abandon its defenses and seek a settlement.

Like any coin, of course, there are two sides. I have also seen patent infringers use litigation tactics calculated to inflict remarkable pain on patent holders. Between pleading any conceivable defense to validity or enforceability—and seeking any and all possible discovery—the patent owner's the time and expense to vindication of its valid patent rights can be so great that the patent owner can be forced to consider stepping away from the fight and offering a settlement that greatly undervalues the patent's intrinsic worth. Litigation burdens can put the inventor holding a strong patent in a weak position—just as litigation burdens can convert a weak patent—or a portfolio of weak patents—into an overvalued asset.

Self-evidently, it cannot be a good sign for any property rights system if the litigation/enforcement regime often operates to weaken the strongest property rights and strengthen the negotiating hand of those holding the least meritorious property claims. In my view, H.R. 9's reason for being is to help upset this type of litigation playing field—that forces the value of property rights to depend far too much on available litigation tactics and the underlying unpredictability that such tactics engender.

My belief, notwithstanding the *Octane Fitness* holding and notwithstanding the apparent progress on the attorney-fee issue chronicled in the IPO statistics, is that a more uniformly applied "loser-pays" system for civil actions involving patents could be the single most important patent litigation reform that this Congress might enact at the present time. Specifically, I would like to posit a possible "parade-of-wonderfuls" that might result from a reform of this type.

First, it should make strong patents even stronger. An accused infringer with a weak case—using delay and aggressive defense tactics designed to drive up the cost of its defense—would need to factor into this litigation calculus that it may well be driving up the patent owner's likely attorney fee award recovery.

Second, it should make weak patents even weaker. A patent owner with little prospect of success, but with a greater prospect that the accused infringer's cost of defense would drive a lucrative settlement, would need to factor into any litigation game plan the potential incentive an accused infringer would have to see a litigation through to the end, given the prospect of recovering its full cost of defense.

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[11] Lemley, Mark A. and Shapiro, Carl, *Probabilistic Patents*. Journal of Economic Perspectives, Vol. 19, p. 75, 2005; Stanford Law and Economics Olin Working Paper No. 288. Available at SSRN: http://ssrn.com/abstract=567883 or http://dx.doi.org/10.2139/ssrn.567883.

Third, it would make speculative patent assertions and speculative patent defenses less viable bets. A patent owner with a 50:50 prospect that its patent that might or might not be infringed facing a accused infringer with a 50:50 prospect its non-infringement defenses might or might not prevail would both face the potential for a double-or-nothing bet on their respective costs to assert or defend—if loser-pays were the default rule.

In such maybe-yes/maybe-no patent infringement cases, the loser-pay default rule could make early settlement, rather than litigation warfare, the better part of valor for both sides. All around, therefore, a loser-pay default rule on attorney fees should operate to reduce the level of patent litigation—perhaps in a dramatic manner.[12]

It could further discourage procuring bundles of low-quality patents—they would no longer be valued based upon the cost of defense if each accused infringer had a reasonable certainty of recovering defense costs. At its opposite pole, it could assure a well-conceived, high-quality patent would garner respect—and serve as a rock-solid asset for attracting investments to proceed with development and commercialization of the new technology it protects.

The biggest—and a quite legitimate—concern over the loser-pays rule is the access-to-justice issue. This concern should be taken into careful account in any legislation and appropriately temper any rule where the access concerns outweigh the property-rights imperative.

A lesser issue arises from the historic concern expressed by elements in the university community over a loser-pays rule.[13] Their expressed concern does not differentiate—as I believe needs to be done—between the enhanced ability to enforce strong patents with well-targeted infringement allegations and reduced prospects for

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[12] To some degree, the effectiveness of the "loser-pays" provisions is tied to the success of the joinder provisions of § 3(c) of H.R. 9 to perform as designed. Under § 3(c)(9), a new subsection (d) is added to 35 U.S.C. § 299 permitting joinder of persons with a direct financial interest in the patent at issue, presumably meaning a right to share—directly or indirectly—in any proceeds from the litigation, if successful. While this particular provision is complex, and likely would be ineffectual in some situations, no better alternatives appear to have surfaced. One suggestion for creating a form of "contingent liability" has been raised, but its mechanism has been described only in general terms. See http://www.patentsmatter.com/issue/pdfs/JoinderofInterestedParties.pdf. Were it to operate where the joinder cannot (*e.g.*, where venue provisions would prevent its application), it might be a superior approach to assuring that the loser-pays provision actually does result in a loser paying.

[13] See Association of American University Comments on S. 3818, Patent Reform Act (February 1 2007), p. 5, at http://www.aau.edu/workarea/downloadasset.aspx?id=2466:
"We oppose the change to Sec. 285 which would change current law to award attorney's fees to the prevailing party unless the court found that the position of the non-prevailing party was 'substantially justified' or 'special circumstances' make an award to the prevailing party unjust. This proposed change would be particularly problematic for universities, small businesses, independent inventors, and other entities for which the substantially increased financial risk of enforcing their patents against infringement would seriously impair their ability to defend their patent rights. Additionally, this proposed change would significantly erode the presumption of validity accorded to all patents under Sec. 282 by placing the financial risk of an invalid patent on the patentee rather than maintaining the financial risk of a presumptively valid patent on the challenger to validity."

succeeding with speculative infringement allegations, particularly with respect to patents of questionable validity.

In brief, patent holders across the spectrum—from universities and other non-practicing entities to startup enterprises to established manufacturing concerns—all benefit if their strongest patents face a reduced incentive on the part of the accused infringer to pursue speculative defenses designed to drive up the time and cost to complete to successfully enforce the patent.

H.R. 9 appears to represent a prudent path forward on the question of attorney fees. The default rule becomes "loser pays."[14] The default rule can be overcome if "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."[15]

In summary, H.R. 9's potentially most significant patent litigation reform is its default "loser pays" rule. It provides an enforcement regime that is consistent with driving the patent system to become a more effective property rights system.

H.R. 9 Should Mandate the Early Discovery Stays If They Serve the Interests of Justice

The costs of discovery in patent litigation can be enormous. It is not unknown for a single discovery order to add a multi-million dollar cost to a patent lawsuit. Discovery costs are another "equal opportunity" impediment to the patent system operating as an effective property rights regime—both patent owners and accused patent infringers can be dissuaded from the pursuit of meritorious litigation positions because of the outsized cost burden of compliance with the discovery orders that attend a major patent lawsuit.

The AIA was a giant step forward for the patent system in reducing discovery opportunities in patent litigation—largely by crafting patent validity criteria under which the standards for patentability were made far more transparent, objective, predictable and simple.[16] More reform of this type would serve the public interest in efficient resolution

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[14] Under new § 285(c), a patentee who has not prevailed in the litigation and has withdrawn from the litigation by offer a "covenant not to sue" under the patent is treated as a nonprevailing party and may be subject to an award of attorney fees if its litigation positions were not reasonably justified. While such a provision might discourage settlements of litigation if the loser-pays rule were to apply irrespective of the reasonable justification of the patent owners' litigation positions, it would not appear problematic in the vast majority of situations where a bona fide issue of infringement was pled and the negotiating posture of the parties eventually results in a covenant not to sue and a certain-to-be-sought counter-covenant not to seek attorney fees, as part of the overall settlement agreement.

[15] H.R. 9 (114th Congress), § 3(b)(1).

[16] Among the major, discovery-laden aspects of the patent litigation that were eliminated were the subjectively determined "best mode" requirement, all aspects of the patent law that relied upon the "deceptive intention" criteria, any ability by the patentee to rely on the inventor's alleged "date of invention" to avoid novelty and non-obviousness arising from pre-patent filing prior art, the forfeiture of the right to patent based on secret, pre-filing activities undertaken by or on behalf of the inventor (*i.e.*, the non-public "public use" and secret sale offer doctrines), the "invention abandonment" defense and the inventor's private knowledge defenses. The intention of the AIA's provisions was that an accused infringer

of patent infringement lawsuits.[17] As the promise of the AIA comes fully to fruition, discovery burdens on the next generation of patent owners should ease—as an ever-growing proportion of issued patents over the next two decades will be AIA patents.

These accomplishments under the AIA do relatively less to ease an accused infringer's discovery burdens. This is particularly so where the infringement allegations of the patent owner relate to non-public activities undertaken by the accused infringer.

H.R. 9 attempts to address the accused infringer's discovery burdens with a discovery-timing provision. Under § 3(d)(1) of H.R. 9, the bill adds a new 35 U.S.C. § 299A. When this provision applies, it will bar any full-bore discovery until a so-called "Markman hearing" has been conducted.

The Markman process provides the parties to the litigation with a ruling on the meaning of terminology used in the patent claims. If the court determines a ruling on claim terminology is required, then § 3(d)(1) provides that the only discovery the court may ordinarily permit prior to the Markman ruling is that relating to claim terminology.

The proposal as currently set out in H.R. 9 poses several issues that require careful consideration by the Committee.

First and foremost, the Markman process itself is not an inexpensive endeavor for the litigants. The preparation and execution of a Markman hearing can be hugely costly. Because § 3(d)(1) would make the Markman hearing a predicate to proceeding further with the discovery needed to ultimately resolve the case, the incentive to conduct and complete the Markman process may add costs to the litigation that ultimately do not accelerate final resolution or reduce the overall costs involved to resolve the litigation.

Moreover, in many cases, an early Markman ruling itself will not be dispositive of the validity or infringement issues in the lawsuit. In such cases, instead of facilitating a prompt and economical management of the infringement action, the Markman hearing again merely adds to the time and cost needed to get to a final resolution. Nothing in proposed § 299A would require that the Markman outcome be potentially dispositive of the infringement claim.

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ought to be able to have a person, knowledgeable in the technology of the invention and in the patent law, pick up a patent, review its contents, and consult only publicly available sources of information in order to be able to make a complete and accurate determination of the validity of the patent—and, thus, the merit of the possible infringement claim.

[17] The biggest omission of the AIA lay in not categorically eliminating the judge-made "inequitable conduct" defense to the enforceability of an issued patent. The defense, although supposedly grounded on the policy that misconduct before the United States Patent and Trademark Office in the procurement of a patent should be appropriately sanctioned, in fact produces only unintended consequences. The doctrine imposes no incremental penalty whatsoever on patent fraudfeasor who procures an entirely invalid patent and invokes the mandatory and draconian punishment of permanent unenforceability of a patent that is otherwise wholly valid and enforceable even in situations where the patent owner itself was entirely innocent of the alleged misconduct.

In addition, the earlier in the litigation that the Markman process is undertaken, the more likely it becomes that the court may eventually experience "Markman remorse." When the postponed discovery has finally taken place, and a full understanding of the invention and its creation has been developed, the court may be persuaded to modify or reverse its earlier Markman ruling and come to a contrary construction on one or more key claim terms. Again, this affords more possibility for added expense.

Finally, the Supreme Court's very recent *Teva* decision[18] may render the use of the Markman process as a discovery "control gate" less desirable in a significant number of lawsuits. The Court's *Teva* holding that greater deference must be given to the fact-finding of the district court may well mean that the Markman process will be accompanied by more fact finding (with requests for more discovery to find the "facts"). The result could be longer delays and greater overall costs in the completion of the Markman process.[19]

All these factors suggest that the Committee might consider whether better alternatives may exist, ones that could function independently of the Markman process, as a discovery "control gate" mechanism. In particular, it might be possible to find an alternative to the provisions in § 3(d)(1) that would be greeted with a broader consensus as to its merit and a lesser likelihood of producing undesirable consequences.

One possibility that may merit some consideration by the Committee would be to impose the same limits on discovery as are found in § 3(d)(1) to the final resolution of motions to transfer venue.[20] Such a limitation could be imposed in lieu of the existing H.R. 9 Markman provision by making only modest changes otherwise to § 3(d)(1).

Currently, proper venue determinations in patent infringement lawsuits are governed by 28 U.S.C. § 1400(b).[21] During the consideration by Congress of the patent

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[18] *Teva Pharmaceuticals USA, Inc. v. Sandoz, Inc.*, App. No. 13-854 (Jan. 20, 2015).

[19] "In some cases, however, the district court will need to look beyond the patent's intrinsic evidence and to consult extrinsic evidence in order to understand, for example, the background science or the meaning of a term in the relevant art during the relevant time period. See, *e.g.*, *Seymour v. Osborne*, 11 Wall. 516, 546 (1871) (a patent may be 'so interspersed with technical terms and terms of art that the testimony of scientific witnesses is indispensable to a correct understanding of its meaning'). In cases where those subsidiary facts are in dispute, courts will need to make subsidiary factual findings about that extrinsic evidence. These are the 'evidentiary underpinnings' of claim construction that we discussed in Markman, and this subsidiary fact-finding must be reviewed for clear error on appeal." Slip op. p. 12.

[20] While no interlocutory appeal right exists for motions to transfer venue, mandamus is an available route for appellate review. See *In re Volkswagen AG*, 371 F. 3d 201 (CA 5th Cir. 2004) in which the Court of Appeals for the Fifth Circuit ordered a lawsuit transferred from the Eastern District of Texas to the Western District of Texas in San Antonio upon motion to transfer venue under 28 U.S.C. § 1404(a), after concluding that the trial court had abused its discretion in failing to grant the motion to transfer venue. The applicability to the patent venue statute is reflected in *In re TS Tech USA Corp.*, 551 F. 3d 1315 (Fed. Cir. 2008), *In re Nintendo Co.*, Ltd., 589 F. 3d 1194 (Fed. Cir. 2009), *In re Genentech, Inc.*, 566 F. 3d 1338 (2009), and *In re Acer America Corp.*, 626 F. 3d 1252 (Fed. Cir. 2010), in which mandamus resulted in the transfer of venue out of the Eastern District of Texas in each instance.

[21] "Any civil action for patent infringement may be brought in the judicial district where the defendant resides, or where the defendant has committed acts of infringement and has a regular and established place of business."

reform bills that led to the AIA, significant efforts were devoted to the issue of venue reform for patent infringement lawsuits.[22] However, during the AIA process, these efforts confronted significant criticism,[23] and venue-related provisions were ultimately omitted from the AIA.

Whether or not a consensus ever emerges on changes to the patent venue statute that addresses the concerns that spawned the array of legislative proposals during the AIA process,[24] such a lack of consensus should have no relevance to the issue of whether venue transfer could play a useful "gating" role for the initiation of full-bore discovery.

The nature of a motion to transfer venue is such that, if one is made at all, it typically comes near the commencement of the lawsuit.[25] Thus, tying a discovery stay to the final resolution of a venue transfer motion avoids many of the potentially problematic aspects of tying a discovery stay to the completion of the Markman process.

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[22] Among the most notable of these efforts was § 8 of S.3600 (110th Congress, Sept. 25, 2008), the so-called "Kyl bill," which would have amended 28 U.S.C. § 1400(b) to provide the following:

"(b) Notwithstanding subsections (b) and (c) of section 1391 of this title, any civil action for patent infringement or any action for declaratory judgment arising under any Act of Congress relating to patents may be brought only in a judicial district—

"(1) where the defendant has its principal place of business or is incorporated;

"(2) where the defendant has committed acts of infringement and has a regular and established physical facility;

"(3) where the defendant has agreed or consented to be sued;

"(4) where the invention claimed in a patent in suit was conceived or actually reduced to practice;

"(5) where significant research and development of an invention claimed in a patent in suit occurred at a regular and established physical facility;

"(6) where a party has a regular and established physical facility that such party controls and operates and has—

"(A) engaged in management of significant research and development of an invention claimed in a patent in suit;

"(B) manufactured a product that embodies an invention claimed in a patent in suit; or

"(C) implemented a manufacturing process that embodies an invention claimed in a patent in suit;

"(7) where a nonprofit organization whose function is the management of inventions on behalf of an institution of higher education (as that term is defined under section 101(a) of the Higher Education Act of 1965 (20 U.S.C. 1001(a))), including the patent in suit, has its principal place of business; or

"(8) for foreign defendants that do not meet the requirements of paragraphs (1) or (2), according to section 1391(d) of this title."

[23] See William C. Rooklidge & Renée L. Stasio, *Venue in Patent Litigation: The Unintended Consequences of Reform*, 20 Intell. Prop. & Tech. L.J. 1, 1 n. 3 (2008) and Sidney A. Rosenzweig, *Patent Venue Reform: Congress Takes Two Steps Back*, 16 Progress & Freedom Found. 1, 7 (2009). These papers are discussed by Tsai-fang Chen, *Venue Reform in Patent Litigation: To Transfer Or Not To Transfer*, 10 Wake Forest Intell. Prop. L. J. 153 (2010), available at http://ipjournal.law.wfu.edu/files/2010/10/article.10.153.pdf.

[24] The last, best effort at forging such a consensus was the work product contained in § 8 of the Kyl bill. Among the organizations whose representatives provided input to the proposal offered by Sen. Jon Kyl (R-AZ), were the Biotechnology Industry Organization, PhRMA, Intellectual Property Owners Association, and the Wisconsin Alumni Research Foundation. It is unclear that any of those organizations themselves ever took a position on or offered public support for these provisions.

[25] See FRCP 12(b)(3), providing for a motion for improper venue may be asserted as one of seven enumerated Rule 12(b) defenses to a complaint that can be made by motion, but further providing, "A motion asserting any of these defenses must be made before pleading if a responsive pleading is allowed."

Trial court judges currently have the authority to stay discovery pending resolution of motion to transfer. Such discovery-stay motions can be granted or denied at the discretion of the trial court.[26] Denying discretion to a trial court judge in the management of the court's docket, including the management of these types of discovery issues, always raises concerns.

However, whatever the merits of such concerns in the abstract, a mandatory discovery stay pending the resolution of a venue transfer motion can be particularly important in situations where the discovery burdens that might be imposed on a defendant can render its continued patent defense problematic. Since venue moves are done for good reason—often convenience and availability of evidence factors—they play into easing the burdens that might otherwise impair the ability to defend.

In summary, as the Committee wrestles with how best to address the issue of "gating" the initiation of full-bore discovery, venue transfer motions may be worthy of some consideration.

H.R. 9 Should Mandate Early Disclosure of Litigants' Contentions

Under § 3(a) of H.R. 9, pleading specificity requirements would be heightened for patent owners. The new requirements, to be codified in 35 U.S.C. § 281A, would extend significantly the relatively minimal standards for pleading set out in the Federal Rules of Civil Procedure, including the soon-to-be-defunct FRCP Form 18.[27]

The Supreme Court has recently addressed the desirability of heightened pleading requirements in the context of complaints for relief.[28] The Court's decisions, however, have had a far lesser impact on pleadings than what is proposed in § 3(a).

As with most litigation reform efforts, the key to achieving successful reforms in elevating pleading standards is to assure that the remedial measures imposing the extra burdens lead to collateral benefits that greatly outweigh such burdens, while at the same time not stoking the fires of litigation with yet more disputed issues that require added time and added expense to resolve.

The merits of greater pleading specificity are beyond dispute. Patent litigation, like all civil litigation, should not be a "hide and seek" game to be played over the facts

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[26] See *Lee Esperson, et al. v. Trugreen Limited Partnership* (W.D. Tenn.), Order Denying Defendants' Motion To Stay Proceedings in Case 2:10-cv-02130-STA-cgc Document 45 Filed 06/29/10 at http://www.gpo.gov/fdsys/pkg/USCOURTS-tnwd-2_10-cv-02130/pdf/USCOURTS-tnwd-2_10-cv-02130-0.pdf; *Renuen Corporation et al v. Lameira et al.* (M.D Fl.) Order (Doc. 99), Case No. 6:14-cv-1754-Orl-41TBS at https://cases.justia.com/federal/district-courts/florida/flmdce/6:2014cv01754/303657/99/0.pdf.

[27] See *Proposed Amendments to the Federal Rules of Civil Procedure* (June 14, 2014), available at http://www.uscourts.gov/uscourts/RulesAndPolicies/rules/Reports/ST09-2014-add.pdf, at p. 19, Abrogation of Rule 84

[28] FRCP Rule 8(a) requiring a complaint to contain, *inter alia*, "a short and plain statement of the claim showing that the pleader is entitled to relief." See also, *Bell Atlantic Corp. v. Twombly*, 127 S. Ct. 1955 (2007) and *Ashcroft v. Iqbal*, 129 S. Ct. 1937 (2007).

and circumstances forming the predicate for the relief being sought or over the defenses that will be played out before the court when a matter eventually comes to trial. In this sense, the Committee's efforts are focused on finding that "sweet spot" of reform between the added burdens producing disproportionate downstream benefits and those that simply engender their own burdensome (and often unintended) consequences.

As the Committee moves to markup § 3(a) of H.R. 9, it may wish to consider three points:

First, should corresponding provisions be devised and added to the bill that would mirror the content of the accused infringer's complaint and its specificity with respect to the defenses to infringement? Should the accused infringer provide specificity for invalidity defenses and the manner in which the accused infringer may otherwise contest the infringement of the patent? Fostering such a balanced approach to this issue has the benefit of inherently titrating what elevated content would be productive reform and what elevated content would be unduly burdensome. Indeed, what patent-owning interests might assert would be optimal pleading requirements for accused infringers may be impacted by their knowledge that any overblown assertions may yield and equal and opposite requests for specificity from the interests representing accused patent infringers seeking greater pleading specificity from patent owners.

Second, are there requirements in the existing bill that impose potentially redundant obligations on the patent owner that may be unnecessary to gain a full understanding of the complaint? For example, §281A's specific pleading requirements exist for each asserted claim in any asserted patent. In most patent litigation, however, trial typically proceeds through consideration of one or more representative claims upon which the lawsuit will ultimately be resolved. It may be that the objectives of § 3(a) of H.R. 9 can be more effectively pursued if the § 281A(a)(3) requirement is changed from "For each claim… ." to "For one or more representative claims… ."

Third, pleadings are not the only vehicle in which—at an early stage of a lawsuit—each party places the other on notice of the nature of the cause of action and the nature of the defenses and counterclaims being raised. For example, the Federal Rules of Civil Procedure provide for scheduling and case-management procedures[29] and for mandatory initial disclosures[30] that apply in equal measure to both claims and defenses. More importantly, in a number of district courts, local patent rules apply that create extensive initial disclosure obligations, most specifically obligations on the patent owner.[31]

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[29] FRCP Rule 16.

[30] FRCP Rule 26.

[31] See *Patent Local Rules*, U.S. District Court for the Northern District of California (Nov. 1, 2014), available at http://www.cand.uscourts.gov/filelibrary/1533/Local_Rules-Patent-Eff_11.1.14.pdf, § 3-1:

"Not later than 14 days after the Initial Case Management Conference, a party claiming patent infringement shall serve on all parties a 'Disclosure of Asserted Claims and Infringement Contentions.' Separately for each opposing party, the 'Disclosure of Asserted Claims and Infringement Contentions' shall contain the following information:

As mandatory initial disclosure practices under local rules continue to develop in district courts across the country, the Committee has the opportunity to use the provisions in § 3(a) of H.R. 9 to encourage the development of a uniform, nationwide set of minimum standards for mandatory initial disclosures under local patent rules. The Committee could identify one or more existing sets of disclosure requirements under local rules as establishing the most appropriate benchmark to be applied to patent litigation nationwide and then incorporate such initial disclosures as pleading requirements under proposed § 281A, *but to be imposed as pleading requirements only in district courts where local patent rules imposed lesser initial disclosure requirements.*

The possible merit of the latter suggestion is that it would transform the § 3(a) provisions of H.R. 9 from its current "stick" character into more of a "carrot." If given the choice between having more elaborate pleading requirements apply or adopting local patent rules with mandatory initial disclosures that would contain the required specifics, this "carrot" approach should move more district courts to act more expeditiously to adopt better case management practices and simultaneous move more patent owners to bring more infringement lawsuits in districts that have adopted such practices.

H.R. 9 Should Mandate the "Customer Stays" When Vendors Step Forward to Defend

H.R. 9 contains widely lauded "customer stay" provisions. These provisions apply where the customer's supplier has stepped forward and agreed to defend the patent

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"(a) Each claim of each patent in suit that is allegedly infringed by each opposing party, including for each claim the applicable statutory subsections of 35 U.S.C. §271 asserted;

"(b) Separately for each asserted claim, each accused apparatus, product, device, process, method, act, or other instrumentality ("Accused Instrumentality") of each opposing party of which the party is aware. This identification shall be as specific as possible. Each product, device, and apparatus shall be identified by name or model number, if known. Each method or process shall be identified by name, if known, or by any product, device, or apparatus which, when used, allegedly results in the practice of the claimed method or process;

"(c) A chart identifying specifically where each limitation of each asserted claim is found within each Accused Instrumentality, including for each limitation that such party contends is governed by 35 U.S.C. § 112(6), the identity of the structure(s), act(s), or material(s) in the Accused Instrumentality that performs the claimed function.

"(d) For each claim which is alleged to have been indirectly infringed, an identification of any direct infringement and a description of the acts of the alleged indirect infringer that contribute to or are inducing that direct infringement. Insofar as alleged direct infringement is based on joint acts of multiple parties, the role of each such party in the direct infringement must be described.

"(e) Whether each limitation of each asserted claim is alleged to be literally present or present under the doctrine of equivalents in the Accused Instrumentality;

"(f) For any patent that claims priority to an earlier application, the priority date to which each asserted claim allegedly is entitled; and

"(g) If a party claiming patent infringement wishes to preserve the right to rely, for any purpose, on the assertion that its own apparatus, product, device, process, method, act, or other instrumentality practices the claimed invention, the party shall identify, separately for each asserted claim, each such apparatus, product, device, process, method, act, or other instrumentality that incorporates or reflects that particular claim.

"(h) If a party claiming patent infringement alleges willful infringement, the basis for such allegation."

infringement action. The provisions are contained in § 6 of H.R. 9 and appear to be very similar to provisions in S. 1720 (113th Congress), § 4. The House bill would add a new 35 U.S.C. § 296, while the Senate provisions would add a new 35 U.S.C. § 299A.

A key aspect of both H.R. 9 and S.1720 is that the manufacturer has stepped forward and agreed in writing to the stay of the litigation against the customer. This provision should assure that patent owners will not suffer stays of suits that in fairness should proceed. Moreover, these provisions would do no more than protect persons at the end of a distribution chain, *i.e.*, not persons who contribute to the manufacture of or otherwise materially alter the product accused of infringement.

As the provisions of § 6 of H.R. 9 move toward markup, the provisions of S. 1720 contain what appear to be some modest refinements compared to the text of H.R. 9.[32] Given the common intent of the two respective provisions of the two bills, it may be that the Committee will decide to use the provisions of S. 1720 as the template for making further revisions to address what appear to be relatively minor and manageable concerns over the this provisions that have been expressed.[33]

H.R. 9 Should Contain Requirements for Greater Patent Ownership Transparency

Under § 4 of H.R. 9, a set of patent ownership transparency provisions are mandated for patents that are under litigation. The requirements are initially imposed on plaintiffs filing complaints, who then have ongoing requirements with respect to the patents in suit to maintain current ownership information through submissions to the United States Patent and Trademark Office. The requirement to update appears to continue throughout the life of the patent, even after the termination of any associated litigation involving the patent.

Enhancing ownership transparency requirements at the outset of patent litigation has broad support within the patent community. Any concerns that have been raised with respect to § 4 do not go to the core intent of the provisions, but to the level of detail required for compliance with these provisions and the potential for confidential business relationships to be required to be disclosed publicly—as opposed to disclosure to the accused infringers under seal.

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[32] Compare 35 U.S.C. § 299A(b)(3) in S. 1720 ("[T]he covered customer agrees to be bound *under the principles of collateral estoppel* by any issues finally decided as to the covered manufacturer in an action described in paragraph (2) that the covered customer has in common with the covered manufacturer… .") with 35 U.S.C. § 296(a)(3) from H.R. 9 ("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)").

[33] This provision appears to be broadly supported, with few expressed reservations, *e.g.*, "*RESOLVED*, that [Intellectual Property Owners Association] supports legislation to codify and enhance court developed doctrines that provide for staying a patent case against one or more customers of a product while a patent case on the same patent proceeds against the manufacturer of that product. Such legislation should be carefully tailored to avoid unintended adverse consequences to innovators, manufacturers and customers." https://www.ipo.org/index.php/advocacy/board-resolutions/2013-board-resolutions/.

Minor changes to these provisions are desirable to assure that the legitimate concerns that have been raised are addressed in ways that do not detract from the effectiveness of these proposals. Such changes that the Committee might consider would include the identification of the information appropriate for public disclosure via submission to the United States Patent and Trademark Office versus the information required to be disclosed under seal (*i.e.*, based on the confidential business relationships that merit protection from public disclosure), the termination of the obligation to update once the underling litigation triggering the disclosure obligation has ended, and the nature of the ownership/licensing rights that are encompassed under the disclosure obligations.

H.R. 9 Should Deter Willfulness Findings in Cases of Defective Pre-Suit Notifications

Under § 3(e) of H.R. 9, a "sense of Congress" statement is made with respect to "purposely evasive demand letters" that provide no substantive notice of the alleged acts of infringement of the patent and otherwise constitute defective efforts at providing pre-suit notification of possible acts of infringement. The sense of Congress is then followed under § 3(f) of H.R. 9 with a provision barring reliance on such defective pre-suit notifications of infringement, *i.e.*, lacking in particulars sufficient to afford reasonable notice of the actual infringing conduct, as evidence that the acts of infringement on the part of the recipient of the defective notice were willful. This new standard is to be codified in 35 U.S.C. § 284(c).

This provision is designed to make the award of enhanced damages more difficult in situations where "purposefully evasive demand letters" or other defective pre-suit notification efforts have been undertaken by the patent owner. As such, in the case of a valid patent, this provision does nothing to limit the ability of the patent owner to receive full and complete compensation under the patent for any and all acts of infringement. Thus, nothing in this provision in any way prevents the patent owner from being made whole for the acts of infringement.

Moreover, this provision leaves unaffected the ability of the patent owner—even if the patent owner has sent out a "purposely evasive demand letter" prior to the commencement of the litigation—to be awarded its attorney fees based upon the standard set out in § 3(b) of H.R. 9, *i.e.*, the accused infringer's defenses to infringement were not "reasonably justified in law and fact."

In brief, this provision simply reduces the likelihood that a patent owner may be able to a secure super-compensatory recovery where the standard set out in new § 284(c) has not been met. As such, it acts more as incentive to making more adequate pre-suit notification communications to accused infringers than it does as a penalty for making deficient notifications—and, thus, represents a reasonable limitation on willfulness determinations.

As such, this provision constitutes an appropriate constraint to be imposed on persons seeking extraordinary compensation based on alleged willfulness.

H.R. 9 Should Expand the Unduly Limited Prior User Right Provisions of the AIA

Under § 3(b)(2)(B) of H.R. 9, subsections (f) and (g) of 35 U.S.C. § 273 would be repealed.[34] Section 273 of title 35 contains the so-called "prior user rights" provisions under which an accused infringer who has undertaken a commercial use of the patented invention that is not publicly accessible—and, therefore, not "prior art" that can be used to invalidate the patent—before the filing date of the patent is entitled to continue such commercial use without liability for patent infringement.

The repeal of 35 U.S.C. § 273(g) can be viewed as representing a conforming amendment to the amendments to 35 U.S.C. § 102 under the AIA. Prior to the enactment of the AIA, it is doubtful that § 273(g) served its intended purpose, which was to afford the patent owner incremental protection against invalidity for lack of novelty/non-obviousness if prior use was established based upon the non-public activities of the accused infringer. Since such a non-public use would, by definition, have been undertaken by the accused infringer, not the patent owner, no § 102 invalidity implications should have existed under the pre-AIA patent law.[35]

Under the AIA, however, the scope and content of § 102(a)(1) prior art is categorically limited to subject matter available to the public.[36] If the alleged prior use in question was available to the public, there would be no reason for an accused infringer to resort to a § 273 defense. If a prior use were established, but it is determined that the use was not available to the public, there would be no possible implication with respect to the patent validity. Either way, with the enactment of the AIA, § 273(g) no longer operates to provide any incremental protection to the patent owner and its repeal is warranted.

As for § 273(f), its repeal can likewise be viewed as a conforming amendment given the amendment being made to § 285. Because § 273(f) deals with the issue of attorney fee awards, its repeal avoids the possibility of having two, potentially conflicting provisions with respect to the award of attorney fees. Without some amendment of § 273(f), it would continue the "exceptional case" standard that will no longer be part of § 285. Repeal of § 273(f) is preferable to amendment since the new § 285 standard

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[34] The repealed provisions are subsections (f) and (g) remove provisions designed to protect patent owners in situations where the prior user defense is raised:

"(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 35 U.S.C. 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."

[35] *WL Gore & Associates, Inc. v. Garlock, Inc.*, 721 F. 2d 1540, 1549-1550 (Fed. Cir. 1983), "The district court held all claims ... invalid under 102(b), ... because 'the invention' was 'in public use [and] on sale' by |a third party| more than one year before |the inventor's| application for patent. ... |I|t was error to hold that [the third party's] activity ... was a 'public' use of the processes claimed in the ... patent, that activity having been secret, not public."

[36] "[T]he phrase 'available to the public' is added to clarify the broad scope of relevant prior art, as well as to emphasize the fact that it must be publicly accessible." House Report on H.R. 1249, No. 112-98, 111th Cong. (June 1, 2011), p. 43.

should suffice in many circumstance to better assure that a failed prior user defense will result in an award of attorney fees to a prevailing patent owner.

Given that H.R. 9 will address prior user rights issues under § 273, it may be an opportune time for the Committee to take a more holistic look at needed reforms to the prior user right statute and again test whether a consensus can be forged on reforms. In testimony before this Committee on February 1, 2012 and October 26, 1995, I had the opportunity to lay out for the Committee the types of changes to the U.S. patent law that are essential to make our system of prior user rights an effective statute.[37]

Prior user rights should apply to each claimed invention in all issued patents, cover all established commercial uses before the effective filing date for a claimed invention in a patent, and include protection once substantial preparations for the commercial use has been completed. I would urge the Committee to consider whether now is the time to work towards a consensus to expand the manner in which H.R. 9 addresses the issue of the prior user defense.

H.R. 9 Should Encourage the Judicial Conference Study of Patent Litigation Practices

Under § 6 of H.R. 9, a series of mandates are provided to the Judicial Conference to develop rules and procedures that would allow patent infringement litigation to operate with enhanced fairness and efficiency—and further provides for the adoption by the district courts once the work of the Judicial Conference is complete. In addition, § 6 would require the elimination of Form 18 in the Appendix to the Federal Rules of Civil Procedure by the Supreme Court in a provision that is likely mooted by the pending adoption by the Court of revised Federal Rules of Civil Procedure.

These provisions in § 6 provide important recommendations to the Judicial Conference on issues of central importance to effective management of patent litigation matters and should enlist the expertise of the Judicial Conference to develop the specific practices that the courts can then implement. As such, these provisions should remain as an element of the overall package of measures within the bill, with the possible exception of the removal of § 6(c) in light of the amendments to the Federal Rules of Civil Procedure pending approval by the U.S. Supreme Court.

H.R. 9 Should Protect U.S.-Based IP Licenses from Foreign Bankruptcy Proceedings

Under § 6(d) of H.R. 9, certain provisions of the Bankruptcy Code (11 U.S.C. § 1522) would be clarified to provide that in bankruptcy proceedings involving foreign bankruptcy administrators, the courts in the United States would protect certain of the debtor's IP licenses to prevent unilateral rejection. The provision, thus, protects the existing licensees. They will not face the loss of their previously negotiated license rights if the foreign intellectual property owner files for bankruptcy under the laws of that foreign country.

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[37] Testimony from both hearings is available at http://judiciary.house.gov/_files/hearings/Hearings%202012/Armitage%2002012012.pdf.

This is an important protection for U.S.-based interests that should be included in H.R. 9, particularly in light of the protection that would be afforded to U.S.-based trademark franchisees.

H.R. 9's Provisions on Small Business/Studies Should be Maintained in the Bill

Under § 7 and § 8 of H.R. 9, the bill provides a set of provisions impacting small business (educational resources and website support to be provided by the United States Patent and Trademark Office) as well as studies.[38] These provisions have attracted little public interest and little public comment.

Given their apparent noncontroversial nature, there appears to be no reason that the Committee should not maintain these provisions in the bill. That said, the Committee may wish to reaffirm with the proponents for each study that the policy interests to be served remain timely and important enough to devote the time and resources needed to produce meaningful results. Given the dynamic nature of some of these topics for study, intervening events may have changed the optimal focus for—or even the need for—one or more of such studies.

H.R. 9 Should Make Important Improvements to the Leahy-Smith America Invents Act

Under § 9 of H.R. 9, the bill concludes with a set of important improvements and technical amendments to AIA.

Fix the Legislative Error in the Post-Grant Review Estoppel Provision

Under § 9(a) of H.R. 9, the bill corrects a legislative error in the Post-Grant Review provisions of the AIA in which the judicial estoppel that is to apply to a PGR petitioner extends to any issue that reasonably could have been raised in the proceeding. Fixing this error, which if left unfixed can be expected to unduly limit the circumstances under many potential petitioners would be willing to make use of this proceeding, represents one of the most important pieces of unfinished business in the AIA.

Since the new PGR procedure is available to adjudicate any issue of the validity of a newly issued patent that could be raised by an accused infringer as a defense to the patent's validity in district court, extending the PGR estoppel to issues that *could have been reasonably raised* is to effectively extend the estoppel to every possible patent invalidity issue. Because only the AIA first-inventor-to-file patents are subject to post-grant review, the invalidity issues for these patents are all based upon information that is available to the public, making it particularly difficult to allege that any such invalidity issues could not have reasonably been raised.

[38] The studies are described in § 8(a), secondary patent market oversight (to promote transparency and ethical business practices), § 8(b), government-owned patents, § 8(c), patent quality and best information during examination, § 8(d), small claims court, § 8(e), demand letters, § 8(f), business method patent quality, and § 8(g), legislation impact on small business protection.

Over time, the new PGR procedure holds the potential for being the most important vehicle for public input into the patenting process, with the potential to allow members of the public to seek cancelation of any claim in any newly issued patent on any ground of patent invalidity—and secure a final determination from the United States Patent and Trademark Office on such invalidity issues within one year from the institution of the PGR proceeding. The scope of the new PGR procedure is entirely unprecedented. Given the patent quality implications of its successful implementation and full utilization, it is critical that this unfortunate legislative error in the enactment of the AIA be corrected.

Fix the IPR/PGR "Claim Construction" Standard

The intent of both the Inter Partes Review and Post-Grant Review proceedings in the United States Patent and Trademark Office was to afford members of the public the opportunity for a relatively inexpensive, relatively prompt *adjudication* of the *validity* of issued U.S. patents. In the implementation of the IPR/PGR proceedings, the United States Patent and Trademark Office used claim construction mechanism that were designed for *examination* rather than *adjudication*.

In *examination*, the claims of patent applications are afforded their *broadest reasonable interpretation*. This standard can serve an important policy purpose in the context where the patent applicant has liberal opportunities to iteratively refine the claims under examination to assure that they are fully differentiated from the prior art. There is no analog to the iterative refinement process in either IPR or PGR.

While some small justification for this implementation choice by the United States Patent and Trademark Office can be found in the limited possibility for the patent owner to amend claims in the IPR/PGR procedures, the AIA claim amendment provisions for IPR and PGR procedures were not designed to be an iterative process. Instead, they were designed to be a one-time opportunity to substitute claims. Both the statute and the United States Patent and Trademark Office implementation of the statute impose limitations on the number of new claims that can be offered.

Indeed, in only a small number of IPRs instituted thus far has the United States Patent and Trademark Office permitted a patent claim to be amended.[39] The result, in the overwhelming number of IPRs, is that the United States Patent and Trademark Office is determining whether the issued patent claim is valid by construing the claim *more broadly than the patent owner would ever be entitled to assert the same patent claim was being infringed.*

Because the patent system could not operate fairly—or otherwise sensibly—if patent claims were given their broadest reasonable interpretation when the claims were

[39] "[I] n practice, motions to amend claims have been denied at an extremely high rate. Of 91 motions to amend, only 28 have been granted and four granted-in-part." See http://www.law360.com/articles/581512/trends-from-2-years-of-aia-post-grant-proceedings.

being enforced against infringers, it is likewise unfair to use such a broader-than-life standard to decide if the patent claim is valid. Doing so unfairly creates a much larger target for invalidating the claims as lacking novelty or non-obviousness.

Among the improvements and technical amendments to be included in H.R. 9, I would urge the Committee to move this provision to the top of the priority list. I regard this provision as essential to the bill—and, indeed, essential to the viability of both the PGR and IPR procedures to get this aspect of the United States Patent and Trademark Office implementation of the AIA fixed.

Codify a Comprehensive "Double Patenting" Doctrine

While it is a provision that has been known to make even the most ardent patent professionals yawn, § 9(c) of H.R. 9 takes up an important issue of patent law: the rules that bar separate enforcement of patents with highly similar claims. The "double patenting" provisions of H.R. 9 would accomplish this objective by expanding the "prior art" provisions for the AIA first-inventor-to-file patents so that two patents with highly similar claims could not validly issue absent disclaiming the ability to separately enforce the two patents.

A core principle of U.S. patent law provides that the each valid claim of each U.S. patent must be distinct (differ in non-obviousness ways) from each valid claim of every other U.S. patent—or, where respective claims of two U.S. patents are patentably indistinct from one another, the two patents can be enforced only to the same extent as though all of the claims of both patents had been issued in a single patent.[40] The "double patenting" doctrine effects this principle.

In addition, given the ability under the patent law prior to the URAA[41] to serially issue patents with separate 17-year patent terms, "double patenting" law historically required the disclaimer of the term of the later-issued of the two patents beyond the 17-year term of protection measured from the issue date of the first-issuing patent. This was done to prevent to prevent an "unjustified timewise extension of the right to exclude."[42]

The law of double patenting, although over 100 years old,[43] has always been a judge-made law. The longstanding lack of a codified law of "double patenting" is unsurprising, at least in part, because the doctrine relates to the obviousness of the differences between the respective claims of the two patents and it took over 100 years for the law on obviousness[44] itself to be codified—as it finally was under the 1952 Patent Act.[45]

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[40] Under current United States Patent and Trademark Office regulations, this is done by requiring common ownership of the patents to be maintained or otherwise barring separate enforcement of the two patents. 37 C.F.R. § 1.321.
[41] Uruguay Round Agreements Act, Pub. L. No. 103–465, § 101, 108 Stat. 4809 (1994).
[42] *Application of Schneller*, 397 F. 2d 350, 354 (C.C.P.A. 1968).
[43] *Miller v. Eagle Manufacturing*, 151 U.S. 186 (1894).
[44] *Hotchkiss v. Greenwood*, 52 U.S. 248 (1850).
[45] 35 U.S.C. § 103.

Part of the reason that "double patenting" principles did not join in the 1952 codification effort lay in the complexity of any "double patenting" codification effort under the pre-AIA first-to-invent principles used to determine "prior art" and, thus "obviousness" of one claimed invention vis-à-vis another. In addition, before a series of changes were made to the patent statute starting in 1984, the fact situations where double-patenting principles applied were relatively few.[46]

Finally, except in recent decades, the judge-made law was so closely aligned with the policy considerations that underpin the doctrine that a codification effort was difficult to justify. Recent Federal Circuit decisions, however, have created a substantial gulf between the policy justification for invalidating patents on double patenting grounds and the application of the law, as well as upset long-settled expectations of which of the two patents is the "double patent" and which is not.[47]

Of most significance is that the AIA—like the Patent Law Amendments Act of 1984[48] and the CREATE Act[49] before it—has again greatly expanded the situations in which double patenting issues can arise. The AIA not only fully preserved the so-called "anti-self-collision provisions" under which an inventor's own patent filings do not become "prior art" to the inventor, but profoundly eased the rules under which patents that are commonly owned or subject to joint research agreements cannot be cited as prior art, one against the other.

All these factors have now come together to make a modernization and codification of "double patenting" law of significant importance. In addition, most fortuitously, the AIA greatly facilitated crafting a codification of double patent law given the dramatic simplification of the prior art provisions of the statute under the first-inventor-to-file principle.

Under the provisions of H.R. 9, where a statutory "prior art" relationship between two patents would otherwise not be present, the "double patenting" provision amends the AIA prior art statute to provide that such a prior art relationship will be created as between the claims of every two patents where it would not otherwise exist. Once the new prior art relationship is created, this new "double patenting prior art" can only be

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[46] See *Section-By-Section Analysis of H.R. 6286, Patent Law Amendments Act of 1984*, Congressional Record, Oct. 1, 1984, H10525-10529, in which the House Report on the Patent Law Amendments Act of 1984 effectively directs the Patent Office to withdraw its 1967 notice (*i.e.*, Commissioners Notice of January 9, 1967, Double Patenting, 834 O.G. 1615 (Jan. 31, 1967)), limiting double patenting to the situation where both patents named the same inventor.

[47] *In re Hubbell*, 709 F. 3d 1140 (Fed. Cir. 2013), finding "double patenting" in situations where the respective claims of the two patents, if valid, were necessary patentably distinct, and *Gilead Sciences, Inc. v. Natco Pharma Ltd.*, 753 F. 3d 1208 (2014), finding that a first-issued patent was invalid in the face of 100+ years of precedent holding that the later-issued not the first-issued of two patents represented the "double patent." .

[48] Patent Law Amendments Act of 1984, Pub. L. No. 98–622, 98 Stat. 3383.

[49] Cooperative Research and Technology (CREATE) Act of 2004, Pub. L. No. 108-453, 118 Stat. 3596.

thereafter removed if the patent owner agrees to forego separate enforcement of the two patents.

By turning the "prior art" switch to the "on" position as between the claimed invention in two patents where otherwise the AIA leaves the "prior art" switch in the "off" position, it assures that valid claims cannot be present in the two patents unless patentable distinctness exists as between the respective patent claims or the patent owner of the "double patent" has elected to limit separate enforcement of the two patents.

While the provisions currently in H.R. 9 fully effect this policy objective, I would urge the Committee to consider a simpler and more comprehensive statutory text that has been developed for accomplishing this identical result,[50] as well as a separate statutory amendment limiting any "patent term adjustment" for a patent subject to double patenting constraints so that the adjusted term of the double patent could not extend the combined patent life of both patents beyond 17 years.[51]

Since all AIA patents are subject to the 20-year patent term from the original nonprovisional patent date[52] (or up to 21 years from the earliest provisional or patent filing date or foreign priority date)[53] and—most importantly—a valid AIA patent must meet the novelty and non-obviousness requirements over all prior art as of the start date for the 20- or 21-year protection period, the AIA patents no longer create the same potential for the type of "unjustified timewise extension of exclusionary rights" that existed for patents subject to the former 17-year patent term that commenced on the issue

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[50] Instead of adding a new 35 U.S.C. § 106, the substitute approach would simply add another subsection at the end of the existing prior art section of title 35, § 102, as follows:

"(e) DOUBLE-PATENTING PRIOR ART.—If a first claimed invention in a first patent was effectively filed on or before the effective filing date of a second claimed invention in a second patent or the application on which it issues, and the first claimed invention is not otherwise prior art to the second claimed invention under this section, then the first claimed invention shall, notwithstanding the other subsections of this section, constitute prior art to the second claimed invention under this paragraph unless—

"(1) the second claimed invention has consonance with a requirement for restriction under the first sentence of section 121 with respect to the claims issued in the first patent; or

"(2) an election has been recorded in the Office by the owner of the second patent or the application on which it issues disclaiming the right to bring or maintain an action under section 281 to enforce the second patent unless—

"(A) the relief being sought in the enforcement action would not constitute a cause of action barred by res judicata had the asserted claims of the second patent been issued in the first patent; and

"(B) the owner of the first patent or the application on which it issues has recorded an election limiting the enforcement of the first patent relative to the second patent in the manner described in this paragraph (2), the owner of the first patent is a party to the enforcement action, or a separate action under section 281 to enforce the first patent can no longer be brought or maintained."

[51] This change would require amending 35 U.S.C. § 154(b)(2) to insert at the end:

"(D) PATENTS SUBJECT TO ELECTION.—If a patent is subject to an election as described in section 102(e)(2) with respect to one or more other patents, the adjusted term of the patent under this subsection may not exceed a period of 17 years from the date of issuance of any of such other patents and the portion of any adjustment of the term of the patent under this subsection extending beyond the expiration of such period of 17 years shall be void."

[52] 35 U.S.C. § 154(a)(2).

[53] 35 U.S.C. § 154(a)(3).

date of the patent, *i.e.*, for such pre-URAA patents, nothing in the patent statute itself prevented successive patents from being issued with highly similar claims for successive 17-year terms even though the invention had long before become public. This new reality is taken into account in these substitute provisions.[54] Taken together, they would optimally address all policy consideration that arise in double patenting situations.

Correct Technical Mistakes in the Enactment of the America Invents Act

Several subsections in § 9 of H.R. 9 address technical mistakes in the enactment of the AIA and the Patent Law Treaty Implementation Act that merit correction:

(a) Section 9(d): Under § 18(a)(1)(C)(i) of the AIA, a reference to pre-AIA 35 U.S.C. § 102(e) was unintentionally omitted. The provision in question should have related to all forms of published prior art. Thus, the reference to § 102(a) should have been accompanied by a reference to § 102(e) as well. The amendment avoids an unintended restriction on prior art available for the transitional program for covered business method patents.[55]

(b) Sections 9(h)(1)(A), 9(h)(3), and 9(h)(4): Through an apparent legislative error, the indefinite article "a" is absent from the 35 U.S.C. § 102(b)(1)(A). The corrected phrase reference "the inventor or *a* joint inventor," in order to reflect that the inventor can be a group of individuals and the term "joint inventor" is intended as a reference to any one of such individuals.

(c) Section 9(h)(5): This paragraph provides a new effective date provision for the amendments in the AIA to 35 U.S.C. § 112 that designated as subsections (a) through (f) the six undesignated paragraphs of the section. The new provision assures that the designations apply universally and are not unnecessarily limited to first-inventor-to-file patents under the AIA.

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[54] Except for assuring patent term adjustment is limited to prevent adjustments resulting in more than a 17-year protection period, there is no policy justification for continuing the type of "terminal disclaimer" practice for AIA patents that was critically important to limit in a timewise sense the protection available under patents with 17-years terms. The substitute provisions, thus, focus double patenting consequences on barring separate enforcement of the first-inventor-to-file patents with the indistinct claims and addresses the issue of timewise extension of rights with a limitation on patent term adjustment that could otherwise result in adding exclusionary rights that would extend beyond the 17-year period.

[55] Under § 9(d)(2) of H.R. 9, the United States Patent and Trademark Office is given authority to waive fees in the transitional program for covered business method patents. This transitional program is set to end on September 15, 2020, *i.e.*, after this date no new petitions will be accepted under this program. In the two and one-half years of operation of this program, there has been yet to emerge any demonstrated need for waiver of fees in connection with this program. The program itself is limited to patents with a nexus to technology "used in the practice, administration, or management of a financial product or service," an area of commerce where fee-for-service is not an atypical expectation. The Committee may wish to consider whether the maturity of the CBM program, the experience with its use, the relatively limited lifespan remaining for the program, and the precedent of a no-fee-for-service provision without any mandated means-testing mechanism remains in the public interest.

(d) Section 9(h)(7): The errant references in 35 U.S.C. § 316 and § 326 to the petitions in IPR and PGR proceedings requires correction to § 311 and § 321, respectively.

(e) Section 9(h)(8): The change made to 35 U.S.C. § 361(c) under the Patent Law Treaties Implementation Act restores the traditional requirement that the filing of International Applications (*i.e.*, applications filed with the United States Patent and Trademark Office as a "receiving office" under the Patent Cooperation Treaty) must be in the English language.[56]

Further Simplify the Oath/Declaration Provisions in the AIA

The AIA provided a substantial simplification of the formalities imposed on inventors in connection with applications for patent by streamlining the content of the oath or declaration required by the inventor. In effect, under 35 U.S.C. § 115 as enacted under the AIA, the inventor could make a one-time statement authorizing the patent filing and verifying inventorship.

In certain circumstances, however, § 115 may errantly obligate the United States Patent and Trademark Office to require second oaths or statements by the inventor under the provisions of § 115(g). This may be the case when continuing applications that reference an original patent application filing containing the inventor's oath or declaration.[57]

Under § 9(h)(2) of H.R. 9, this technical issue with the drafting of the AIA's provisions that relate to the inventor's oath/declaration is addressed by an amendment to § 115(a) that makes the oath/declaration requirement *permissive* on the part of the United States Patent and Trademark Office. Thus, it addresses the situation where, under § 115(g), the United States Patent and Trademark Office might be obliged to require a second oath/declaration in circumstances where doing so would be serve no patent policy end and would be inconsistent with the intent under the AIA to simplify patent application formalities for inventors.[58]

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[56] The effect of this amendment is to eliminate the last clause in the amended § 361(c):

"(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~~."

[57] While an inventor is entitled under § 115(g)(1) the filing of a second oath/declaration in a later-filed continuing application that otherwise would be required under § 115(a) if "an oath or declaration meeting the requirements of subsection (a) was executed by the individual and was filed in connection with the earlier-filed application." This provision, as enacted under the AIA, failed to account for the fact that a pre-AIA oath/declaration might not be deemed to meet the precise statutory formulation set out in § 115(b) for the required content of the oath/declaration.

[58] In the 113th Congress, H.R. 3309, as introduced, contained a much more elaborate provision to address the issue arising under § 115(g). This provision would have had the practical effect of undoing some of the streamlining-simplification efforts that were achieved under the AIA. Specifically, the requirement that the later patent filing "claims the benefit" of an earlier patent filing containing the executed oath/declaration in order to avoid the need for a second oath/declaration filing was to be changed to "is entitled, as to each invention claimed in the application, to the benefit" of the earlier patent filing. This more elaborate test

Extend the "Patent Pilot Program" for a Second Decade

Under § 9(g), the "Patent Pilot Program,"[59] which facilitates the ability of participating federal district courts to transfer randomly assigned patent cases to designated judges within the same district, has been in operation since 2011. The program is set to "sunset" in 2021. Section 9(g) would extended the sunset for an additional 10 years—to expire in 2031. The intent of the program is to test the effectiveness of having fewer district court judges deciding more patent cases per year, which is facilitated through the reassignment to the designated subset of judges.

The actual impact of having judges deciding more patent cases per year will not be known until the program has had the opportunity to operate for a substantial period of time, hence the 10-year original duration of the pilot. The intended effects are that patent cases can be handled more rapidly, at a reduced litigation cost, and with fewer appellate reversals. The program may produce additional effects. For example, some statistical data suggests that judges deciding more patent cases each year are less likely to rule favorably for the patent owner compared to judges with less intense exposure to a patent docket.[60] Whether the historical data that is reflected in this statistic will apply to the patent pilot program districts is unknown.

Nothing in the operation of this program thus far would suggest that the 10-year experiment should not run to completion—or would suggest that an additional 10-year pilot period would be an inappropriate extension period if the goal were to gather longer-term data on the sustained impact of this program.

Moreover, given that the Committee will have continuing oversight of the operation and progress of this program—and has the ability to advance legislation to terminate the pilot in favor of a permanent patent program or to end the effort altogether at any time—the longer, 20-year runway appears to have significant upsides for the program, with downsides that are only speculative.[61]

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would have required a cumbersome, claim-by-claim assessment of benefit in fact—taking into account the disclosure requirements imposed under 35 U.S.C. § 112 to secure benefit—to determine if a second oath/declaration were required. Under § 9(h)(2), all this complexity is avoided.

[59] Patent Pilot Program, Pub. L. No. 111-349, 124 Stat. 3674 (2011).

[60] See Lemley, Mark A. and Li, Su and Urban, Jennifer M., *Does Familiarity Breed Contempt Among Judges Deciding Patent Cases?* (May 2014). Stanford Public Law Working Paper No. 2347712; UC Berkeley Public Law Research Paper No. 2347712. Available at SSRN: http://ssrn.com/abstract=2347712 or http://dx.doi.org/10.2139/ssrn.2347712, at p. 22 "Notably, the more patent cases a judge has had per year at the time he or she decides a case, the less likely the judge is to rule for the patentee. That effect is highly statistically significant (p=0.012). The effect is driven by the intensity of experience with patent cases, not simply time on the bench."

[61] Comment has appeared on the "Patent Pilot Program and Its Dangers," with specific reference to the Pilot Program's "notion of 'expert judges' pos[ing] an indirect threat to the right to a jury trial since it views expertise on the side of the court as a solution for many existing or potential problems arising in the patent litigation system." Minsuk Han, *A Two-Branched Attack on the Jury Right in Patent Litigation*, 99 Cornel Law Review 659-676 (2014). http://cornellawreview.org/files/2014/03/99CLR659.pdf.

Affirm the Substantial Federal Interest in Patent-Related Adjudications

Under § 9(f) of H.R. 9, the bill affirms the substantial federal interest in patent related adjudications by the courts, specifically those in which the legal force and effect of claims in patents are at issue. By characterizing as a substantial federal issue the prevention of inconsistent final determinations on issues such as the validity or enforceability of patent rights, the bill addresses an inconsistent determination of the United States Supreme Court in the *Minton* case.[62]

This provision of H.R. 9 should require that future cases raising the same facts as the *Minton* case would be decided differently. It would, thus, assure a consistent development of and application of patent law principles within the federal courts. As such, it would avoid the difficulties that arise through efforts in the state courts to assess the legal force and effect of patent claims, including in attorney malpractice cases.

Extend the Time Limit for Initiatiug Attorney Misconduct Proceedings

Under § 9(h) of H.R. 9, the provisions of 35 U.S.C. § 32, which govern proceedings for the suspension of patent agents and patent attorneys for misconduct before the United States Patent and Trademark Office, would be amended to change the time limit for the institution of a misconduct proceeding from 1 year to 18 months from the date on which the misconduct became known to the Office.[63]

This provision has engendered some controversy within the patent bar among those who believe the higher priority for the Office should be to act promptly and not unduly prolong investigations of this type in light of the personal and professional cloud over an individual and her or his practice that may result from unresolved allegations of misconduct. The Committee should give due consideration to such concerns.

That said, the 18-month period that would be substituted for the 1-year deadline in the current statute represents a reasonable request on the part of the Office for a more adequate time period in which to fully and fairly conduct such an investigation. It is preferable to the alternative of bringing a misconduct proceeding prematurely in order for the agency to avoid having this statute of limitations run. As such, there is no reason for this provision not to remain as part of H.R. 9.

Clarify the Statutory Provisions on Patent Term Adjustment

Under § 9(e) of H.R. 9, a clarification would be made to the calculation of the so-called "patent term adjustment" provisions. Adjustments are available to extend the

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[62] *Gunn v. Minton*, 133 S. Ct. 1059 (2013).

[63] 35 U.S.C. § 32 currently provides, in relevant part, "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 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)."

terms of U.S. patents beyond the end of the 20-year statutory term of the patent that was established under the URAA. Under 35 U.S.C. § 154(b), the statutory patent term adjustment provision, there are three possible components to any "patent term adjustment." They are based upon the United States Patent and Trademark Office taking too long (beyond a fixed time specified in the statute) for completing certain actions, failure to issue a patent within a target period of 3 years from initial filing (so as to afford a 17-year patent life, *i.e.*, the remainder of the 20-year patent term), and the pendency of special proceedings (secrecy order delays, patent interferences and derivation proceedings, and successful patent appeals). Given the potential conflict between these components, an overall limitation applies that prevents any adjustment beyond the "actual number of days the issuance of the patent was delayed."

To say that making the needed calculations of extended term under provisions of this type can be problematic is an understatement. Since there is no established arrival and departure times for application for patent (as with a train schedule), there is no easy way to determine when the actual number of days of consumed by patent examination represents the "non-delayed: time to grant—and when the issuance of the patent has been "delayed."

More significantly, for many patent applicants, the delay in issuance is an irretrievable loss. The patent term that gets added back to the patent's life comes 20 years after the patent filing. At that point, many, perhaps most, patented inventions become technologically irrelevant. The investment opportunity that may have come from a promptly issued patent will be lost. Getting something back 10 to 20 years too late is hardly consolation for the benefits that might have come from a promptly examined and promptly issued patent.

Today, at least for some patent applicants, accelerated examination is available. Both "Track One Prioritized Examination" and "Accelerated Examination" have been created that have a final disposition objective of 1 year—meaning the patent owner could have nearly a 19-year patent life[64] if it had participated in the special examination process.

The proposal to amend the PTA statute would relocate a clause defining the start of the 3-year "guarantee" period where a day-by-day extension would apply and then more carefully identify the time not to be counted as part of the 3-year period, *i.e.*, when an application was undergoing "continued examination," by identifying the start day of that time from the date of the patent applicant's request for continued examination.

While these provisions seem reasonable on their face as clarifications of the PTA timing provisions, they have been opposed by elements in the patent bar. The Intellectual Property Owners Association has a very succinct statement of its opposition, "RESOLVED, that IPO opposes amendments to Patent Act section 154(b)(1)(B) that would deprive patent holders of effective patent term consumed by application

[64] See http://www.uspto.gov/sites/default/files/aia_implementation/fast_exam_table20130912v1017.pdf.

processing after request for continued examination is filed with the United States Patent and Trademark Office."[65]

In an era when multiple options for accelerated examination are available to patent applicants—and the back-end remedy of adding lost patent life at a time when the march of technology may render the added term economically meaningless for many inventors—this Committee should consider whether to take a more comprehensive look at the PTA statute than this Band-Aid® fix to § 154(b)(1)(B)—especially given that, at best, it seems to have been negatively received within the patent user community.

I would urge the Committee to consider mechanisms under which access to PTA might be limited to those applicants truly interested in prompt patent issuance, *i.e.*, those who were willing to enter one of the special examination tracks that target a 1-year issuance. There are also bolder proposals that might better serve the interests of the patent system that may merit some consideration—and replace the PTA statute entirely.

Section 154(b)(1)(B) is captioned "Guarantee of no more than 3-year application pendency." The Committee might consider replacing it with a "guaranteed issue date" provision allowing an applicant to make a request with the patent filing for such a guaranteed issue date and, if at the expiration of the 3-year period the patent examination was not complete, immediately issuing the patent to the applicant at the 3-year deadline (should the applicant then reiterate the request), with the remaining examination of the claims of the newly issued patent to be completed via a post-grant ex parte reexamination of the type authorized in the AIA under 35 U.S.C. § 257(b). Such an examination-to-reexamination transition could be seamless and allow the post-grant reexamination to pick up wherever the pre-grant examination left off, without missing a beat.

The Committee Should Look Beyond H.R. 9 to Advance Other Patent Reforms

There was an extensive list of important patent reform issues that I brought to the Committee's attention in my 2013 testimony that remain important topics that still merit consideration—either as part of H.R. 9 or as part of a next-Congress effort at further improving the patent system operation. Since 2013, more learnings are available from experience with the operation of the AIA. Not surprisingly, experience can raise new concerns. For some of these concerns, H.R. 9 would be the optimal vehicle for addressing them. In this context, I would ask that the Committee consider the following:

Inter Partes Review—If It Cannot Be Fixed, It Must Be Repealed

The AIA Inter Partes Review procedure needs attention in this Congress.

Earlier this year, in the course of a one-on-one conversation with a company executive, he handed me a copy of a letter that his company had recently received. The letter had been sent to the company from a self-characterized "privately held investment venture whose financial interests include equity positions in both branded and generic

[65] https://www.ipo.org/index.php/advocacy/board-resolutions/2013-board-resolutions/.

pharmaceutical firms." The unsolicited letter sought a multi-million dollar "settlement" from the company. If the company agreed to the "settlement" terms—and forked over to the "investment venture" the millions of dollars requested as settlement amounts—then the "investment venture" would refrain from filing an IPR petition seeking to invalidate one of the company's patents.

Just in case the company might be clueless about the implications, the letter characterized for the company what was at stake if it were not amendable to a "settlement":

> "We trust you are aware of the important role that *Inter Partes* Reviews are playing in expeditiously eliminating invalid patents. As you are likely aware, the Administrative Patent Judges of the Patent Trial & Appeal ("PTAB") that adjudicate *Inter Partes* Reviews apply a meaningfully lower standard of proof for invalidity than District Court judges do in bench trials, and have become 'death squads' according to former Chief Judge Randall Rader of the U.S. Court of Appeals for the Federal Circuit."

The investment venture went on to state it "has prepared, and is ready to promptly file, with the USPTO and prosecute through final decision, at least one *Inter Partes* Review… ." The letter stated the investment venture was "resolutely confident that the IPR Petition … presents a significant and terminal threat to" the company's patent at issue.

I also had the opportunity to read a relevant Wall Street Journal article last week,[66] in which the AIA's IPR process was discussed. The article addressed IPR use by Kyle Bass, whose investment operations may include speculation on share-price movements for his IPR targets and their competitors:

> Mr. Bass's strategy taps an administrative process known as Inter Partes Review, or IPR, that allows petitions to strike down patents to be heard by a patent office panel. The process was created by Congress in 2011 to help companies fight so-called patent trolls, nonoperating companies that extract cash settlements from companies they accuse of patent infringement. The panel is a cheaper and faster option than trials in federal courts.
>
> IPR challenges are evaluated by a panel of three administrative patent judges who use a broader set of criteria than the courts when deciding whether patents should be invalidated, making it much easier to strike down patents, experts said. Some 77% of patents evaluated

[66] http://www.wsj.com/articles/hedge-fund-manager-kyle-bass-challenges-jazz-pharmaceuticals-patent-1428417408.

> through the IPR process have been invalidated or disclaimed by their owners, according to an analysis published last year in the University of Chicago Law Review.
>
> … Mr. Bass was pitching wealthy individuals and institutions to invest in a dedicated fund that would bet against, or short, the shares of companies whose patents Mr. Bass believed to be specious, and wager on rivals that could benefit. In particular, Mr. Bass was interested in older patents which he believed to be more vulnerable.
>
> The fund requires a minimum $1 million investment, and Mr. Bass's firm will keep 20% of all profits earned, according to a person familiar with the matter. The trades also will be part of Hayman Capital's main fund.

In addition, I have had the opportunity to review some relatively recent statistics on IPR proceedings.[67]

- In more than four of five IPRs that are instituted, they represent potentially redundant proceedings.

- For 82% of IPRs, a parallel district court proceeding is underway in which the very same patent invalidity issues were pleaded and would have been efficiently managed and resolved that the IPR opportunity not been present.

- The "success rate" in having patent claims held invalid in IPR proceedings is high. According to Love *et al.*, "Among IPRs that reach a final decision on the merits, all instituted claims are invalidated or disclaimed more than 77 percent of the time."[68]

So, what is it that the Committee might conclude from what has transpired with the IPR process since it went live in 2012? Three questions cry out for an answer:

- Should IPR be an arena in which "investment ventures" are able to develop a business model based upon the ability to predict in advance share price moves for companies and their competitors once the venture issues a press release issues that an IPR has been filed on a patent that is material to the company's future?

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[67] Love, Brian J. and Ambwani, Shawn, *Inter Partes Review: An Early Look at the Numbers* (October 20, 2014). University of Chicago Law Review Dialogue, Vol. 81, p. 93, 2014. Available at SSRN: http://ssrn.com/abstract=2512519.

[68] *Id.*, at 94.

- Should IPR be able to be used to spawn yet another "reverse payment" industry where an "investment venture" seeks to get paid for not moving forward with what they assert is a bona fide challenge to a patent's validity?

- Should IPR be used as a pure litigation tactic—to open a second front in an ongoing litigation war, where the same weapons have already been deployed against the patent in the district court pleading that, whether the IPR is instituted or not, the district court is fully able to consider and decide the patent validity issues?

These questions are important for the Committee to consider because they relate not just to *some* of what the IPR statute is about; these questions go to the heart of *most* of the use of the IPR proceeding.

In light of the above, one option that Congress could consider is outright repeal of the IPR statute. I can make a strong case that the IPR statute should be repealed.

The case for repeal goes something like this: All of the patent validity issues that have been raised in these IPR proceedings (and then some) could have been raised instead in the ex parte reexamination process that has been in place in the United States Patent and Trademark Office for well over the past quarter century.[69] This is, indeed, the case for all of the IPR requests made by investment ventures—they could have been ex parte reexaminations requests on the very same grounds, bringing forth the very same evidence, as is permitted in the IPR. As the above statistics indicate, the overwhelming number of the patent validity issues that have been raised in these IPR proceedings were under active adjudication in a parallel district court proceeding—and would have been adjudicated elsewhere had IPR not been created. Lastly, once the PGR statute fully operational and running in steady state—which will happen with the issuance of ever greater numbers of first-inventor-to-file patents and with H.R. 9's judicial estoppel fix in place—the United States Patent and Trademark Office will need to make room for a far greater number of the far more expansive PGR procedures.

Given all this, the flaws in the IPR process may be fatal ones—the best patent policy for the Nation may be to nuture the PGR process, but jettison the IPR process. If such an extreme response is not yet warranted, the alternative that the Committee may prefer to explore is whether or not it is possible to tinker with the IPR process in the hope that it can be salvaged.

Both PGR and IPR contain a number of features that were designed to have built-in advantages for organizations wishing to challenge patents once issued. The PGR/IPR procedures are less expensive and are completed over shorter time horizons than many district court validity determinations. There is a limited time and a limited ability in the IPR process to discover and present evidence that might be most supportive of

[69] Ex parte reexamination under Chapter 30 of title 35 traces its origin back to 1980. Act of Dec. 12, 1980, Pub. L. No. 96-517, 94 Stat. 3015.

patentability for some types of inventions. Patents in these proceedings are not presumed to be valid. The evidentiary standard that applies in federal district courts—the clear and convincing evidence standard to invalidate—does not apply in the PGR/IPR context.

An important difference exists, however, between these various features as they apply to the PGR proceeding—which can take place, if at all, only in the immediate aftermath of the issuance of a patent—and the IPR proceeding, which can be sought by petition filed at any juncture during the life of a patent. When investments are made, products are developed, and businesses are built based a patent that went through the examination gauntlet at the United States Patent and Trademark Office, the better patent policy would dictate that it should be no casual matter to upset that patent. For patents starting out as ideas—that hard work and sustained investment in reliance on the validity of patent rights have turned into patent-protected products on which a thriving business has been built—such property rights should not be casually nullified, save for good and sufficient reason arrived at through a thorough and careful adjudicatory process.

At a minimum, these considerations suggest that the rules of the IPR game should be considered in this different light from the considerations that apply to newly issued patents. I would, thus, urge the Committee to take a careful look at the IPR process and determine what measures might be included, as part of H.R. 9, that would be merit saving, rather than sacrificing, this procedure for the good of the patent system.

As a start, there is no reason that patent claims in an IPR cannot be accorded the presumption of validity as would apply in a patent infringement litigation. Additionally, there is no reason that the invalidity contentions in an IPR proceeding cannot be evaluated under the clear and convincing evidence standard that would apply in a district court review of the same patent.

These measures, taken together with the critically important reform already present in H.R. 9, *i.e.*, the abandonment of the use of a claims "broadest reasonable construction" in determining the validity of the patent claims, would allow the IPR statute a fresh start—and allow the procedure to prove that it has a non-redundant role relative to district court proceedings in a substantial number of situations—and could no longer be perceived as a legal nectar for investment bees looking for their next sting.

As I noted earlier, such changes would not slam the USPTO door on anyone with a valid concern over an invalid patent. The ex parte reexamination process in the United States Patent and Trademark Office covers all the validity issues available in IPR—and is available throughout the life of the patent. And, federal district courts for two centuries worked without any help from the United States Patent and Trademark Office to address all the validity issues pled as defenses to patent infringement allegations.

In sum, I would implore the Committee—in looking for ways to make H.R. 9 a more effective legislative vehicle—to consider the developments on the IPR front over the past several years as important enough to merit making fundamental changes now in how the procedure operates.

Enact a "Research Use" Exception to Patent Infringement

In my 2013 testimony before the Committee, I mentioned the importance to the patent system of a clear, statutory provision dealing with when research or experimentation on a patented invention would give rise to infringement liability to the patent owner and when researchers were free to undertake such experimentation without liability for the patent's infringement. If anything, the need for Congress to act has only grown stronger over the past year.

Absent the recognition of a right to research and experiment, the courts have addressed the need for freedom to conduct research on or experiment on patented inventions, such as patents directed to basic scientific tools, by imposing constraints the scope of subject matter eligibility—what subject matter can fall within the scope of protection under a patent and what cannot. Making patents categorically unavailable for important new discoveries can cut off the ability to make the investments necessary to bring such discoveries to market.

The need for demonstrably excessive constraints on subject matter that can be patent-eligible becomes unnecessary once an effective right to research and experiment on patented inventions is properly recognized in the patent laws. As the Supreme Court has recently noted, "without this [subject matter eligibility] exception, there would be considerable danger that the grant of patents would 'tie up' the use of such tools and thereby 'inhibit future innovation premised upon them.' [citation omitted.] This would be at odds with the very point of patents, which exist to promote creation." *Ass'n for Molecular Pathology v. Myriad*, 133 S. Ct. 2107, 2116 (2013). With a viable and clear "research use" exception, this rationale for limiting patent eligibility disappears.

A "research use" exemption could be readily enacted by adding a 35 U.S.C. § 271(j):

> "(j) EXPERIMENTAL USE. —The acts described in subsections (a) and (g) shall not extend to making or using a claimed invention for experimental purposes in order to discern or discover—
>
> "(1) the patentability or validity of the claimed invention and the scope of protection afforded thereunder;
>
> "(2) features, properties, inherent characteristics or advantages of the claimed invention;
>
> "(3) methods of making or using the claimed invention and improvement thereto; and
>
> "(4) alternatives to the claimed inventions, improvements thereto or substitutes therefor."[70]

[70] The text above is substantially the proposal of the American Intellectual Property Law Association. See pp. 25-26, *AIPLA Response to the National Academies Report entitled "A Patent System for the 21st Century"*, at http://www.aipla.org/advocacy/executive/Documents/ReapBenefGenProtRes.pdf.

This type of statutory research-use exception was recommended by two studies undertaken by the National Academies.[71] Given this pedigree and the ripeness of this issue, I would urge the Committee to see whether room for it in H.R. 9 can be found.

Complete the Journey to a Fully Transparent Examination Process

One of the most significant enhancements made to the U.S. patenting process took place with enactment of the American Inventors Protection Act of 1999.[72] The formerly secret patent examination process in the United States became largely open to the public. The AIPA mandated the publication of most applications for patent at 18 months from the original provisional or nonprovisional patent filing date.

Because of deficiencies in the pre-AIA U.S. patent law that exposed U.S. inventors whose applications had been published to assertions—including entirely bogus assertions—of "prior invention," Congress inserted an exception to mandatory publication into the AIPA. Such bogus assertions could come from individuals seeking patents asserting that they were the "first to invent" the inventions disclosed in the published applications of others. As a result, the AIPA provided that any patent application that is not filed outside the United States is not subject to mandatory publication.

To this day, a small number of U.S.-based patent applicants elect to keep their patent applications secret until a patent issues. However, with the passage of the AIA, the specter of these types of interlopers coming to the United States Patent and Trademark Office with assertions they are the prior inventors of inventions made public in U.S. published patent applications has vanished.

The new law, in fact, provides *categorical protection* for the inventor of the published patent application. Today, once an inventor has filed for a patent and the inventor's patent application has published, no one else is able to secure a patent based on any later-filed patent application seeking a patent on the published invention—or any subject matter that would be obvious in view of the published invention.

Instead of the 18-month publication exposing an inventor whose patent filing has published to the potential loss of patent rights—as was the case under the pre-AIA patent law—the AIA now provides significant advantages to the inventor whose applications published. A published patent filing serves as a preemptive weapon to assure competitors cannot patent the same or obvious subject matter through any later-made patent filing.

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[71] Stephen A. Merrill and Anne-Marie Mazza, Eds, *Reaping the Benefits of Genomic and Proteomic Research: Intellectual Property Rights, Innovation, and Public Health*, Committee on Intellectual Property Rights in Genomic and Protein Research and Innovation, National Research Council, National Academies of Science (2006), at http://www.nap.edu/catalog.php?record_id=11487 and Stephen A. Merrill, Richard C. Levin, and Mark B. Myers, Eds., *A Patent System for the 21st Century*, Committee on Intellectual Property Rights in the Knowledge-Based Economy, Board on Science, Technology, and Economic Policy, Policy and Global Affairs Division, National Research Council, National Academies of Science (2004). See http://www.nap.edu/html/patentsystem/0309089107.pdf.

[72] Act of Nov. 29, 1999, Pub. L. No. 106-113, § 4001, 113 Stat. 1501, 1501A-552.

In addition, by enacting an across-the-board mandatory publication provision for all first-inventor-to-file patents covered by the AIA, all inventors get the benefits of "herd immunity" from knowing that all potentially relevant patents sought by their competitors have published and that they can expect freedom of action in moving their products in development through to market. Unless all applications publish, however, no inventor can know for sure if a competitor's never-published application might belatedly issue as a patent that could suddenly raise invalidity or infringement concerns for the inventor.

With the AIA now approaching its fourth anniversary of enactment, it is an optimal time for the Committee to consider providing inventors the full benefits of the transparency initiative of the AIPA. The concerns over the risk inherent in publishing a pending patent application—although always more theoretical and actual—have been swept away through the AIA and replaced by clear benefits to publishing inventors. Indeed, they are fully optimized only when publication is mandated for all applications.

With this in mind, I would urge the Committee to consider whether the time is right to mandate publication of all pending applications for patent through removal of the AIPA's opt-out provision.

Perfect the AIA's First-Inventor-to-File Provisions

With the AIA heading to the fourth anniversary of its enactment, it is also an opportune time for the Committee to review the extensive commentary on the Act. Having been exposed to some of this commentary, I am aware of several statutory loose ends—in the sense that there are parts of the new statutory text where the Congress could underscore or clarify or simplify the 2011 law. None of the issues that have emerged over the past four years rise beyond the nuisance level, either individually or collectively. Thus, in any prioritization process, addressing any of these issues likely belongs at the end of the line.

Nonetheless, here is a brief list of points that the Committee may wish to consider:

- ✓ ***Provide an appropriate preamble for § 102(a)(1).*** The current preamble ("A person shall be entitled to a patent unless") provides no appropriate antecedent for the term "claimed invention" that follows and is a carryover from the pre-AIA patent law where it, among other things, established the right of an inventor to a patent.[73] An appropriate preamble, mirroring the preamble in § 103, would be: "A patent on a claimed invention may not be obtained if—" and would provide an appropriate antecedents in § 102(a)(1). This could require a corresponding change to § 101 to relocate the right to patent provision on this section of title 35. The term text "may obtain" would be changed to "shall be entitled to".[74]

[73] Under pre-AIA 35 U.S.C. § 102(f), the statute effectively provided that, "A person shall be entitled to a patent unless ... he did not himself invent the subject matter sought to be patented... ."
[74] The amended text would read:

- ✓ ***Remove the residual provisions in title 35 referencing the now-defunct "best mode" requirement.*** One of the major recommendations of the National Academies of Sciences in their seminal report on the operation of the patent system was to remove the subjective elements from the patent law and move the U.S. patent law closer to international norms. The report made a dual recommendation to eliminate the so-called "best mode" requirement from U.S. patent law. This objective was accomplished under the AIA—the requirement no longer applies to any determination of the validity of a patent, but the shell of the defunct requirement remains in the statute. The Committee should consider a statutory cleanup that would remove the vestiges of this requirement.

- ✓ ***Underscore that prior art under the AIA is limited to prior public disclosures or prior U.S. patent filings that subsequently become public.*** This can be best done by simplifying 35 U.S.C. § 102(a)(1) through elimination of the words, "patented, described in a printed publication, or in public use, on sale, or otherwise" so that the remaining text defining prior art would read, "the claimed invention was available to the public before the effective filing date of the claimed invention." In enacting the AIA, the House Report stated: "[T]he phrase 'available to the public' is added to clarify the broad scope of relevant prior art, as well as to emphasize the fact that it must be publicly accessible."[75] The terms "patented" and "described in a printed publication" have long referenced only publicly accessible subject matter.[76] The terms "in public use" and "on sale" were subject to a pre-AIA exception to the general rule that precluded non-public uses and sales from constituting prior art; the AIA repealed this exception.[77] Thus, the

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"Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, [may obtain] shall be entitled to a patent therefor, subject to the conditions and requirements of this title."

[75] House Report on H.R. 1249, No. 112-98, 111th Cong. (June 1, 2011), p. 43.

[76] The words "patented" and "printed publication" have meanings that have become synonymous with the phrase "available to the public. The term "patented" currently has no meaning other than a disclosure made available to the public, *i.e.*, "There seems to be no logical reason why the granting of a secret patent abroad should be a bar to patenting in this country. Such a foreign patent is of no value to persons in this country unless and until it is made available to the public." *Application of Bo Thuresson Af Ekenstam*, 256 F. 2d 321, 324 (C.C.P.A. 1958). The term "printed publication" no longer requires traditional "printing" or traditional "publishing," but now merely means public accessibility, *i.e.*, "We agree that 'printed publication' should be approached as a unitary concept. The traditional dichotomy between 'printing' and 'publication' is no longer valid. Given the state of technology in document duplication, data storage, and data-retrieval systems, the 'probability of dissemination' of an item very often has little to do with whether or not it is 'printed' in the sense of that word when it was introduced into the patent statutes in 1836. In any event, interpretation of the words 'printed' and 'publication' to mean 'probability of dissemination' and 'public accessibility,' respectively, now seems to render their use in the phrase 'printed publication' somewhat redundant." *In re Wyer*, 655 F. 2d 221, 226 (C.C.P.A. 1981).

[77] The terminology "in public use or on sale" under the pre-AIA § 102(b) have meanings that are synonymous with the phrase "available to the public" with one narrow exception that applied to activities connected to the inventor. *Pfaff v. Wells Electronics, Inc.*, 525 US 55 (1998). Outside this narrow context, these terms have always required public accessibility, *WL Gore & Associates, Inc. v. Garlock, Inc.*, 721 F. 2d 1540, 1550 (Fed. Cir. 1983), "[I]t was error to hold that [a non-inventor's] activity with the [alleged prior art] machine, as above indicated, was a 'public' use of the processes claimed..., that activity having been secret, not public. ... There is no reason or statutory basis, however, on which [a non-inventor's]

deletion of these words would immediately end a non-productive, essentially academic debate as to whether Congress designed the *same* phrase "in public use … or otherwise available to the public" to have *opposite* meanings: to *include* non-public uses as prior art in some situations and *preclude* non-public uses as prior art in other situations.[78]

✓ ***Improve the protection available for the first-to-publish inventor in situations where rival groups of inventors both publish and/or seek patents on the same or nearly the same subject matter at the same or nearly the same time.*** The AIA contained unprecedented provisions designed to protect the first-publishing inventor who later seeks a patent in situations where a separate and independent group of inventors also publish and/or seek patents on the earlier-published invention or on closely related subject matter. Following implementation of these provisions, they have been criticized, including by their proponents, as being ineffective. The provisions in question are found in 35 U.S.C. § 102(b)(1)(B) and § 102(b)(2)(B). Consideration should be given to repeal of these provisions and replacing them with a simpler and more direct provision that would treat a first-publishing inventor's disclosures, for patent priority purposes, as though they had been made in a provisional patent filing. This type of provision could be crafted to afford the publishing inventor with complete parity in terms of protection that the inventor would have received had the inventor made a provisional patent filing instead of or in addition to the publication.

Conclusion

The expectations are high that this Congress will conclude a major patent litigation reform bill. This requires—as it did in the last Congress—that the major constituencies affected by the patent system work through the outstanding issues that might otherwise stand in the way of the broad consensus that is typically needed for any set of major changes to the U.S. patent system to become law. H.R. 9 is a near-perfect platform from which to work through to a successful and effective piece of legislation. Today's hearing will hopefully assist the Committee in identifying those areas of the bill that merit further additions, changes and refinements, particularly in light of recent developments. In that spirit, I would extend to the Committee my best wishes for reaching a successful outcome here and an offer of whatever continuing assistance and support I might be able to provide to these efforts.

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secret commercialization of a process, if established, could be held a bar to the grant of a patent to [the inventor] on that process. … The district court therefore erred as a matter of law in applying the statute and in its determination that [a non-inventor's] secret use of the [alleged prior art] machine and sale of [a product thereof] rendered all process claims … invalid under § 102(b)." The additional of "otherwise available to the public" in § 102 erased this inventor-only exception.

[78] This interpretation of the "public use" element in § 102(a)(1), *i.e.*, in some circumstances non-public uses are included as "public uses" and in other situations non-public uses are excluded as "public uses"—notwithstanding the overarching requirement for public availability inserted into § 102(a)(1)—has been advanced in Lemley, Mark A., *Does "Public Use" Mean the Same Thing It Did Last Year?* (February 11, 2014). Stanford Public Law Working Paper No. 2394153. Available at SSRN: http://ssrn.com/abstract=2394153 or http://dx.doi.org/10.2139/ssrn.2394153

Mr. ISSA. Mr. Simon.

TESTIMONY OF DAVID M. SIMON, SENIOR VICE PRESIDENT, INTELLECTUAL PROPERTY, SALESFORCE.COM

Mr. SIMON. Thank you, Mr. Chairman, and Members of the Committee. I appreciate the opportunity to talk to you about H.R. 9, which addresses the abuses in the patent litigation system. It is a problem that I have been talking to this Committee about since 2002.

My name is David Simon. I'm the Senior Vice President for Intellectual Property, for IP, at Salesforce, which Forbes has named for an unprecedented 4 years the most innovative company in the world. So I understand the importance of having good intellectual property laws to protect that innovation. At the same time, I also understand there is a need for balance to protect that.

The result of not having the appropriate balance in my view has resulted in too much money being made available for people who speculate on the patent system and their financiers who finance their use of litigation inefficiencies that results in an unfair tax on American industry.

We really appreciated the AIA, which helped address many patent quality issues, though many more unfortunately remain. But in the 4 years since the passage of the AIA, the problem has not gotten better with patent abuse. It has gotten worse. It has gone from Silicon Valley to Main Street. We think H.R. 9 takes a balanced approach in trying to address some of these problems.

First, I would like to highlight the provision that stays discovery until the scope of the government monopoly is spelled out. Taking FCC monopolies as a comparison, with an FCC grant, the exact amounts in spectrum is clearly defined. Patents depend on words which inherently are ambiguous, as we all know. We think before permitting parties to launch into a multi-million dollar discovery effort that tends to place almost all the burdens on the defendant, we should know what rights has the government actually granted. Get that district court to tell us what that is. We think that's fair and balanced. We also think it exempts companies who have government-imposed deadlines on the uses of their patents, and it also has carve outs for competitive litigation. So, we think it's a great provision.

Second, pleading. Just one of many egregious examples of boilerplate pleadings in my written statement where you don't know whose product is at issue, whether it's even your product that is at issue, and what product it is, what claims you're being sued on, which could be one of hundreds of claims in a patent, et cetera. This needs to stop. Some opponents of this legislation have said the dropping of Form 18 of the Federal Rules of Civil Procedure is sufficient. We disagree vehemently. First of all, until we go through at least a decade of litigation, no one will know what exactly is required for pleading. Section 3 of the Act spells it out in clear detail. We think that is far better to have that specifics because otherwise what will happen, as several Members have alluded to earlier, is you will get forum shopping. People will go to those jurisdictions that will have the lowest standard, plaintiffs will. And that will

lead to even more forum shopping given that, at least last year, 70 percent of all NPE litigation was brought in two districts.

Finally, the third provision I think is what the attorney's fees provision does, which goes far beyond what the Supreme Court has done. First of all, it forces shell companies to reveal who their investors are so we now know who is financing the litigation. Secondly, it says if you have been responsible for financing unjustified litigation, being involved in that litigation, you are personally accountable for it. We think all of that helps make patent litigation fairer. It makes things clearer. It will get people to behave better because we will know who they are. So we think that is another huge step forward.

In sum, we are at, from my personal view, approaching the end of what I hope to be a 13-year process, because I'm sure you're very tired of seeing me back.

Mr. ISSA. No. We're just beginning to get warmed up. We can do this for decades, but would like to do incremental legislation.

Mr. SIMON. I appreciate that, Mr. Chairman. This bill has already been amended many times to address the concerns of multiple stakeholders. We hope you see fit to pass the bill, and I am happy to answer any questions. Thank you.

Mr. ISSA. Thank you.

[The prepared statement of Mr. Simon follows:]

TESTIMONY OF DAVID M. SIMON

SENIOR VICE PRESIDENT, INTELLECTUAL PROPERTY

SALESFORCE.COM, INC.

before the

HOUSE COMMITTEE ON THE JUDICIARY

HEARING ON HOUSE RESOLUTION 9,

THE INNOVATION ACT

April 14, 2015

INTRODUCTION

Mr. Chairman, Ranking Member Conyers and members of the Committee. Thank-you for the opportunity to testify today on how the Innovation Act, House Resolution 9, will diminish abuse in the patent system.

I am the Senior Vice President of Intellectual Property for Salesforce.com, Inc. Since our founding sixteen years ago, we have delivered software as a service over the Internet throughout the world. As the world's leading enterprise cloud ecosystem, we permit large and small companies of all sizes to connect with their customers using the latest innovations in cloud, social, mobile and data science technologies. Through our network of data centers throughout the United States, we permit our customers to securely and reliably access their data worldwide. At the same time, our 1-1-1 program provides one percent of our employees' time, one percent of our profit and one percent of our equity for helping non-profits use our technology to serve the needy. As such, we are sensitive to how patent trolls' activities bedevil even non-profits through boilerplate letters and pleadings.[1]

To fulfill our customers' needs, intellectual property is key to our business. Our core offerings are updated with new innovations three times per year, year in and year out. This has led to our winning Forbes Magazine's award of the "Most Innovative Company" for each of the last few years. To protect our innovations, we do need to make sure that our copyrights, our trade secrets and our 2000 plus patent assets are adequately protected so we can continue to delight our customers.

At the same time, we recognize that any intellectual property system needs to be balanced. If patent protection is so strong that hundreds of bad actors can make millions or even billions of dollars from asserting dubious patents, innovation will be forestalled. Main Street customers will avoid using our technology to avoid lawsuits. Industry will divert resources from innovation to litigation. Notwithstanding the acknowledgement of these dangers, a growing consensus indicates that patents have become a burden on the economy for both large and small companies.[2] That is why even the largest patent holders in the United States with tens of thousands of patents support reforms such as the Innovation Act.

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[1] See, e.g., Prepared Statement of Jon Bruning, Attorney General State of Nebraska, Demand Letters and Consumer Protection, Hearing before the Senate Subcommittee on Consumer Protection, Product Safety and Insurance, Senate Hearing No. 113-204, November 7, 2013; Complaint ¶ 16 in State of Vermont v. MPHJ Technology Investments LLC, Superior Court, Washington Unit 282-5-13Wncv.

[2] See, e.g., J. Bessen & M. Meuer, The Mounting Costs of NPE Litigation, 99 Cornell L. Rev. 387 (2014)(estimating that patent litigation costs $29 billion per year); C. Tucker, The Effect of Patent Litigation and Patent Assertion Entities on Entrepreneurial Activity MIT Sloan School Working Paper 5095-14 (2014); L. Cohen, U Gurun & S Kominers, Patent Trolls: Evidence from Targeted Firms, Harvard Business School Working Paper 15-002 (2014). In addition, this committee has heard repeated evidence about the tax placed on American business by assertion of dubious patents. See, e.g., House Committee on the Judiciary, Report to Accompany the Innovation Act (HR 3309) at 18-20 Report No. 113-279 (2013).

And today's imbalance permits those who seek to speculate on patent litigation to use the inefficiencies of the litigation system to extract unjustified royalties. Others have testified at length about these problems so I will not elaborate in detail. While this problem once only bedeviled parts of the technology industry, it has spread like a plague so that Main Street merchants including realtors, retailers, hoteliers, restaurateurs and other small businesses have joined ranks with technology companies. All of us find ourselves victimized by sharp practitioners who seek to tax those who use technology to make their businesses more efficient.

Yet this committee has a path forward before it to solutions to many of these problems in the form of the Innovation Act. A virtually identical bill passed the House last Congress with broad bipartisan support. In that Congress, the issue went through multiple hearings and the issues have even been the subject of more hearings this Congress. Numerous changes have already been made from the Innovation Act's original introduction in 2013 and we believe that the bill is the path on which move forward. Therefore, we ask that you move this legislation forward.

I will now comment on the operative sections of the bill.

Section 3

Section 3 addresses many of the problems that bedevil both Main Street and the technology industry in litigation. That section attempts to achieve several goals:

- Bringing patent pleading requirements in line with other areas of the law and thereby eliminating boilerplate pleading
- Making those who finance speculative, unjustified litigation pay attorneys fees
- Sequencing of discovery to reduce costs for all sides in the litigation by having courts identify the scope of the patentees' rights before launching expensive discovery that may be unnecessary
- Directing the Judicial Conference to deal with the asymmetries in patent litigation
- Incentivizing patent trolls to provide detailed support for their demand letters.

Section 281A: Eliminating Boilerplate Pleading to Provide Defendants With Actual Notice Pleading

Section 3 proposes a new section 281A to eliminate boilerplate pleadings. Existing patent litigation pleading practice, severely handicaps defendants, both large and small. Due to a poorly drafted pleading form, all a patent infringement complaint has to set forth is the names of the parties and a statement that the plaintiff owns the patent in suit and that the defendant is infringing. The result is patent trolls use boilerplate pleading practice to hide what they are really claiming, to raise costs for defendants and to leverage dubious patents to extract tens

or hundreds of thousands of dollars for nuisance settlements that when scaled over thousands of defendants becomes tens of millions of dollars.

Faced with a boilerplate pleading, the defendant has no way of knowing which of potentially hundreds of claims in the patent it is allegedly infringing. It will not know which features among thousands of product features in its offerings are alleged to infringe those claims. And until the court forces the plaintiff to identify which patent claims are infringed and why they are infringed, the defendant will have no idea how the plaintiff is construing the claims to read on the accused products. As a result, the defendant upon being served has to place expensive document retention holds on employees relating to products that ultimately will not be in the lawsuit, interview engineers and scientists about products that will ultimately not be in the lawsuit and search for prior art on patent claims that will never be in the lawsuit. This only serves to contribute to the already absurdly high cost of defending a patent litigation.

An example of an entity that uses such boilerplate pleading is Traffic Information LLC, which has apparently been embroiled in forty one cases involving 132 defendants. Typical complaint allegations do not identify any individual claims. Such complaints merely allege that "alone and in conjunction with others, [the defendant] has in the past and continues to infringe and/or induce infringement of the '606 patent by . . . using . . . traffic information systems, software, products and/or services ("Accused Products") that alone or in combination with other devices or products are covered by at least one claim of the '606 patent . . . ." Thus, the 132 hapless defendants who include computer companies, insurance companies, hotels, coffee shops, pharmacies and banks do not know which claims are infringed. Nor do they know whether their "Accused Products" infringe. They do not know if the infringement is alone or in combination with a third party product. And if a third party product is involved, they do not which third party is involved. Nor do they know which third party's products are involved so they cannot determine if they have the right to an indemnity. Such clear absence of notice pleading is to my knowledge not tolerated in any other area of the law.

Proposed section 281A would amend the Patent Act to require the type of pleading mandated by the Supreme Court in all other areas of the law under *Iqbal* and *Twombly*.[3] It sets out the detail that is required to meet the unique patent law requirements for the Supreme Court's test. Since each patent claim constitutes a separate invention[4] and is therefore a separate cause of action,[5] section 281A requires the identification of each claim being asserted. It also requires the plaintiff to set forth which instrumentalities of the defendants infringe the claims. That will permit defendants to know what is involved in the lawsuit from the start.

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[3] Ashcroft v. Iqbal, 556 U.S. 662, 678-79 (2009) (affirming the Twombly standard for satisfying Federal Rule of Civil Procedure 8(a)(2))j Bell Atlantic Corp. v. Twombly, 550 U.S. 544, 570 2007 (holding that a plaintiff must plead "enough facts to state a claim to relief that is plausible on its face . . . .").

[4] Altoona Publix Theaters, Inc. v. American Tri-Ergon Corp., 294 U.S. 477, 487, 55 S.Ct. 455, 459, 79 L.Ed. 1005 (1935).

[5] Leeds & Catlin Co. v. Victor Talking Mach. Co., 213 U.S. 301, 319 (1909).

Further, section 281A would require the plaintiff to set forth what portions of the accused instrumentalities infringe and how those portions infringe. This is required to meet *Twombly*'s and *Iqpal*'s requirements that the complaint set forth sufficient facts by which the court can determine if the complaint is plausible. Anything short of this standard would permit plaintiffs to launch into litigation that may cost tens of millions of dollars without having shown they have a plausible claim.

Further, section 281A would for the first time permit defendants who make complex products with billions of lines of computer software or billions of parts such as advanced semiconductors to be able to determine what portion of their offerings are infringed from the complaint. It is a question of due process. None of these requirements is unfair because the plaintiff would have to provide this information anyway to prove its case.[6]

Further, proposed section 281A has the laudatory effect of ensuring that the courthouse door will not be barred to patentees who cannot discern certain evidence from publicly available information. Thus, proposed section 281A would let defendants know why they are being sued, and how the patentee believes the patent is infringed but still permits patentees who cannot discover details about the accused instrumentalities to initiate cases.

These pleading requirements would also have other salutary effects. Defendants would know which features of which offerings are being accused and know what documents they need to retain. They would not search for prior art needlessly for hundreds of claims that will not be asserted. They would not waste valuable engineers and scientists time discussing products that are not actually in the lawsuit.

Also, Main Street customers who are often the target of troll lawsuits would know whether they have an indemnity claim against their technology purveyors. Providers of technology would know whether they owe a duty to defend at the start of the litigation because the complaint would make that readily apparent. Thus, the providers would know whether they should intervene in the lawsuit and not have to turn down claims until after the patentee finally makes its infringement allegations--which could be years later. This benefits both large and small defendants.

A further benefit of the pleading requirements of proposed section 281A is it would make settled law on what is required to be pled in patent cases. Unfortunately, appellate review of the correctness of district court decisions on the adequacy of pleadings is often difficult to obtain. If the district court rules that the complaint meets the standard, appeal is impossible. Any errors in that decision are subsumed subsequently by the district court's decision on the merits.[7] If the district court erroneously dismisses the complaint, the plaintiff will typically

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[6] TecSec v. International Business Machines Corp., 731 F. 3d 1336, 1342 (Fed. Cir. 2013).
[7] Clearone Communications Inc. v. Biamp Systems DSP 653 F.3d 1163, 1172 (10th Cir. 2011).

replead the case to avoid the dismissal; the rectitude of such decisions is almost impossible to have reviewed. Merely repealing Form 18 as some propose would result in a decade or more of uncertainty as parties struggle to determine what is required under *Iqbal* and *Twombly* with little chance of being able to obtain appellate guidance. This would only create further gamesmanship over venue, a factor that Congress should be seeking to avoid in patent litigation.

For all of these reasons, we believe that the new pleading requirements for patent cases proposed by section 3 would simplify and streamline patent litigation, lower the cost of patent litigation, permit earlier resolution of many issues regarding the scope of discovery, eliminate the wasteful preservation of unneeded evidence and permit the determination of whether an indemnity is owed. It is time that boilerplate pleading that fails to provide any notice is stopped and true notice pleading is required for patent law.

Section 3 Would Require Financiers of Unjustified Patent Cases to Pay for the Harm that they Cause in New Section 285

By proposing a new section 285 governing the award of attorneys fees, Section 3 would finally provide true balance for attorneys fees awards. Unlike other areas of the law, patent law has had a long tradition of permitting courts to award attorneys fees in exceptional cases. However with the rise of patent trolls, which are invariably shell corporations that have few assets, attorneys fees awards for defendants in patent cases have become empty promises. When the defendant prevails and the court finds that the case is truly exceptional, the victorious defendant now has a claim against whatever assets the corporate shell has--but the only asset is typically the patent; yet that sole asset has just been established to either not be infringed or to be invalid. This is truly a pyrrhic victory.

The newly proposed section 285, however, would provide a new joinder process that permits trolls' financiers to be put in harm's way for the first time. Those who want to profit from patent litigation would be joined to the litigation after a defendant prevails and the court determines attorneys fees are appropriate. The financiers of this unjustified litigation could avoid this liability by renouncing their financial interest. They will have notice and an opportunity to determine whether they really want to be at financial risk for those shell entities who cannot pay for their litigation. If they disclaim their interest, they suffer no harm. If they decide to keep their interest and the defendant ultimately establishes that the patentee's position is unjustified, the defendant can be effectively compensated.

The provision also has other safeguards. First, it only applies in cases where the court has jurisdiction and venue over the interested party and where the interested party can be served and where timely notice has been provided. Further, the court could still not make an interested party responsible such as where the controlling interest of the patentee is a university or the inventor of the patent. It also exempts attorneys who are representing patentees on a contingency fee so there should be no concerns about access to justice.

Another way that the proposed new section 285 is balanced is it seeks to tighten the standard for attorneys fees from exceptional cases --which as the Supreme Court noted recently is still very rare. Under proposed section 285, attorneys fees are to be awarded to a prevailing party "unless the court finds that the position and conduct of non prevailing party were reasonably justified." By its nature, the language requires the court if asked to make a finding--something that did not previously exist. And the final measure of the careful balance in section 285 is that the new standard it imposes for awarding attorneys fees applies with equal force to plaintiffs and defendants.

This is an important change in the law because it could forestall a common troll tactic. Many trolls sue dozens of defendants on a broad and ambiguously worded patent and immediately after suit start start settling the case for nominal sums--often in the tens of thousands of dollars. The plaintiff has no desire to go to trial but merely wants to collect from dozens or hundreds of defendants modest sums immediately after having filed boilerplate complaints.[8] The cumulative payoff can often be dramatic. Some plaintiffs have made tens of millions of dollars on their patents from hundreds of defendants or targets with cases that are unmeritorious. Most defendants find it is much simpler to pay say $50,000 to settle than to fight the case for $3 million. If a defendant is stubborn and refuses to settle, the defendant dismisses its case against that one defendant with prejudice, knowing that the court is unlikely to award attorneys fees against it.[9] However, the new language in proposed section 285 would require the court to make that determination so unscrupulous patentees would know that they and their financiers are at risk for bringing such unmeritorious lawsuits using boilerplate complaints.

Section 299A Would Stage Discovery in Patent Infringement Actions

Section 3 also would add a new section 299A, which provides a fair and balanced method for limiting discovery while the scope of the patent right is litigated. Patent cases often turn on the meaning of ambiguous terms so interpretations are often outcome determinative. Thus in many patent cases, the issue is not what did the defendant's product do or what is the prior art; rather the issue is what is the scope of the patentee's right. The issue is whether that patent right is broad or narrow.

Section 299A would stay most discovery in patent cases until the court determines what the scope of the plaintiff's patent is. That early determination would often lead to a settlement or

[8] An exemplar of such a case is Eon-Net LP v. Flagstar Bancorp, 653 F. 3d 1314, 1327 (Fed. Cir. 2011)(finding settlements ranging between $25,000 for sales less than $3,000,000 to $75,000 for sales between $20,000,000 and $100,000,000 is evidence of bad faith litigation).

[9] See, e.g., Computer Software Protection, LLC v. Adobe Systems, Inc., No. 12-451SLR (D. DE March 31, 2015)("in a case where settlements were reached with other parties, and the court did not construe the claims, or resolve multiple discovery disputes, or resolve motions to dismiss or for summary judgment, to characterize these circumstances as exceptional is . . . inconsistent with the court's understanding of what justifies the fee-shifting provisions of § 285).

dismissal as parties often stipulate to a judgment for purposes of an appeal based on the trial court's interpretation of the claim.[10] Further, even if the claim interpretation is not dispositive, the question of claim interpretation can also have the beneficial effect of narrowing the scope of both what is prior art and what are the accused instrumentalities. The result would be to remove multiple issues in the case, thereby avoiding wasteful discovery that happens under today's process. Therefore, it makes good sense to determine the scope of the rights early and avoid wasteful discovery before the litigation moves forward.

Nonetheless, section 299A retains valuable protections for the plaintiff. In any case impacted by mandated periods of time such as ANDA litigation under section 281(e), the litigation would be exempted from this provision. If a manifest injustice would result from the stay such as a crucial witness is in poor health or if a competitor is seeking a preliminary injunction, the stay would not apply. Similarly, if the parties were to agree that the stay would not work in their case, the stay would not apply. Thus, the provision retains that important balance to impact the cost of litigation while retaining the rights for patentees who need the most prompt resolution.

Section 3 Incentivizes Clarity in Demand Letters

Subsections 3(e) and 3(f) address the problem confronting thousands of small businesses targeted by a stream of deliberately vague demand letters for immediate payment for patent infringement. When a small business such as a hotel is confronted with a demand letter saying for example that it is infringing a patent on WiFI or a patent on video systems, the small business owner learns the typical cost of counsel advising them is a multiple of the sum in the demand letter. Even for large corporations such as Salesforce, we often receive vague or inaccurate letters regarding patents and our offerings and have to make difficult decisions

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[10] See, e.g., Thorner v. Sony Computer Entertainment America LLC, 669 F. 3d 1362 (Fed. Cir. 2012); Typhoon Technologies Touch, Typhoon Touch Technologies, Inc. v. Dell, Inc., 659 F. 3d 1376 (Fed. Cir. 2011); Hill-Rom Services, Inc. v. Stryker Corp., 755 F. 3d 1367 (Fed. Cir. 2014); Starhome GmbH v. AT&T Mobility LLC, 743 F. 3d 849 (Fed. Cir. 2014); Ancora Technologies, Inc. v. Apple, Inc., 744 F. 3d 732 (Fed. Cir. 2014); GE Lighting Solutions LLC v. AgiLight, Inc., 750 F. 3d 1304 (Fed. Cir. 2014); Augme Technologies, Inc. v. Yahoo! Inc., 755 F. 3d 1326 (Fed. Cir. 2014); Chicago Bd. v. International Securities Exchange, 748 F. 3d 1134 (Fed. Cir. 2014).

regarding whether we should spend the tens of thousands of dollars to evaluate the situation or pay the demanded sum, which may only be slightly more than the cost of the opinion of counsel.

First, subsection 3(e) would improve the law by providing that it is the sense of Congress that the courts should take into account whether a given demand letter provides adequate transparency when the court is determining whether to award attorneys fees under section 285. Subsection 3(f) would amend section 284 to prevent unscrupulous patentees from relying on demand letters that fail to discuss with specificity how the instrumentalities being used by the defendant infringe for the purpose of establishing willful infringement. While modest, both of these steps may encourage some improved transparency in demand letters and hopefully may stop practices that almost border on extortion.

Section 4 Patent Ownership Transparency

Section 4 injects transparency into ownership and financial interests in patent litigation for the first time by amending section 290 of the Patent Act. Roughly half of the patent plaintiffs are shell corporations by my estimate. Often, the ownership and financial interests in those entities remains hidden behind a morass of shell corporate filings. After extensive discovery, the defendant may finally know who is behind the litigation but that discovery generally remains a secret from all but the defendants' counsel. For example, Intellectual Ventures is reported to have sold its patent to an entity called Oasis Research and disclaimed responsibility for Oasis' actions; yet, it later came out at trial that IV owned 90% of the proceeds from the litigation.[11] But this is one of the rare instances where the defendants fought and the details became public. Normally, this information would have remained secret and trolls and their financiers thrive on that secrecy.

Clearly, there is no reason to permit trolls and their financiers to hide behind a veil of shell entities. Nor should defendants have to pay one dime in discovery to learn who is hiding behind the owner of the patent. Rather, all of this information should be publicly available so potential infringers and the public can know who truly owns the patent and who benefits from the assertions of the patent.

Section 5 Stay Against Customer Suit

Section 5 would provide the laudatory result of staying litigation brought against customers when the manufacturer or the provider of the infringing instrumentality is willing to stand up to the plaintiff suing its customer. This Committee has heard of numerous cases where patentees sue Main Street businesses such as coffee shops, restaurants and hotels for a

[11] This American Life, Episode 496, *When Patents Attack, Part 2!* http://www.thisamericanlife.org/radio-archives/episode/496/when-patents-attack-part-two?act=2#play at 49:30.

variety of technology services or for their websites.[12] Even when the manufacturer intervenes, the courts often will not stay the litigation against the customers.

This is simply wrong and needs to stop. Hotels, restaurants, and small shops simply lack the financial and technical wherewithal to withstand such attacks and typically settle quickly. While a doctrine for staying customer suits has evolved after a manufacturer intervenes has evolved, courts are often reluctant to permit the intervention; patentees often find clever ways to avoid intervention through artful pleading or dismissals of cases.[13] Given that "current case law recognizes an exceptionally narrow set of circumstances under which application of the customer suit exception would . . ." apply, the current case law is adequate to meet the needs of litigation tactics.[14]

Section 5 would provide automatic stays to allow manufacturers who have the interest and the technical and financial means to halt lawsuits against their customers; it would allow the dispute to proceed with the truly interested parties who understand the technology and have the funds to fight the lawsuit. Yet, section 5 would strike a proper balance by requiring the manufacturer to intervene promptly: within 120 days of the service of the complaint or other document that first identifies the infringement. It would require the customer to agree to be bound by the litigation between the patentee and the manufacturer. It also would permit the lifting of the stay if the decision involving the manufacturer does not resolve a significant issue in the case or it would unreasonably prejudice another party to the case. Thus, it expands customer stays but protects the interests of patentees too.

Section 6 Would Direct the Judicial Conference to Deal with the Asymmetries of Patent Litigation

Section 6 would direct the Judicial Conference to amend the Rules of Civil Procedure to deal with the asymmetries in patent litigation. These asymmetries are well documented and need not be repeated.[15] By far the largest asymmetry is the cost of discovery since most trolls have few documents and virtually no knowledgeable, non-expert witnesses while their targets

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[12] One instances that has gotten substantial press is an entity named Innovatio that has sued dozens of hotels, restaurants and stores for providing WiFi services. Often the lawsuits involve multiple defendants and patents on the details of WiFi systems. See, e.g., Innovatio IP Ventures, LLC, v. Madison Marriott West et al. CV 11-cv-644 (WD WI 2012)(suing 12 Wisconsin defendant hotels on 17 patents). See also B. Love & J. Yoon, Expanding Patent Law's Customer Suit Exception, 93 Boston U. Law Rev. 1605, 1610 (2013)(documenting a spike in customer lawsuits).

[13] C. Chien & E. Reines, Why Technology Customers are Being Sued En Masse for Patent Infringement & What Can Be Done, Santa Clara University School of Law Legal Studies Research Papers Series Working Paper No. 20-13, 15-16 (August 2013)(documenting techniques by which plaintiffs seek to avoid intervention); *see also* Lodsys Group LLC v. Brother International Corp., Inc. et al., No. 2:11-cv-00090 (ED TX September 24, 2013)(dismissing Apple's attempt to intervene as moot when the plaintiff apparently had settled with all of the end users of Apple's technology in that one lawsuit) .

[14] Love, supra note 12, at 1618.

[15] E. Rogers & Y. Jeon, Inhibiting Patent Troll Litigation: A New Approach for Apply Rule 11, 12 Northwestern Jnl of Tech & IP 291, 302-03 (2014).

may have petabytes of potentially discoverable evidence and tens of thousands of employees who may be deposed.[16]

Section 6 directs the Judicial Conference to address these asymmetries by providing new rules for patent cases. It suggests, but does not mandate, that the conference consider cost shifting for non-core discovery; i.e., once the parties produce their documents sufficient for the core of the case, the additional discovery would come at the cost of the party propounding that discovery. These proposals do not bar that discovery; they merely provide for the party desiring non-essential discovery to pay for its cost.

Nor do these proposals impose Congress' will on its co-equal branch. Section 6 merely suggests solutions and leaves it to the Judicial Conference to define what these rule changes to be.[17] Thus, the provision is modest and balanced and does not discriminate between patentees and accused infringers.

Other Issues

While we believe the Innovation Act would improve the patent landscape greatly, we believe that the Committee should consider a few additional issues. First, while the legislation addresses demand letters, it does not penalize the sending of false or misleading demand letters.

Second, the language in section 9 regarding interpreting patent claims in inter partes reviews and post grant reviews raises difficult implementation issues. Claim interpretation in district court cases typically occurs after the parties meet and confer and agree on the meaning of most of the terms in the claims and then jointly brief the court regarding the disputed terms. However, in the AIA proceedings, the petitions must be filed without knowing the patentee's claim interpretation and the trial is initiated by the Board before the patentee can be compelled to state its interpretation. Thus, the only practical solution is the one that the PTO currently uses: the broadest reasonable interpretation of the claims is to be used rather than district court mechanisms that rely on powers and procedures not available to the PTO. And

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[16] The Federal Circuit has noted this asymmetry. Eon-Net LP v. Flagstar Bancorp, 653 F.3d 1314, 1327 (Fed. Cir. 2011) and the advantage the asymmetric discovery costs provide plaintiffs in patent litigation:

> [Court rules] allow for liberal discovery, and it is not uncommon for an accused infringer to produce millions of pages of documents, collected from central repositories and numerous document custodians. Those discovery costs are generally paid by the producing party increasing the nuisance value that an accused infringer would be willing to settle for in a patent infringement case. (Citations omitted),

[17] This is not to suggest that Congress may not mandate rules for the courts. After all, the Federal Rules of Civil Procedure were mandated by the Rules Enabling Act. Pub.L. 73–415, 48 Stat. 1064 (1934).

frankly, since the AIA proceedings are new and the earliest final decisions are at most one year old, we believe it is premature to even consider changing the statutory language.

Another troubling issue remains with venue and forum shopping. Seventy percent of all NPE patent cases were filed in two districts last year.[18] This places undue burdens on those courts and local customers of manufacturers since the local customers are often joined to the lawsuit to prevent the transfer of the litigation.[19] We believe that there are various modest changes that can be made to reduce forum shopping.

In addition, notwithstanding the plague of patent cases that have hit Main Street, opponents of the Innovation Act are advocating a bill to make patents even stronger. They claim that the new post grant AIA proceedings are run by "patent death squads" and cite to sensational statistics.[20] While these these sensationalist charges were debunked quickly, critics of the new procedures persist in repeating their claims. Now after over 600 resolved inter partes petitions, USPTO data shows that opponents of the AIA proceedings claims are false and unjustified. Only 24% of all of the claims challenged in Inter Partes Reviews were determined to be invalid by the Patent Trial and Appeal Board.[21] Yet these opponents persist in trumpeting false data to foster changes that are impractical and ill-conceived proposals. The evidence is the proceedings are balanced and providing a much cheaper alternative to patent litigation. There simply is no reason to change the rules for these proceedings only one year after the first post grant proceedings have concluded -- particularly when the arguments are based on documented false evidence.

CONCLUSION

While we and many others from Main Street to Silicon Valley support the Innovation Act, it is important to remind those who were not here last Congress that the current Innovation Act already represents numerous compromises. For example, section 9 in our mind unnecessarily amends the inter partes and post grant review processes, which are working well. Also, the Chairman's original proposal introduced last Congress required cost shifting for non-core discovery as opposed to this bill's mere suggestion that such cost shifting is an alternative that the Judicial Conference should consider. It also had much tighter language to

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[18] RPX Corporation, 2014 NPE Litigation Report at 21 (2015) http://www.rpxcorp.com/wp-content/uploads/2014/12/RPX_Litigation_Report_2014_FNL_03.30.15.pdf; see also R. Brophy, The Ever Increasing Concentration of Patent Cases in Plaintiff-Favored Venues: Can we Avoid Critical Mass? The St. Louis Bar Journal/Winter 12 (2012).

[19] See D. Taylor, Patent Misjoinder 88 NYU Law Rev. 652, 677 & n. 116 (2013)(describing local businesses as pawns in patent venue games).

[20] H. Wegner, The PTAB, Success Story and Challenges in the Wake of the Leahy Smith America Invents Act at 4 http://ipfrontline.com/wp-content/uploads/2015/01/Naples2015PTABInterPartesReview.pdf.

[21] USPTO analysis of these proceedings may be found at: http://www.uspto.gov/sites/default/files/documents/inter_partes_review_petitions_terminated_to_date%2001%2015%202015.pdf

ensure that "interested parties" would pay for unjustified litigation and made it far easier for a prevailing party to obtain attorneys fees.

Notwithstanding these changes that we would have preferred not to see, we believe that on balance the Innovation Act represents an avenue to important change in the law and should be moved forward in the same bipartisan manner as happened in the last Congress. We hope that this Committee will pass the Innovation Act shortly.

Mr. ISSA. Mr. Sauer.

TESTIMONY OF HANS SAUER, DEPUTY GENERAL COUNSEL FOR INTELLECTUAL PROPERTY, BIOTECHNOLOGY INDUSTRY ORGANIZATION

Mr. SAUER. Chairman Issa, Members of the Committee, thank you for the opportunity to testify here today. The biotechnology industry supports this Committee's efforts to protect the patent system from opportunists who seek only their own financial gain without promoting innovation. And in scrutinizing dubious practices by some patentholders, Congress should not overlook abuses by others who are undermining the patent system for similarly illegitimate reasons, whether these occur in the courts or at the USPTO, whether by patent owners or against patent owners.

Unfortunately misuse of the patent system against patent owners is also a real and growing problem. In particular the USPTO's inter partes review system of administrative patent challenges is undermining the value and predictability of longstanding investment-backed patent rights. Questionable entities have begun to approach biotech companies with threats of dragging their key patents into IPR proceedings unless payments are made. And recently the Wall Street Journal reported on a speculation scheme that involves taking a short position in the stock of a biotech company and then challenging its key patents in IPR proceedings to drive down the company's stock.

Hedge funds have already targeted multiple biotech companies using this strategy in just the past 2 months and have promised many more. The first victim was a small biotech company whose main product is a new drug that helps patients with multiple sclerosis walk better. This company lost more than $150 million, over 10 percent of its market capitalization, on the day the IPR challenge was filed. I want to emphasize there has been no finding that these patents are invalid. The Patent Office has not yet even agreed to accept the petition, but to the company, the damage was done.

Markets react in this way because the IPR system unfairly stacks the deck against patent owners in many ways, leading to patent invalidation rates clearly exceeding those seen in district court patent litigation. Investors have become acutely aware of these high invalidation rates and are now routinely raising questions about possible IPR proceedings when evaluating a proposed deal. This is a disturbing development for a process that very few people had heard of just 1 year ago, and it shows just how necessary it is for Congress to restore balance to this system quickly.

H.R. 9 contains one necessary change requiring the Patent Office to use the same claim interpretation approach as would be used in district court, but any final bill must go further to ensure that the IPR process can no longer be gamed to the unfair detriment of patent owners.

With respect to broader patent reform, we believe consensus can be achieved on a range of issues, including enhancing transparency of patent ownership and enforcement, curtailing unfair deceptive demand letters, addressing how patents can be enforced against

blameless end users or consumers of infringing products, and making the IPR system more balanced and fair.

Biotech companies both assert and defend against patents. Eighty percent are small pre-commercial companies that well understand the need for balanced opportunities to resolve patent disputes.

We remain concerned, however, and therefore that certain proposals contained in H.R. 9 lack this requisite balance as currently drafted. Exhaustive pleading requirements, mandatory stays of merits discovery, customer stays that would allow infringing manufacturers to deflect lawsuits to others higher up in the supply chain, enjoinder of unwilling third parties under the threat of attorney fee awards unduly raise the cost and risk of patent enforcement for all patent owners, not just so-called patent trolls.

Without predictable and enforceable patents, many investors would decrease or stop investing in biotech innovation, degrading our ability to provide solutions to the most pressing challenges faced by this Nation today.

This Committee should also not ignore a series of developments in patent law over the past 2 years that have clearly trended toward more protections for accused patent infringers. Today patents are litigated at lower rates and are invalidated at higher rates than when the Innovation Act was first conceived. Just yesterday the Federal Circuit Bar Association reported that attorney fee awards have tripled since *Octane Fitness* was decided. And this, however, does not mean that Congress should not act to curb abusive practices. Rather these changes do reenforce the need to ensure that any patent legislative package does not swing the pendulum too far in any direction.

In closing, BIO believes that the Congress can play an important role in bringing together diverse stakeholders to reach reasonable compromises, as it did in the 2011 Leahy-Smith America Invents Act, and as it is doing in the current companion Senate process. A process that has been inclusive and that has made substantial progress in narrowing differences. For example, BIO has worked with Senator Hatch and a group of high tech and university stakeholders to develop an alternative construct that addresses attorney fee awards from patent shell companies.

We are optimistic that targeted solutions that address other practices of entities who unfairly enforce or attack patents can similarly be achieved, and I look forward to your questions. Thank you.

Mr. ISSA. Thank you.

[The prepared statement of Mr. Sauer follows:]

Testimony of Hans Sauer, Ph.D., Deputy General Counsel for Intellectual Property, Biotechnology Industry Association

To the United States House of Representatives Committee on the Judiciary

Committee Hearing on "H.R. 9, the Innovation Act"

April 14, 2015, 2:00 p.m., Rayburn House Office Building, Room 2141

Summary of Testimony:

BIO supports the efforts of this Committee and the Congress to curb misuse of the patent system by entities that seek to use the system for financial gain rather than to promote innovation. In doing so, Congress must ensure that responsible patent owners remain able to protect and enforce their patents and protect their own businesses against patent infringement. And, in cracking down on dubious practices by some patent holders, Congress also must take action to stop abuses by others who seek to attack patents and patent owners for similarly illegitimate reasons.

Unfortunately, misuse of the patent system against legitimate patent owners is a real and growing problem. In particular, the PTO's Inter Partes Review (IPR) system – a new administrative patent challenge system created by the America Invents Act of 2011 – is undermining the value and predictability of patent rights and wreaking havoc on the legitimate, investment-backed expectations of patent owners. This is happening because, contrary to the intentions of Congress, this new system unfairly stacks the deck against patent owners in many ways, leading to patent invalidation rates far exceeding those seen in district court patent litigation.

Not surprisingly, the statistically disproportionate "kill rates" of IPR proceedings invite unintended abuses and predatory practices by those seeking to attack patents for illegitimate reasons, including for their own financial gain – or what we call "reverse trolling." For example, questionable entities have begun to approach biotech companies with threats of dragging their key patents into IPR proceedings unless substantial payments are made. And just recently, the *Wall Street Journal* reported on an investment scheme in which a hedge fund takes a "short" position in the stock of biopharmaceutical companies and then files IPR challenges against one or more patents protecting their key products in an effort to profit from driving down the companies' stock prices. The biotechnology industry is particularly vulnerable to such manipulation, because the vast majority of our industry consists of small companies that tend to derive most of their revenue from one or two products on the market, and – unlike cell phones or computers – have just a handful of very valuable patents protecting those products. The mere filing of an IPR can have significant impact on the stock prices of such companies, as well as their ability to continue to raise the investment needed to develop future treatments for patients in need.

These stock manipulators have already targeted multiple biotech companies using this strategy in just the past two months, and have promised many more to come. One company, a small biotech company whose main product is an innovative treatment that

helps patients with Multiple Sclerosis walk better, lost more than $150 million in market capitalization in just one afternoon because a hedge fund simply *announced* an IPR challenge. Let me emphasize that there has been no finding that the patents are invalid; the PTO has not even agreed to accept the petition. But the damage has already been done, and presumably the hedge fund already made its money, regardless of the outcome.

There can be no doubt that Congress never intended for IPR to be abused in this manner. This Committee should act promptly to prevent such abuses from spreading and to reassure the investment market that patents can be relied upon to support the technology transfer and collaborations essential to future innovation. One BIO member conducting a recent proposed commercial transaction told me that the vulnerability of involved patents to an IPR was the number one question raised by investors about the deal – a shocking development for a process that very few people had heard of just one year ago. It shows just how skewed in favor of patent challengers the IPR process has become, and how necessary it is for Congress to restore balance to this system quickly.

I note that H.R. 9, the Innovation Act, contains an important change to the IPR program – requiring the PTO to use the same claim construction approach as would be used in district court – but any final bill must go further to ensure that the IPR process can no longer be gamed to the unfair detriment of patent owners.

BIO encourages this Committee to develop a legislative package that will curb ALL abusive patent practices – whether they occur in the courts or at the PTO, whether by patent owners or against patent owners. We believe consensus can be achieved on a range of issues, including enhancing transparency of patent ownership and enforcement; curtailing unfair or deceptive practices in the indiscriminate sending of patent licensing or settlement demand letters; addressing how patents can be enforced against innocent end-users or consumers of infringing products manufactured and sold by others; and making the IPR system a more balanced and fair system for patent owners.

We remain concerned, however, that certain proposals contained in H.R. 9, the Innovation Act, lack this requisite balance – a view shared by a broad alliance of American innovators, inventors, manufacturers, investors, small businesses, and universities. Excessive pleading requirements, mandatory stays of merits discovery, and joinder of all third parties with a financial interest in the patent owner or the patents for the purpose of expanding liability for attorney fee awards, as presently drafted, go too far in restricting the ability of all patent owners to enforce their patents against infringers in a timely and efficient manner, and would have a dramatically negative chilling effect on the biotech ecosystem – an ecosystem that relies on the strength and enforceability of patent rights to support investment, licensing, and collaborations involving a decade or more and hundreds of millions of dollars in order to bring to market innovative medicines, alternative sources of domestic renewable energy, and more productive and sustainable farming techniques that raise farm incomes and reduce environmental degradation. Without strong, predictable and enforceable patent protections, many investors will stop investing in biotech innovation or limit such investment to only "low risk" products. This decline in investment will degrade our ability to provide solutions to the most pressing medical, agricultural, industrial and environmental challenges faced by our Nation today.

This Committee also should not ignore a series of court decisions, Judicial Conference rule changes, PTO actions, and legislative and enforcement activities over the past two years that are raising patentability standards and the requirements for filing patent lawsuits; increasing the shifting of litigation costs for baseless infringement suits; reducing the asymmetries in litigation that some plaintiffs have exploited to demand unfair settlements; and enhancing consumer protections against the bad faith assertion of patents against consumers and other end users. In short, both the bar and the stakes have been raised in the patent system, and the result has been a substantial decline in patent litigation since this Committee last considered the need for broad patent litigation reforms. We are not saying that these changes mean that Congress doesn't need to act to curb abusive practices. Rather, these changes reinforce the need to ensure that any patent reform legislative package does not swing the pendulum too far in any one direction.

BIO believes that the Congress can play an important role in bringing together all stakeholders to reach reasonable compromises that address their legitimate concerns – just as BIO has been doing with respect to the companion Senate process – a process that has been inclusive and that has made substantial progress in narrowing differences.

We are optimistic that targeted solutions that address other practices of entities who unfairly enforce, or unfairly attack, patents can similarly be achieved. I urge this Committee to undertake that effort prior to legislative consideration of H.R. 9, and BIO stands ready and willing to join this Committee in doing so,

Introduction

Chairman Goodlatte, Ranking Member Mr. Conyers, Members of the Judiciary Committee, thank you for inviting me today to testify about H.R, 9, the Innovation Act.

By way of personal introduction, I am Deputy General Counsel for Intellectual Property for the Biotechnology Industry Organization, a major trade association representing over 1,100 biotechnology companies, research institutions, technology incubators, and similar entities in the medical, agricultural, environmental and industrial biotechnology sectors. At BIO I advise the organization's board of directors and BIO's various policy departments on patent and other intellectual property-related matters. Prior to joining BIO in 2006, I was Chief Patent Counsel for MGI Pharma, Inc., in Bloomington, MN. I have 20 years of professional in-house experience in the biotechnology industry, having begun my career as a postdoctoral research fellow at Genentech, Inc. in South San Francisco in 1995, and subsequently worked as a research scientist at Guilford Pharmaceuticals Inc. in Baltimore. My research specialty was the biology of age-related degenerative brain disorders; in this role I participated in several drug development programs before becoming a patent lawyer in 2003. I hold an M.S. degree in biology from the University of Ulm in Germany; a Ph.D. in Neuroscience from the University of Lund, Sweden; and a J.D. degree from Georgetown University Law Center where I serve as adjunct professor of law.

Background

Very few sectors of the Nation's economy are as dependent on predictable, enforceable patent rights as is the biotechnology industry. Robust patents that cannot be easily

circumvented, and that can be predictably enforced against infringers, enable biotechnology companies to secure the enormous financial resources needed to advance biotechnology products to the marketplace, and to engage in the partnering and technology transfer that is necessary to translate basic scientific discoveries into real-world solutions for disease, pollution, and hunger.

Research and development within the biotechnology industry comes at a very high cost, and every idea that is funded comes with a much greater risk of failure than success. Investment thus is predicated on an expected return in the form of patent-protected products or services that ultimately reach the market. The typical BIO member company does not have a product on the market yet, nor a steady source of revenue, and spends tens of millions of dollars on R&D annually. The biotechnology industry as a whole is responsible for well more than 20 billion dollars of annual research investment, and provides employment to millions of individuals nationwide. Virtually all of this investment is through private funding.[1] Developing a single therapy requires an average investment ranging from $1.2 billion to over $2 billion, and the clinical testing period alone consumes more than 8 years on average.[2]

Such investments are not only expensive; they are risky. For every successful biopharmaceutical product, thousands of candidates are designed, screened, and rejected after significant investments have been made. The chances that a biopharmaceutical medicine will advance from the laboratory bench to the hospital bedside are approximately one in 5,000.[3] Only a small minority of candidate drugs even advance to human clinical trials, and most of those will never ultimately reach the market. For example, at the time human clinical testing begins, the odds that a biopharmaceutical compound will eventually receive FDA approval are less than one-third.[4]

Because such risks and costs cannot usually be borne by any one entity alone, biotech drug development depends heavily on licensing, partnering, and access to capital. Patents allow biotech inventions of great societal value to be passed or shared among parties best suited to unlock their potential at any given stage of development and commercialization – each contributing their part, each sharing the risk of failure, each increasing the odds that a product eventually reaches patients.

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[1] Moving Research from the Bench to the Bedside: Hearings Before the Subcomm. on Health of the House Comm. on Energy and Commerce, 108th Cong., 1st Sess. 47 (2003) (testimony of Phylliss Gardner, M.D) (http://archives.energycommerce.house.gov/reparchives/108/Hearings/07102003hearing990/Gardner1579.htm) ("The biotechnology industry is the most research and development-intensive and capital-focused industry in the world," noting that 98 percent of research and development investment comes from the private sector).

[2] Joseph A. Di Masi and Henry G. Grabowski, The Cost of Biopharmaceutical R & D: Is Biotech Different? Manage. Decis. Econ. 28: 469-479, 2007)(hereafter: "Di Masi and Grabowski").

[3] Secretary of Health and Human Services Tommy G. Thompson, Remarks at the Milken Institute's Global Conference (Apr. 26, 2004), available at www.hhs.gov/news/speech/2004/040426.html

[4] Di Masi and Grabowski, 472-3.

If these patents can be invalidated under overly broad criteria, or if the ability to enforce them becomes limited due to an exceedingly high bar to filing a lawsuit or excessive delays in prosecuting a case through the courts, third parties would be less likely to invest in or license the technology, and major sources of R&D funding would move elsewhere. The result – patients waiting for the next new cure or treatment will have to wait longer, or may not ever get it at all.

For these reasons, currently-pending patent litigation reform legislation such as H.R. 9 is highly relevant to the biotech business model. A small or mid-sized biotech company that today decides to begin development of, for example, an Alzheimer's treatment must look a decade or more into the future. Long-term financial commitments will be required; several hundred million dollars will need to be raised; and development partnerships will need to be secured in a situation where the cost of capital is high and the odds of ultimate success are small. Because investment-intensive businesses can tolerate only so much risk, even moderate additional uncertainty can cause business decisions to tip against developing a high-risk, but potentially highly-beneficial, product. This is not an academic consideration. Every biotech executive has stories to tell about promising experimental compounds that had very favorable medicinal properties, but were never developed because their patent protection was too uncertain. And scholars have documented this unfortunate fact. [5] The injection of additional systemic uncertainty by, for example, making the enforceability of patents against infringers more uncertain can negatively affect which new cures and treatments may become available a decade from now.

The average American today can realistically hope to live into her or his 8th decade. At retirement, one out of five Americans can expect to develop Alzheimer's disease during her or his remaining years. The risk of developing cancer is even greater. While much has been said about inefficiencies in the patent system that drive up business costs and prices for consumers in some sectors today, we must keep in mind that that same patent system encourages risk-taking and long-term investment in potential solutions for the biggest problems facing our world and the generations to come: disease, hunger, and pollution. Great care must be taken to ensure that we do not focus too heavily on current complaints about abuses in the patent system without appreciating the system's longer-term benefits to society.

In this regard, it is important that, despite strident rhetoric, we do not overlook a 2013 nonpartisan Government Accountability Office (GAO) report[6] that found that patent assertion entities – the so-called "patent trolls" – bring less than 20 percent of patent litigation cases, while traditional businesses bring 68 percent of patent litigation. Any solutions proposed by this Congress must not impede the vast majority of patent owners from trying to enforce their legitimate patents in a legitimate way.

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[5] Benjamin Roin, Unpatentable Drugs and the Standards of Patentability. Texas Law Review, Vol. 87, pp. 503-570, 2009.

[6] Government Accountability Office report 13-465, August 2013, *Assessing Factors That Affect Patent Infringement Litigation Could Help Improve Patent Quality.*

It also is important for Congress to recognize and consider that our patent system is undergoing a period of great change as a result of recent decisions of the courts and the Judicial Conference, the ongoing implementation of major patent legislation enacted only a few years ago, and new challenges posed by emerging technologies. In the barely 17 months since the U.S. House of Representatives voted on the 2013 Innovation Act (H.R. 3309, 113th Congress; passed December 5, 2013), the courts and the PTO have changed the patent litigation landscape in ways that should be carefully taken into account by this Committee. Form pleadings for patent infringement suits will be abolished, thereby heightening and conforming pleading requirements in patent cases to other civil litigation. Discovery in patent litigation will follow a proportionality standard that makes discovery more focused and affordable for both parties, and which will allow the costs of discovery to be shifted to the party seeking it in certain instances. Supreme Court decisions on patent-eligible subject matter and claim definiteness have raised the standard for assessing the validity of patent claims, especially software and business method claims, and have made it easier to invalidate indefinite and/or overbroad patents. Attorney fee awards are allowed more frequently and flexibly in patent cases in the wake of Supreme Court and Federal Circuit decisions, raising the stakes for those who file frivolous or baseless patent suits. Deceptive practices in sending patent demand letters to small businesses are being targeted by the Federal Trade Commission (FTC), state Attorneys General (AGs), and dozens of recently-enacted state laws that clarify consumer protections against phony patent threats.

As a result of these and other developments, the number of patent cases filed has fallen significantly. For example, in comparing the number of new patent complaints filed in September 2013 versus September 2014, the number of new patent infringement complaints decreased by a remarkable 40 percent.[7] 2014 as a whole was down 21% from the previous year. Overall, no more defendants are being sued for patent infringement today than was the case in 2009.[8]

None of this means that Congress should not act to curtail abusive patent practices. Rather, it means that Congress needs to ensure that any patent reform legislative package does not swing the pendulum too far in any one direction.

In parallel, it has become clear that the PTO's Inter Partes Review (IPR) system of administrative patent challenges is having a game-changing effect on the patent litigation system. Patents that are involved in district court litigation are now routinely subjected to "second rail" administrative litigation in the PTO, where they are being invalidated at rates so high that the basic procedural fairness of these proceedings is increasingly being questioned.

It is critical that the future path of our patent system is one that preserves and maintains the incentives for innovation that have made the United States the global leader in medical, agricultural, industrial and environmental biotechnology. With this in mind, I would like to provide the following views on legislation currently under consideration.

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[7] https://lexmachina.com/2014/10/september-2014-new-patent-case-filings-40-september-2013/

[8] 2014 Patent Litigation in Review. Report, available at www.lexmachina.com .

Discussion of H.R. 9

At the outset, BIO's member companies reiterate their support for targeted reforms that curtail abusive practices within the patent system, without undermining the ability of patent owners to fairly defend their businesses against patent infringement. We believe it is appropriate for Congress to explore how it can help improve aspects of the patent litigation system, and during the last Congress, BIO and its members invested an enormous amount of effort towards crafting good faith, constructive proposals in this regard, including with the Members and staff of this Committee.

Based on that experience, we believe consensus can be achieved on a range of proposals that were and are being advanced in Congress, including enhancing transparency of patent ownership and enforcement; curtailing unfair or deceptive practices in the indiscriminate sending of patent licensing or settlement demand letters; and addressing the enforcement of patents against blameless end-users or consumers of infringing products manufactured and sold by others. Such provisions would seem to address the most stridently-voiced concerns in the current debate, and would be appropriately focused on the need to protect small businesses, end-users, and others who do not have the resources or the means to defend themselves from unfair or misdirected patent enforcement efforts by dubious patent assertion entities.

Specifically with respect to H.R. 9, BIO's members continue to be concerned about far-reaching and systemic changes to the way patents can be enforced and litigated by patentees of all stripes. In particular, we believe the following provisions are overly broad and require more refinement before they should be included in a final bill:

- New requirements under which initial complaints in patent lawsuits would be required to set forth vastly increased amounts of detailed information or be deemed insufficient and subject to motions to dismiss;
- Mandatory stays of discovery pending patent claim construction, forcing delays of 12 or more months in the typical patent litigation;
- Mandatory stays of actions against a broadly defined class of "customers" that could allow product manufacturers to deflect patent lawsuits towards their suppliers; and
- New impleader authority under which additional parties with a financial interest in the plaintiff or patent at issue – such as investors, licensors, or commercial partners – could be joined to the litigation as unwilling co-plaintiffs to pay the other side's costs under a presumptive "losers pay" approach.

These provisions represent stark departures from the normal civil litigation rules that apply to other commercial litigation under the U.S. system. The Committee should consider carefully the wisdom of singling out patent litigation for such an astonishing array of special rules found in no other area of civil litigation. Furthermore, in their current form these litigation reform provisions are one-sided (that is, similar requirements are not imposed on those accused of patent infringement), and will almost uniformly work against patentees of all stripes. In an effort to erect barriers against patent-asserting entities, or so-called "patent trolls," these provisions would systematically raise the cost and risk of patent

enforcement for all patentees, with disproportionately greater negative impact on smaller, poorly-funded patent holders.

In this regard, it is important to emphasize that litigation reform, by its very nature, most benefits those who have the means and the will to litigate. In our opinion, large businesses with well-funded litigation budgets are most likely to leverage these litigation changes to their advantage. At the same time, it is questionable whether small businesses that need protection from unfair patent enforcement would be able to leverage sophisticated new litigation maneuvers – such as impleader practice and extensive preliminary motion practice – that would be enabled by the various pending litigation change proposals. Patent litigation is already known as a "game of kings" and surely the pending litigation reform proposals would make it even more so.

The risk of unintended negative consequences on small-business innovation can be illustrated by consideration of several specific pending legislative proposals:

Enhanced pleading requirements: H.R. 9 would require that complaints, and counter- or cross-claims, for patent infringement include a number of new information items in order to qualify as legally sufficient. The level of required detail is high and would require plaintiffs to fill out a potentially very large matrix of information: each asserted patent; each claim for each patent; each accused product for each claim; for each accused product an explanation of how each element of each claim meets each feature of each accused product, and the like.

Nobody would disagree that the pleading requirements in patent cases should be enhanced to conform to the standards generally applicable in civil litigation, and BIO supports the proposed repeal of Form 18 in the Federal Rules. However, the proposed exhaustive pleading standard requires an amount of information and degree of specificity that go beyond what would be necessary to support a civil claimant's request for relief and to provide the defendant fair and reasonable notice of the infringement allegation. To legislate pleading requirements at such a high level of specificity invites litigation over the sufficiency of the patentee's efforts even in instances where all parties and the court would agree that there is "enough" for a lawsuit, and where the parties fully understand the factual basis for the infringement allegations. Instead of streamlining the litigation process, the proposed pleadings provision of the Innovation Act would enable accused infringers to litigate whether otherwise sufficient pleading-stage information was nevertheless incomplete; would fuel disputes over whether information was or was not readily accessible and whether the patentee tried hard enough to obtain it; and would empower well-funded defendants to engage in extensive motion practice and "churn" to prevent the litigation from advancing to even its preliminary stages.

The provision also lacks balance and reciprocity: responsive pleadings by alleged infringers often contain counterclaims and affirmative defenses (such as patent invalidity or unenforceability) that frequently fail to provide sufficient notice to the other party (the patentee) of the underlying factual bases for such assertions. But this practice by alleged infringers would not be addressed under H.R. 9; only patentees are singled out for additional, burdensome requirements.

We trust that this Committee will understand that patentees do not always have access to the information needed to plead at the outset of a lawsuit, with the required specificity, how the accused infringer's conduct precisely infringes which element of which patent claim. This consideration is particularly relevant to biotechnology, where, for example, a competitor's sophisticated biomanufacturing process, or the use of precursor molecules or proprietary production cell lines, are simply not accessible to a patent owner without some discovery, even if there is good reason to believe that a patent is being infringed.

Accordingly, BIO's members do not believe that such high levels of additional pleading specificity offer a targeted solution that would protect small businesses from abusive patent assertion on the one hand, while at the same time enabling them to protect their own businesses against patent infringement on the other hand. To be sure, some additional information beyond what is currently required under Form 18 of the Federal Rules of Civil Procedure may be beneficial for inclusion in model complaints for patent infringement, so as to convey reasonably detailed information on which the infringement allegation is based. The level of detail should be adequate to allow parties and judges to decide whether there is a sufficient basis for a lawsuit. Indeed, if the complaint sets forth sufficiently detailed grounds explaining why and how at least one patent claim is believed to be infringed by an accused infringer, then good grounds for a lawsuit exist. There is no need to additionally require the inclusion within the initial complaint itself of dozens of alternative grounds, or to litigate the sufficiency of such alternative grounds, when it is already clear that there is "enough" for a lawsuit to proceed. To require otherwise would impose an undue burden on the patent owner to plead all details of its case before any discovery has commenced. And doing so would significantly raise the cost and complexity of preparing a patent suit, particularly harming the ability of small businesses to enforce their patent rights, as well as those that need to protect their inventions against competitive threats in an immediate manner.

Instead of legislating this extreme heightened pleading proposal, it would be preferable to amend the law in ways that ensure that the judiciary would play a greater role, and assume more responsibility, for developing the applicable pleading standards in a balanced manner, as part of its traditional rulemaking function. Any final approach also would need to ensure that existing statutory schemes governing certain biopharmaceutical patent litigation are not covered by these new pleading rules, in order to avoid conflicts with the highly detailed nature of the statutory rules already in place for such litigation.

Fee Awards and "Interested Parties": Within the context of the currently-pending H.R. 9, the concepts of "real party in interest," "loser pays," and "impleader" are all connected, and should be evaluated together. The cost award and recovery provisions of the Innovation Act constitute a true "loser pays" system: as a default, the non-prevailing party must pay the winner's reasonable costs and expenses, and the burden will be on the loser to explain why it should not have to pay. Under H.R. 9, the non-prevailing party can meet this burden by a showing of special circumstances making an award unjust, or by showing that its position was "reasonably justified in law and in fact." Among its proponents there is an assumption that this standard will be easy to meet, and that fee and cost awards will therefore occur only in truly frivolous cases. In the same vein, it has been said that this

standard is not unprecedented – it is the same standard that has been in place since 1980 in the Federal Equal Access to Justice Act (FEAJA).

Despite such assurances, there is reason to wonder whether cost and fee awards would not occur more often than expected if this standard were transposed to patent litigation.[9] At a minimum, its predicted operation is unclear: unlike many other tort cases, patent cases often do not have clear winners and losers; each party may prevail on some issues and lose on others,[10] such that little can be predicted at this time about how fee awards would be assessed under such a system.

To be clear, BIO's members hold a diversity of views on the advisability of including fee-shifting provisions, such as those of H.R. 9, in any further patent legislation, and therefore BIO does not support or oppose the concept of increasing fee-shifting in patent litigation at this time.

Our members have pointed out, however, that the proposed "loser pays" provision in H.R. 9 currently uses overly broad language in defining the classes of civil actions to which it would apply, and is not limited to patent infringement actions under title 35 or section 337 investigations in the International Trade Commission under title 19. For example, by its plain terms the Innovation Act's fee shifting provision includes claimants who neither enforce, attack, nor defend against patents – such as a disappointed patent applicant who

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[9] In practice, the FEAJA standard may be more often met than one might assume. The Veteran's Administration, for example, estimates that around 45% of all cases before the Court of Appeals for Veterans Claims result in a FEAJA attorney fee and cost award against the Government. Social Security cases in which the claimant prevails result in awards over 40% of the time. The Supreme Court has noted that these are "hardly vanishing odds of success for an attorney deciding whether to take a client's case" (*Astrue v. Ratliff*, 130 S. Ct. 2521 (2010), at n. 2, Sotomayor, J., concurring). In fairness, high numbers of fee awards in sympathetic cases such as successful veterans, social security, or immigration appeals do not mean that patent cases, decided under the nominally same legal standard, would necessarily result in equally frequent fee awards to prevailing parties. But in the same vein, practical experience under FEAJA does *not* suggest that fee awards under H.R. 9's standard would necessarily be a rare occurrence. It should also be noted that the FEAJA's fee recovery provisions were designed to compensate for the inequality of resources between small claimants on the one hand, and the federal government on the other, thereby serving primarily as a tool to promote access to justice – not to punish either party for their litigation conduct or as a special deterrent against certain claims (awards to punish or deter misconduct remain available through other means, such as Rule 11 sanctions). Seen this way, it is not an easy exercise to transpose FEAJA standards which are meant to *facilitate* litigation into the context of the Innovation Act, which is meant to deter litigation. For example, consistent with its goal to "level the playing field" between unequal litigants, FEAJA requires prevailing claimants to fall below certain "net worth" thresholds in order to be eligible for an award, and disqualifies wealthy, well-resourced litigants from fee recovery even if they prevail against unreasonable and unjustified government litigation. The Innovation Act, in distinction, would let all prevailing parties recover, even if the prevailing party had vastly more litigation resources than then non-prevailing party. Moreover, the FEAJA guards against the possibility of certain undesirable dynamics, such as runaway spending by claimants who seek to prevail 'at all cost' (and then seek to be reimbursed), by capping recoverable attorney fees at a default of $125/hour, subject to certain adjustments which require special justification. The Innovation Act currently only provides that fee awards must be "reasonable," but otherwise lacks FEAJA's controls over unpredictable liability and runaway reimbursable costs.

[10] To give an example: assume a patentee sues a competitor for patent infringement. The competitor alleges that the patent is (i) invalid, (ii) unenforceable, and (iii) not infringed. The court rules *against* the competitor on the question of patent validity and enforceability, but agrees that the patent is not infringed. In this scenario, the competitor ultimately "prevailed" because it escaped liability, but did not "prevail" in its attempt at striking down the patent. Who reimburses whose litigation costs? Does the competitor reimburse the patentee for defending the patent? Or does the patentee pay the competitor for unsuccessfully attacking the patent? Or do both parties reimburse each other for portions of each other's cases?

appeals to a court from an adverse decision of the PTO, or an academic inventor who seeks an accounting of royalties from a non-profit university under the Bayh-Dole Act. Much litigation over the applicability of the provision could, and should, be avoided by narrower legislative language.

In addition, under H.R. 9's fee-shifting provision, patentees (but not defendant-counterclaimants) would be penalized for extending a covenant not to sue after an answer has been filed in the lawsuit, by deeming such a patentee to be a non-prevailing party for purposes of recovering the defendant's attorney fees and costs. Doing so would create disincentives for the private resolution of patent litigation. There also are many legitimate reasons why either party to a patent infringement case may extend a covenant not to sue at some point in the litigation. It remains unclear why covenants not to sue should be disfavored in such a blanket fashion.

We also trust that this Committee is conscious of significant judicial developments in the fee-shifting area, which have taken place over the past year. Federal courts have long had the power to award attorney fees to prevailing parties in exceptional cases, although traditionally the showing required to make a case exceptional has been high, and fee shifting has been uncommon. The 2014 Supreme Court decisions in *Octane Fitness v. Icon* and *Highmark v. Allcare* now permit courts to grant such awards more readily, and provide that a court's fee-shifting decision is reviewed more deferentially on appeal. Preliminary indications are that these decisions may be having a real impact. A recently-published analysis[11] reports 43 published decisions on fee awards in the eight months following the Supreme Court decisions, of which 21 of them, or nearly half, granted a fee award. In contrast, in the eight months *before* the Supreme Court decisions, there were 31 such decisions and only six of them granted fee awards, or less than 20 percent.

The fee-shifting provisions of H.R. 9 also are relevant to its provisions regarding disclosure and joinder of "interested parties." Under the bill, an interested party would be defined as anyone who has an ownership interest in the patent, or is an exclusive licensee, has enforcement rights, or who has a direct financial interest in the patents at issue or in the outcome of the litigation, including a right to receive royalties based on the patent or part of a damages award. Under H.R. 9, such "interested parties" must be disclosed in patent litigation, and can be impleaded into the lawsuit and held liable for the winning party's costs, expenses and attorney fees if a fee award is granted. H.R. 9 also includes a broader transparency of patent ownership requirement that includes anyone with a financial interest in the plaintiff as well.

There is nothing remarkable about the proposition that litigants should identify to the court those who have a financial interest in the litigation or the litigated assets. Under many local court rules, judges require such information today, as they need to know when to recuse themselves from a case, or to take other action to avoid conflicts of interest. But there is a real question whether the pending "real party in interest" provisions go too far in requiring

[11] Synopsis is available at: http://www.insidecounsel.com/2015/02/25/fee-shifting-before-and-after-the-supreme-court-de

disclosure of any financial interest, including for example, extensive disclosures of patent ownership transfers between subsidiaries having the same corporate parent, and extensive disclosures of third parties having "financial interests" (including passive financial interests) and *their* corporate parents. This level of disclosure would significantly increase the burden of compliance and create traps for unwary legitimate patent holders without providing substantially more useful information in many cases. And, such requirements become particularly problematic when they are being leveraged to join third parties into the lawsuit as unwilling plaintiffs, or to subject them to liability for litigation conduct that is beyond their control.

To this end, H.R. 9 would provide new impleader authority under which the court "shall" grant a defendant's motion to join "interested" third parties as plaintiffs. These impleader provisions are closely linked to the bill's litigation cost-shifting provisions, and are intended to ensure that somebody will be responsible for paying the winning party's litigation expenses if the losing party cannot or will not pay. Only winning defendants would have an opportunity for 3rd party reimbursement, as there are no comparable provisions under which winning patentees can join potential payors on the defendant's side.

The process by which "loser pays" awards can be recovered from third parties under H.R. 9 begins with a mandatory disclosure, under section 4 of H.R. 9, of "interested parties" at the inception of the litigation. Then, the defendant can provide these interested parties notice that they could be impleaded and that the defendant's litigation expenses could be recovered from them if the court confirms that they are an interested party. The third-party recipient of such a notice then has the option to renounce, within 30 days, any and all ownership, right, or direct financial interest in the patent – or otherwise face the risk of being joined to the action at the end to pay the winner's bills. Later, if the plaintiff loses and is subjected to a "loser pays" award that it cannot satisfy, the prevailing defendant can make a showing that the plaintiff had "no substantial interest in the subject matter at issue other than asserting such patent claim in litigation." If this showing is met, the court "shall" grant a motion to implead the third party that was earlier notified. The award can then be made recoverable against the impleaded interested party.

The business ramifications of even potentially joining unwilling "interested" third parties as co-plaintiffs on the patentee's side of a lawsuit would be significant. Interested parties, under the bill's definition, would include assignees, licensors, and anyone that 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." Under this definition, university licensors or business partners who sublicensed the patent to the plaintiff, or venture capital investors who invest in the plaintiff,[12] could potentially be impleaded into the litigation at

[12] The National Venture Capital Association has identified the Innovation Act's impleader provision as one of its priority concerns. See Nov 20, 2013 letter to Chairman Goodlatte, available at: http://democrats.judiciary.house.gov/sites/democrats.judiciary.house.gov/files/documents/Franklin131120.pdf Under the bill's definition, "interested parties" could include equity investors (e.g., venture capital fund entities) that would not be carved out under the bill's equity interest exception, because VC investors typically have voting agreements that provide for seats on the company's board and therefore may be viewed as granting a right to "influence" the litigation under the terms of H.R. 9.

the infringer's option, and face potential liability for the defendant's litigation costs. While university-licensors today often appear as co-plaintiffs in patent cases *pro forma*, the prospect of potentially having to pay part or all of the infringer's defense costs is an entirely new proposition for academic institutions. This is especially problematic when the university-licensor, as is common, does not actually have control over the litigation.

Because they would face potential liability for the patentee's litigation decisions, impleaded university-patent owners or corporate licensors likely would have to hire their own legal teams to participate in the litigation, complicating and raising the costs of patent litigation for all parties. Existing and future licensing agreements would need to be restructured to insulate licensors or business partners from potential liability in these circumstances, or to provide for indemnification. The more risk-averse parties to patent licensing agreements would want to retain enforcement rights or the right to veto patent enforcement decisions and litigation strategies – or worse, may decide against entering into these transactions at all.

On a working level, the impleader provision of H.R. 9 is byzantine, and problematic for several reasons. A third party would be identified at the beginning of a lawsuit with no input from that party, and would receive a notice of potential liability with an invitation to renounce all interest in the patent at that time or else face such potential liability. Later, after the plaintiff loses the case, the third party could be impleaded "after the fact" and made responsible for meeting unsatisfied "loser pays" awards that are premised on litigation conduct over which that third party may have had no control. The required showing of "no substantial interest in the subject matter at issue other than asserting such patent claim in litigation" is not readily intelligible and does not clearly limit the provision to litigation that was brought by patent assertion entities, but could capture R&D businesses that have to enforce patents they were not yet able to develop or commercialize. We also emphasize that this limitation on applicability, for what it's worth, is not determined until the very end of the case, thus allowing alleged infringers to force the use of this byzantine, burdensome, and potentially chilling process in all patent cases.

On the patentee's side, the net result of such joinder provisions would be to create many additional encumbrances especially for smaller R&D businesses that would make partnering and collaborations, as well as the enforcement of patents, needlessly more expensive and more complicated. Given their potential negative impact on the businesses of legitimate patent-owning innovators, the rationale for creating such new impleader provisions for "interested parties" deserves further debate.

Proponents have described these provisions as safeguards that would only very rarely come into play, under truly egregious circumstances when deliberately under-capitalized paper entities bring frivolous litigation in the knowledge that they would be "judgment proof" against a litigation cost award. And yet, under H.R. 9, a broad class of business partners, licensors, or other affiliates of *any* patent plaintiff would be exposed to preemptive threats of liability in the form of menacing legal notices informing them that they could be joined to a lawsuit over which they may have no control, be subjected to fee awards over which they have no control either, and inviting them to renounce all interest in the patent (and

effectively dissolve their business relationship with the plaintiff). In such ways, the proposed impleader provisions would systematically interfere with the business relationships of patentees of all stripes, while also leading to a great deal of legal conflict over who should be in a patent case at its inception when, after all is said and done, it likely will not have been necessary to do so.[13]

In our view, the joinder provisions under consideration present a great departure from normal civil litigation under the American system, and have the potential for significant negative business impact on investment-intensive innovation, especially for smaller companies and non-profit and academic innovators. The joinder/impleader provisions should, at a minimum, be changed to limit the class of "interested parties" that could be brought into the lawsuit as unwilling co-plaintiffs. Business partners, patent owners, financing companies, and others who engage only in arm's length business with the patentee should not be subjected to potential liability or forced to renounce all of their rights in a patent just to avoid being dragged into litigation between two other parties. On the other hand, with proper safeguards it may be fair to permit liability of entities that directly benefit from and have the right to control the patentee's litigation conduct. In particular, courts should be encouraged to look to well-established bodies of law that permit vicarious liability or corporate veil-piercing to identify patent enforcers who operate through undercapitalized paper entities, rather than creating broad and vague new categories of potentially impleaded parties.

Deferral of discovery: H.R. 9, as did bills in the past Congress, contains provisions that would require courts to defer discovery in patent cases except as necessary to judicially construe the meaning and scope of the asserted patent claims. In effect, these provisions would routinely defer merits discovery in virtually all patent cases until after the court issues a claim construction order. While there undoubtedly are cases in which such discovery deferrals are appropriate, doing so as a general rule would effectively bifurcate discovery on the merits in most cases and tend to prolong patent litigation by 12 months, if not longer, across the board. Such delays would accrue even in routine patent litigation that does not involve meritless claims, small businesses defendants, or "patent trolls."

In BIO's view, these proposals are too rigid and interfere unduly with the responsibility and authority of district courts to manage patent litigation in a case-specific manner. In instances where there is ongoing infringement, these provisions would perpetuate

[13] If, on the other hand, the reason for impleading "interested parties" is to address "privateering" – a practice whereby large companies reportedly license or assign their patents to other entities that then assert these patents as a proxy for the large company – it is unclear what the impleader provision would accomplish in such instances. For example, it has been said that large companies assert patents through proxies in this way to insulate themselves from counterclaims – but if good grounds for a meritorious counterclaim exist, it should almost certainly be possible to sue such a company separately. At any rate, under U.S. corporate law, it is perfectly common and permissible to establish corporate affiliates for the purpose of isolating assets or liabilities, and that holds true for IP assets as well. There also is a well-developed body of law that allows veil-piercing, not just to establish liability but also to collect debts and unpaid awards, and U.S. courts have not shied away from allowing recovery against corporate parents or affiliates that sought to hide behind paper entities. We are not convinced that opening the doors to new, relatively unselective impleader authority would accomplish anything that cannot already, under existing law, be done more selectively and with less collateral damage.

uncertainty for patentees whose market share continues to erode, as well as for accused infringers whose potential damages continue to accrue. Settlement negotiations would be hampered by delays in developing a sufficient factual record. The development of other potentially case-dispositive issues would be put on hold, and opportunities for early resolution of the litigation on other grounds would be lost. Interlocutory appeals from claim construction orders would become more common, which would contribute to further piecemeal adjudication and delay. In such ways, legislation that is intended to make patent litigation more streamlined and less costly likely would end up achieving the exact opposite result.

To be sure, the discovery stay provision of H.R. 9 does permit limited flexibilities – for additional discovery "as necessary" to ensure timely resolution of certain litigation that is required by existing federal laws to proceed under defined statutory timelines, or as necessary "to resolve a motion properly raised" prior to claim construction, or to prevent "manifest injustice." But these exceptions do not alter the fact that patent litigation in the overwhelming majority of patent cases would incur significant across-the-board delays and increased expense for all parties. Even in cases where these limited flexibilities can be invoked, it is clear that litigants would *not* be entitled to discovery as under current practice. Instead, the burden would be on the requesting party to show why its discovery request is necessary and how its rights would be affected if the discovery request were not granted, all of which would be subject to dispute and counterarguments by the opposing party.

If the goal is to address a subset of cases – litigation brought by patent-assertion entities – it is unclear why Congress would insist on such across-the-board rigidity. The majority of patent litigation manifestly does not involve "patent trolls," and while it may be difficult to define "troll" cases *affirmatively* in statutory language, it is not too difficult to identify whole classes of cases that have nothing to do with "patent trolling." H.R. 9 takes one half-step in this direction: as introduced, H.R. 9 provides that its limitation on discovery would not apply to "an action seeking a preliminary injunction to redress harm arising from any allegedly infringing instrumentality that competes with a product sold or offered for sale, or a process used by a party alleging infringement." Providing such a categorical exemption for cases between manufacturing marketplace competitors is entirely reasonable. It is perplexing, however, that this exemption should be limited only to preliminary injunction cases. Preliminary injunctions are uncommon in cases between manufacturing competitors, and it is not understood how the goal of limiting discovery in patent-assertion-entity cases would in any way be advanced by interfering with patent litigation between marketplace competitors. If there is a reasonable basis for objecting to a general competitive harm exception for cases between practicing patent owners, it has not been articulated.

In the same vein – and of particular relevance to biotechnology companies – patent litigation under the Hatch-Waxman (HWA) or the Biologics Price Competition and Innovation Acts (BPCIA) likewise manifestly does not involve patent-assertion entities. These statutes spell out in detail the identity of the parties, the products that are the subject of the litigation, and the timelines under which the litigation must commence and proceed. Not only is there no question that the parties to this special kind of patent litigation are each involved in the real-life commercialization of valuable therapeutic products, but there is also

a real risk that the currently-pending general patent litigation reforms could interfere with the detailed litigation schemes previously established by Congress under the HWA and BPCIA. Patentees under the HWA and BPCIA have very little leeway as to who they can sue, when they can sue, and the timelines under which the litigation must go forward. It would be simply inconsistent with these statutory litigation schemes to now inject systematic discovery stays into these cases, to require the parties to such litigation to make burdensome showings why any given discovery request is necessary under the circumstances of their case, and to narrowly tailor permissible discovery accordingly. Notably, parties to such litigation may not be able to take advantage of a competitive harm exemption such as the one discussed above, because under the unique provisions of the HWA and the BPCIA, patent litigation is intended to begin before the allegedly infringing product enters the marketplace. Accordingly, for reasons that are at least as strong as those supporting a general competitive harm exception between actively marketing competitors, a clear exemption for patent litigation under the HWA and BPCIA should also be included in any discovery stay provision.

It also must be understood that not all patent litigation in biotechnology will fall into the above categories. The vast majority of U.S. biotechnology businesses are far from having a product on the market, yet depend critically on the enforceability of their patents to attract funding, to enter into development partnerships, and to advance their technology. A solution must be found for such businesses as well, businesses that are actively trying to develop, and seeking investment to further develop, patent-protected inventions. Any bill that would equate such quintessentially American entrepreneurial companies with patent trolls would be highly objectionable.

To be clear, BIO's members agree that there should not be unfocused discovery during the early phases of patent litigation. Focusing on the *Markman* hearing as the point on which early evidence development should hinge is a reasonable approach, but it is not the only way to address the matter. For example, claim interpretation is not an issue in every patent case,[14] yet every patent case should have focused, rational early development of evidence and legal positions.

Further, our members consistently inform us that a reliable, high-quality judicial claim interpretation is always informed by a range of legal and factual contentions, and backed up by evidence that must have been developed in the case at the time of the claim construction hearing. But it is all but impossible to *prospectively* limit discovery only to what is necessary for claim construction – as H.R. 9 would require – because neither party can predict at the outset the full range of facts and contentions that will turn out to be important for construing the claims. Further, in our experience, it is critically important that a judge construing disputed claims understands how the technology at issue actually works and how it compares to the prior art. And both parties need to understand the other party's

[14] For example if the defendant claims that he actually co-owns the patent, or that he is licensed, or that his infringing product is protected by prior user rights, or that the patent is unenforceable due to laches -- for such defenses it ordinarily won't matter very much how the patent claim is interpreted. On the other hand, if anticipation or obviousness is an issue, or infringement is disputed, claim interpretation often matters very much.

legal positions, and the evidence that backs them up, in order to agree which claim terms need to be construed and to put forward a proposed claim construction.[15]

Accordingly, BIO believes that any legislation on discovery in patent cases should explicitly permit the development of a reasonable amount of evidence on both sides, to give the case the contours needed to identify and prioritize the questions that need to be resolved first, be it claim construction or other issues. To this end, it would be beneficial to survey the local patent rules that have been adopted in many United States District Courts, and to explore whether the principles of these rules could be applied to craft a nationally uniform pathway for developing evidence and contentions during the early stages of patent litigation in cases requiring claim construction. Under such a nationally uniform framework, the parties' contentions and supporting documentation, and discovery relating thereto, would form a "default" body of information that would need to be developed initially in patent cases. In this context, we also support the Judicial Conference's recent discovery-related initiative, which would require judges to generally grant discovery only in proportion to the needs of any particular case; and this general proposition would apply in all stages of patent cases as it should in other civil litigation. Such recommended standards, to be developed in conjunction with and implemented by the courts, would go a long way to addressing Congress's concern about discovery abuses by the few, without causing systemic harm to the large majority of legitimate participants in the patent litigation system.

Customer-Suit Exception: The customer-suit exception at section 5 of H.R. 9 is intended to address Congress's concern over instances of patent enforcement against blameless end-users or consumers who merely purchased and used infringing products that were manufactured and sold by others. BIO believes that provisions to better enable manufacturers of infringing goods to join such lawsuits, or to otherwise defend against the infringement allegation, would be beneficial if properly crafted. Going forward, Congress should consider modifications to this provision to guard against opportunities for misuse and unintended consequences. As written, H.R. 9's customer-suit exception could unexpectedly benefit accused infringers at every level of the manufacturing and distribution chain, contrary to its declared goal of protecting ends-users and retailers of infringing products. For example, in its current form the provision would allow even manufacturers of infringing products to deflect infringement suits towards their parts suppliers, thereby inviting piecemeal adjudication and systematic litigation delays in conventional infringement cases having nothing to do with end users, retailers, or "patent trolls." Additional amendments should provide more clarity around the class of intended beneficiaries, the scope of the stay, and the circumstances under which a litigation stay would be inappropriate.

Reform of the PTO Patent Challenge System: The PTO's Post Grant Review (PGR) and Inter Partes Review (IPR) processes, as established by the America Invents Act (AIA), were

[15] For example, if the defendant contends that the patent is invalid in light of prior art, and for lack of enablement – this is something the patentee needs to know with specificity prior to claim construction. Which prior art, and how does it supposedly fall into the claim? And what within the supposed scope of the claim is not enabled? Likewise, if the patent holder alleges, for example, that the accused product infringes the patent under the doctrine of equivalents, then the defendant needs to know which elements of its product are supposed to be covered literally by the claim and which ones are substantial equivalents and why. If such information isn't sufficiently developed and backed up by evidence, neither party could put forward a proposed claim construction.

designed to provide a quicker, cost-effective alternative to litigation. Close to 3,000 petitions for such AIA proceedings have been received by the PTO since these proceedings became available in September 2012. The overwhelming majority (up to 80% by some accounts) involve patents that are in concurrent district court litigation, showing that these proceedings are being used in conjunction with, rather than as an alternative to, litigation. This creates a great risk of duplicative proceedings and inconsistent outcomes, as alleged infringers seek to gain advantages or leverage over patent owners that would not exist under district court litigation alone. For example, the way claims are interpreted, the burden of proof, and other procedural protections are less favorable to patent owners in the PTO administrative setting.

In addition, third parties with no commercial interest in the patent or field to which the patent pertains have figured out that they can extort settlements or otherwise gain financially from bringing, or even threatening to bring, patent challenges against critical patents owned or licensed by biotech companies. Biotech companies can be particularly vulnerable to such extortion because – in contrast to most high-tech companies – biotech companies often rely on just a handful of highly valuable patents to protect their products and massive investment therein. This already is being seen by several biotech companies, who have been approached by third parties threatening to file IPRs unless the company makes a substantial payment to them. And a hedge fund manager recently made news by announcing his plans to "short" the stocks of more than a dozen biotech companies and then file IPRs against their most valuable product patents in an attempt to drive down their stock prices. The first such IPR petition, filed by this hedge fund in February against Acorda Therapeutics (a mid-size biotech company which brought to market an innovative treatment for multiple sclerosis) caused the value of the company to drop by over $150 million in one afternoon. A second IPR has now been filed against this same company, and over the past month alone three additional biotech companies have been targeted for similar treatment by financial speculators.

Such abuses of the PTO administrative review system are attractive and growing because, as is quite clear to anyone following the evidence to date, the rules governing these proceedings are unfairly stacked against patent owners in many ways. To address one of the problems with this system, H.R. 9 includes an important provision that would specify that patent claims in AIA proceedings are to be construed as they were or would be in district court, according to their ordinary and customary meaning as understood by one skilled in the art (under a *Phillips v. AWH standard*) – rather than the PTO's current "broadest reasonable construction" standard, which is more likely to result in invalidation of patent claims. This statutory change would harmonize the claim construction standards in PTO litigation with those in district court litigation, thereby increasing predictability and avoiding inconsistencies and wasteful litigation. It should be part of any final legislative package.

An IPR petition filed against BIO member company Allergan on March 9 illustrates that the difference in claim construction standards is not just an academic consideration. In this petition, a recently-formed self-described privately-held investment venture is challenging a patent claim that had previously been litigated and upheld by both the U.S. District Court

and the U.S. Court of Appeals for the Federal Circuit. The challenger candidly repeats the legal arguments that had been unsuccessfully made by prior litigants in the Article III courts, but argues that the broader claim construction standard in IPR proceedings should lead to a different outcome. In effect, the petition seeks to leverage the difference in claim construction standards to reverse the results of over four years of litigation in two Article III courts.

In light of such developments, BIO's members have firmly concluded that the harmonization of legal claim interpretation standards between district courts and the PTO is a necessary and common-sense reform that should be part of any final patent reform bill. However, any patent reform bill must go further. Congress should make clear that the presumption of validity that applies to issued patents is not destroyed simply because an AIA proceeding has been instituted against a patent. Just like in district court, patents in AIA proceedings should be presumed valid in recognition of the fact that a government-issued patent upon which investment has been based, in some cases hundreds of millions of dollars over a decade or more, should not be overturned without clear and convincing evidence of invalidity.

Congress also should provide patent owners with greater procedural protections in IPR as well. First, the PTO has made it effectively impossible for patent owners to amend their claims in AIA proceedings, even though the AIA expressly grants the patent owner this right (as of November 2014, with over 2,300 such proceedings requested and close to 200 completed, the PTO had virtually never approved a claim amendment). Such a rigid approach to the granting of claim amendments undermines the purpose of the proceeding, which is to help improve patent quality and provide freedom to innovate by ensuring that patent claims are not overly broad. Instead, AIA proceedings have become a forum in which patent claims that could be sustained if properly amended are equally thrown out with the unsustainable ones, which contributes to the high "kill" rates that are driving the abusive behaviors described above. Congress should clarify its intent regarding narrowing claim amendments in AIA proceedings, so that they are more liberally allowed by the PTO, within reason.

Second, Congress should include other procedural protections to ensure that patent owners receive adequate due process, including –

- Developing rules for dealing with AIA proceedings that are brought for illegitimate reasons. Most patent challengers who file petitions for AIA proceedings seem to do so to obtain freedom-to-operate, or because they are already involved in an ongoing legal or business dispute involving the challenged patent. But as discussed above there is emerging evidence that AIA proceedings also are being brought or threatened by entities that have no interest in the challenged patent other than to extract a settlement payment or unrelated concessions from the patent owner – or to profit from the declining stock value of companies subject to these challenges. Such "reverse trolling" practices were clearly not intended by the AIA, and they deserve Congress's immediate remedial action.

- Allowing patent owners to submit declarations of scientific experts in order to inform the PTO's decision whether or not to institute an AIA proceeding. Currently, only the patent challenger has this right, making it more likely that review proceedings will be initiated.

- Assigning different administrative panels to (i) the "institution phase" and (ii) the "merits phase" of the AIA proceeding. Currently, before instituting the proceeding, the administrative panel first decides whether there is a "reasonable likelihood" that the challenger will prevail in its challenge (or, in the case of a PGR, whether the patent is "more likely than not" invalid). The administrative panel thus becomes, at a very early point, invested in its finding that there is something seriously wrong with the challenged patent. This affects all subsequent stages of the proceeding, stacks the decks against the patent owner, and is contrary to basic notions of procedural fairness. It also appears quite clearly contrary to what Congress had intended in the AIA's language.

- Imposing a duty of candor not just on the patent owner, but also on the patent challenger. Currently, patent challengers are under no obligation to disclose information that is favorable to patentability of the challenged claims, but patent owners are under an obligation to disclose all information that is unfavorable to patentability.

- Permitting appeals from IPR and PGR decisions to not only the Court of Appeals for the Federal Circuit (as currently allowed), but also to U.S. District Courts where appropriate. Appeals to district courts have long been an important right in administrative trials in the PTO. This form of appeal helps to ensure proper due process and fairness for patentees in situations in which there is a need for the introduction of evidence that is not available or realistically obtainable during IPR or PGR.

Clarification of Liability for "Divided Infringement" of Process Patents: Incredibly, under current patent law, an infringer who arranges for the steps of a patented method to be practiced by different actors escapes all liability because no "single entity" practiced the entire patented method. This legal loophole has existed since 2007, when the U.S. Court of Appeals for the Federal Circuit established a strict rule according to which a process patent cannot be infringed by multiple parties together unless these parties are vicariously liable for each other's actions (e.g., they must be in a master-servant, employer-employee, agent-principal, or legally equivalent contractual relationship). Patent infringers were quick to take advantage of this strict rule, for example by agreeing to infringe the patent through their concerted actions while structuring their legal relationship with each other as an "arms-length" transaction in which neither party has the formal right to direct or control the other, thereby avoiding all liability for patent infringement.

In its July 7, 2014 decision in *Limelight Networks, Inc. v. Akamai Technologies, Inc.,* the Supreme Court (i) rejected the Federal Circuit's subsequent attempt to close this loophole, and (ii) declined to craft an alternative rule that would bring greater clarity to this area of

the law. As a result, there is now great uncertainty about the enforceability of process and method patents. Every industrial process that has more than one step is capable of being divided up between multiple actors, and the current state of the law essentially provides a roadmap for patent circumvention whereby there would be no liability at all for, by way of example, a patent infringer who himself practices all but the final step of a patented process and then induces another actor to practice the final step.[16]

In its brief to the Supreme Court in the *Limelight* case, the U.S. Government identified these and other concerns with the law on divided infringement and explained the need for a Congressional (not judicial) solution. This serious anomaly in patent law urgently needs to be addressed, and BIO urges this Committee to do so.

Proper Codification of "Double Patenting": H.R. 9 would codify the judicially-created doctrine of "double patenting" for patents that are prosecuted under the AIA's new first-inventor-to-file standard for patentability. While we support these provisions, they do not go far enough. Legislative clarification of the "double patenting" doctrine also is needed for patents that were issued prior to the AIA's effective date.

Patent-eligible Subject Matter under Section 101: Among BIO's members, no area of substantive patent has received more attention over the past several years than the topic of patent-eligible subject matter under section 101 of the Patent Act. The Supreme Court has weighed in on this subject four times in as many years, and patent practitioners are losing count of the numbers of patents that have been rejected by the PTO or struck down in the lower courts on this ground over the past year alone. While in terms of sheer numbers the impact on software-implemented inventions has been particularly harsh, the patentability of biotechnology inventions relating to products and processes derived from natural sources or materials also has been affected significantly by this ongoing judicial and administrative expansion of non-statutory patent law in the United States. BIO's members are greatly concerned by the significant departure from internationally-accepted norms of patentability that is increasingly manifesting itself in the courts and the PTO, particularly with regard to industrial, agricultural, and pharmaceutical preparations of naturally-derived substances, compositions, and processes.

Inventive preparations based on naturally-occurring substances have historically been of great importance in biotechnology, and innovation in this area has been spurred, at least in part, by the availability of patent protection. This is true for every sector of biotechnology. Examples include vaccine preparations, crop protection products, plant biotechnology and

[16] Those who benefit from this rigid rule have expressed great concern that Sec. 109 of the STRONG Patents Act, which would close this loophole, would create unfair patent infringement liability even in instances where "no one" practices the patent claim. Statements of this kind misrepresent both current law and the STRONG Act's legislative proposal. Patent law has always required that the patent claim, with all its elements and steps, must of course have been practiced, without authority, before there can be infringement liability, and this bedrock requirement would in no way be altered by the STRONG Patents Act. The STRONG Patents Act merely clarifies, in a narrowly targeted manner, that those who orchestrate the infringement of process claims by others do not escape any and all potential liability. The proposal does not change the demanding showing a plaintiff would otherwise have to make in order to establish indirect infringement, and it has BIO's full support.

breeding processes, industrial enzymes, immunosuppressive drugs, anticancer compounds, and antibiotic medicines. Such historically uncontroversial inventions are now increasingly being rejected in the PTO as unpatentable subject matter under an expanded extra-statutory exception for "natural phenomena," even if they are otherwise novel, unobvious, and useful inventions that, but for the intervention of man, would not have ever been known and put into useful forms to benefit humankind. By subjecting such inventions to an unstable patent-eligibility analysis that focuses on the "gist" of the invention instead of the specific scope of the patent claim itself, courts and the PTO are in the process of creating a deep disparity in substantive patent law whereby whole categories of socially beneficial inventions would face obstacles to patent protection in the United States but remain patentable among its major trading partners, with attendant harmful effects on the flow of investment, trade, and cross-border transfer of innovation.

BIO urges this Committee to undertake a comprehensive review of Section 101 jurisprudence and PTO implementation to determine what needs to be done, and to ensure that the patentability of naturally-derived substances, compositions, and processes remains consistent with our nation's best interests.

Diversion of PTO User Fees: On the issue of PTO user fees, BIO's members are incredulous that, after more than a decade of sustained Congressional interest in improving the nation's patent system, resulting in landmark legislation in 2011 and now progressing towards another major bill, the PTO still has neither full funding nor access to all user fees it collects. We would urge Congress to fix this problem once and for all.

Conclusion:

I want to thank the Committee for the opportunity to testify today and explain a view of patent litigation reform from the perspective of small, innovative, investment-intensive biotech businesses. I urge the Members of this Committee and the full House of Representatives to ensure that adopted reforms are truly targeted at abusive practices – both by patent owners and against patent owners – and do not have negative, unintended consequences for the vast majority of legitimate patent owners or licensees who simply are seeking to protect and enforce their patents in good faith. The long-term benefit to society of a strong and predictable patent system may hang in the balance.

Mr. ISSA. I'm going to hold to a strict 5 minutes in hopes that we get everyone in before the vote occurs. I also will waive asking my questions first. I would caution the four witnesses also, that there are many questions, so if you're asked a question, answer it as briefly as you can; and others weigh in only if the person asking the question would like additional answers. And that will allow a maximum number of questions. We'll get as much in as we can. And with that I'll go to Mr. Franks of Arizona.

Mr. FRANKS. Well, thank you, Mr. Chairman. Mr. Sauer, I'm going to ask you the questions first here. Could you please just speak to your thoughts in general on the value of intellectual property, specifically patents in driving innovation and economic growth in the United States. I know that's the blooming obvious question of the century, but I'd love to have it restated.

Mr. SAUER. Well to an industry that's as dependent on outside investments as the biotech industry, and we feel we are extremely dependent on investors. Bringing a biotech medicine to market takes an average fully capitalized investment of $1.2 billion. That kind of investment over a decade before a product reaches the market cannot be sustained just from the resources of a single company alone. So biotech companies very much depend on their intellectual property working under a slow innovation cycle to attract the investment and partnering to bring these products to market. If patents become more risky and less easy to enforce, less meaningful, if you will, why would anyone license this kind of technology? Why would anyone invest in a company that depends on this kind of IPR to bring these products to market? That is the driving concern that we hear from all our members every time a bill is proposed that systematically raises the risk and cost of patent enforcement and makes them harder to enforce.

Mr. FRANKS. Well, I think that's a good answer. The Supreme Court has been active on patent issues, as you know, in recent years. One area is fee shifting where Supreme Court decisions have already led to fees being awarded in more cases than in prior to those decisions, and it seems like this is an area where the courts may already be addressing some of the issues. Another area is the pleading requirements. The Judicial Conference has recommended eliminating the standard form for patent infringement complaints, and this would mean that patents would be subjected to the same higher pleading standards as in other cases. Do you think Congress needs to legislate on fee shifting and pleading requirements for patent cases?

Mr. SAUER. On fee shifting, our members have different views. We have large member companies who are not just comfortable, but support the notion of fee shifting; and we have a lot of small member companies who have expressed the access to justice concerns that you might perhaps expect. As an organization as a whole, I believe we're on the fence. Our concerns about fee shifting relate mainly to the enforcement provisions that attach to them. Impleader for the purpose of collecting fees, those have created a lot of concern among our members, but it's an ancillary issue.

The question of pleadings, nobody disagrees that pleadings in patent cases should conform to the same standards that apply in other civil litigation. Our concern with the pleadings is that in the

exhaustive way in which the bill proposes to do this, H.R. 9, it will allow a lot of gaming, unproductive litigation, and churn in litigation before the litigation can even get underway, even in cases where a judge may agree that there is enough for a lawsuit.

I was heartened to hear Michelle Lee's comments earlier about perhaps finding a compromise where we talk about pleading at least one claim of one patent to the required degree of specificity, and that would mean there's enough for a lawsuit. And then the disclosure requirements that kick in in patent litigation would take care of the rest of fleshing out the case. I think there's an opening there, and I do believe compromise can be found.

Mr. FRANKS. Thank you, sir. Mr. Chairman, I'm going to yield back the balance of my time.

Mr. ISSA. Thank you so much. Moving right along, we will now go to the gentlelady from San Jose.

Ms. LOFGREN. Thank you very much. Mr. Sauer, you were describing basically a shakedown using IPR, not lawsuits, in terms of extorting settlements. Have you seen that now drift over to actually litigation, as the IT sector has? I'm asking because there was a Law Review article done about a year and a half ago that predicted that PhRMA and BIO would be the next victims of abusive patent litigation.

Mr. SAUER. The answer is not really. So we haven't heard a lot of complaints from many of our members of being subjected to abusive litigation. In principle, as Director Lee said, it could happen in any industry. Personally I do believe in the biotech industry where the value for patent is so much higher, that those who would abuse the system for their own financial gain might gravitate toward using the IPR system which lends itself very well to attacking specific IT assets——

Ms. LOFGREN. Because it's cheap.

Mr. SAUER—rather than bringing litigation. That's right.

Ms. LOFGREN. Let me ask a question in terms of money. Mr. Simon, you talked about—I believe it was you. No, no. It was you, Mr. Kramer, about the costs that Yahoo is experiencing, you say a hundred million dollars, and that's not all of it. Recently the president of the Consumer Electronics Association, Gary Shapiro, said that, and this is a quote: "This legalized extortion racket costs our economy an estimated $1.5 billion a week." I don't know where he got that figure. Can you tell me, Mr. Kramer, what does abusive patent litigation cost Yahoo just in terms of dollars and as a percentage of revenue or profit? Can you answer that?

Mr. KRAMER. Sure. Thank you for that question. I can certainly answer the question of how much does it cost us. Since 2007, I think we have had about 79 cases. We have spent on outside counsel fees a hundred million dollars. That's just on outside counsel fees alone. That doesn't include licenses, settlements, the time and expense, effort of actually getting people prepared, collecting documents, going to trial, and that's just Yahoo. Our competitors have many more cases than we do, some of them. Some of them have less, but it's been an uphill battle since about 2007. That's going on 8 years.

Ms. LOFGREN. So have you done an assessment of what the cost—obviously when you're sued it is not just the outside legal

fees. You have got staff time to respond and search for documents for discovery and a lot of other things. Have you ever like added it all up?

Mr. KRAMER. You are exactly correct. I have not spent the time to add that all up, but certainly I can say in terms of man hours over the last 8 years it has been hundreds of man hours lost to these cases when they could have been spending time more productively on developing new products.

Ms. LOFGREN. Do you have any idea what percentage that is of your revenue or profit?

Mr. KRAMER. I do not.

Ms. LOFGREN. Mr. Simon, let me ask you the same question. Do you have information along those lines?

Mr. SIMON. No, I do not have specific numbers that I can give you, but I can tell you you're right in pointing out there are many hidden costs that result from this, from the time taken talking to the engineers to the impact of the engineers after they're being deposed or having gone to a trial where they're now gun shy to design things they should be designing.

Ms. LOFGREN. Let me ask you very quickly. I asked Ms. Lee about the idea of having, for example, post-grant review procedures and the like, tiered rule, so that if you had under 5 or under 10 patents, it wouldn't apply to you. If you had 100 or 1,000, it would. Do you think that's a workable idea? Does it solve any problems for the different ways industries use patents? Maybe I should ask Mr. Sauer also.

Mr. SIMON. If I understand what you're proposing, is basically based off the number of proceeds that would apply——

Ms. LOFGREN. Patents for product, yeah.

Mr. SIMON. Then you would get somewhat different treatment as a result. I've only heard of that one time before—I actually think it's a good idea—and it was in a discussion with a member of the pharmaceutical industry where we both agreed it was a good idea when we were trying to work something out. However, we both went back to other stakeholders that early morning——

Ms. LOFGREN. My time is up. I know the Chairman wants to—I'll just say that certainly PHARMA has a different business model than IT, and that's important.

Mr. SIMON. Yep.

Ms. LOFGREN. On the other hand, we're rolling the dice on who's going to win, who's going to lose; and it might be time to talk some compromise.

Mr. ISSA. Would the gentlelady like to place Mr. Shapiro's, that article in the record.

Ms. LOFGREN. Yeah, I just you a the article in the paper.

Mr. ISSA. Yeah, we'll put the article in the record. We now go to the gentleman from Texas, Mr. Farenthold.

Mr. FARENTHOLD. Mr. Simon, you might as well leave your mic on. I'm going to start with you. We have heard a lot about abuses of the discovery system. Understanding that we want to stop these abuses, what alternatives are available to Markman? Specifically I'd like you to comment on the proposal to tie discovery to venue, and how can we make that work or do you have other alternatives you'd like to propose?

Mr. SIMON. Thank you. Although we're very happy with the provisions in the bill on Markman, there are potentially other ways to try to deal with this issue. Certainly we have seen instances where various courts try to do a pocket veto on a motion to transfer, particularly since motions to transfer are discretionary. And then they eventually say, well, the Court is now so familiar with the case the public interests factors outweigh the private interest factors. So certainly there are ways to tie discovery on venue and motions to dismiss to encourage speedy rulings and that we think those things might be things to consider.

Mr. FARENTHOLD. Great. Now Mr. Kramer, we also hear a lot about the need for further compromise in this. To me, and I think Chairman Goodlatte when he started this hearing way back when, said that H.R. 9 was the result of some compromises. I think it would be helpful to review the fact. Can you tell us a little bit about what's not in the bill that the tech community has given up to get to this compromise?

Mr. KRAMER. Sure. Let me first say I fully support the bill as is. I think that it is a great bill. I think it does the things we need to do to help solve the problem. Certainly some things that are not in the bill that the tech community would support are the venue issue, which you mentioned. Clarity on damages provisions would be extremely helpful. One of the things that we see in every case, it's routinely pled—I would call it a plague on the system—is willfulness. You know, just because I got a complaint, all of a sudden I'm a willful infringer. I think I would like to see that addressed too. Having said that, I think this bill goes a long way to solving the abusive litigation practices, and I would like to see Congress act on it.

Mr. FARENTHOLD. Great. And I guess, Mr. Armitage, you're with the pharmaceutical industry. You all gave up some stuff that you all would want, too, didn't you?

Mr. ARMITAGE. First of all, I'm here for myself.

Mr. FARENTHOLD. You're familiar with it. I guess we've got to ask Mr. Sauer, if you'd rather punt that question.

Mr. ARMITAGE. Let me just say a couple things. For issues like willfulness, for example, I wish there were a way to go forward on that because I think frankly willful infringement, treble damages, don't quite fit as well in the patent system as they should. Venue is a great issue to deal with. It turns out every time we have tried we have come close; we have not made it. Is it worth trying again? I think everybody should be open to that. You can be skeptical, but please be open to it.

Mr. FARENTHOLD. All right. Mr. Simon, I think the BRI standard makes some sense for the Patent and Trademark Office. But there's an issue with amendability of claims as I hear from some of the biopharmacy industry, so we're struck with district court construction. Would repealing the right to amend make that standard more workable from your perspective?

Mr. SIMON. Which one of us?

Mr. FARENTHOLD. I'll ask that of Mr. Simon. We'll let Mr. Sauer, we'll follow-up with you.

Mr. SIMON. First of all, the current rules do permit amendment on a one-on-one replacement. They are very specific because Con-

gress placed a tight timeline on the Patent Office to handle these AIA proceedings, and I think there have been a number of cases recently where an amendment has been granted. I think part of the problem is that the amendment rules were adopted from interference practice, which is a truly specialized practice, and many people didn't understand how they worked well. I think they actually do work just fine. In terms of the other part of your question about, you know, going through the standard in district court, I'm really worried that the standard in district court doesn't work for the reasons that are set forth in detail in my written statement. I don't want to take all that time to go through that.

Mr. FARENTHOLD. I've got about 30 seconds. I'll let Mr. Sauer weigh in on that.

Mr. SAUER. There is no realistic right to amend claims. The AIA says there is. The Patent Office has granted as far as we know 3 motions to amend claims out of 3,000 proceedings that were requested. I think that will probably require some work. More importantly, the right to amend claims or the amendment of claims and its connection to the broadest reason of a claim interpretation standard historically applies when the Patent Office examines claims, that is when it affirmatively grants rights. IPR proceedings are different in kind. They're adjudications where the Patent Office decides whether the claim is invalid or not. It doesn't grant rights.

Mr. FARENTHOLD. All right. I appreciate your answer. Mr. Chairman, I see my time is expired.

Mr. ISSA. We now go to the gentleman from Georgia, Mr. Johnson.

Mr. JOHNSON. Thank you, Mr. Chairman. Mr. Kramer, you cited 79 cases on which you hired outside counsel since 2007. Is that correct?

Mr. KRAMER. Yes.

Mr. JOHNSON. At a cost of about $100 million. Is that correct?

Mr. KRAMER. That is correct.

Mr. JOHNSON. What percentage of those 79 cases were adjudicated in favor of Yahoo?

Mr. KRAMER. So we have been to trial in the Eastern District of Texas four times. We have won three of those trials. The other one we lost, but we won on appeal. In the last 8 years, I have won probably 8 summary judgment motions. The rest of the cases I have settled.

Mr. JOHNSON. Settled them because they were meritorious?

Mr. KRAMER. Typically settlement arises because the plaintiff comes to a position where economically it makes sense to settle.

Mr. JOHNSON. Some meritorious claims in there I would assume?

Mr. KRAMER. I would not be here today saying that all cases are meritless.

Mr. JOHNSON. And so all patent cases are not cases that are brought by patent trolls. Correct?

Mr. KRAMER. I would agree that not every plaintiff is a troll. For example, Yahoo, we assert our patents. I would not consider us a troll. We are an operating company.

Mr. JOHNSON. What percentage of cases or demand letters and cases filed are what we would call patent trolls?

Mr. KRAMER. That's a really good question. If a troll is a shell corporation above anything else, then that's a troll.

Mr. JOHNSON. Well, now, we can get at some of these shell companies, judgment-proof shell companies. That's not unique to patent law, and there are some existing statutory and case law that provide clear and proven opportunities to get at that kind of situation, but, you know, I recognize that there is a problem with patent trolls, but I think that because patents are so important, they drive innovation in America, and they contribute to economic growth in this country; and I'm concerned about slamming the courthouse door shut, particularly on smaller patent holders who have not acquired the ends or the finances that a Yahoo would have to be able to pay, say, a thousand dollars an hour to a law firm that, you know, sometimes the principals in a company that their sister-in-law might practice law with one of the big firms that charges a thousand dollars an hour, so you end up getting a whole lot of litigation costs like that. But I'm concerned about closing the litigation door, the courthouse door, on small people who have invented something. They've secured a patent, and someone, a big corporate goon, takes it and starts using it and dares you to sue them because they know that if there's a loser pay provision in there, Mr. Armitage, that they're going to be able to pay those lawyers a thousand dollars an hour for a thousand hours to win the case, as you've done on your four cases you prevailed that went into litigation, you prevailed. And if the loser had to pay fees, that would cause a lot of small people to just not be able to have the burden or to take up the burden of asserting their own patent claim. Do you agree with that, Mr. Sauer?

Mr. SAUER. We have heard from our own small member companies concerns as the ones you've described, yes.

Mr. JOHNSON. Do you care about that, Mr. Simon and you Mr. Armitage?

Mr. SIMON. Anybody who has a good patent that a large company is infringing, they get a contingency fee lawyer to represent them. They need to get a contingency fee lawyer to represent them.

Mr. JOHNSON. Go up against that $1,000 dollar an hour lawyer who is usually going to win the case.

Mr. SIMON. Yes, sir.

Mr. JOHNSON. And then there's a loser pay provision that prevents the plaintiff, that coerces the plaintiff not to file that suit. Do you care about that? I guess not. But thank you, Mr. Chairman.

Mr. ISSA. While the gentleman is sitting down, we'll give Ms. DelBene—oh, I'm sorry. I missed Mr. Ratcliffe. It is your moment. The gentleman from Texas.

Mr. RATCLIFFE. Thank you, Mr. Chairman. I want to thank the witnesses for being here today to discuss this important issue. You know, the phrase American ingenuity is often used to describe our country. Americans are known around the world for our can-do attitude and the fact that no challenge is too great and no invention is out of reach, and this is certainly stimulated by the assurance that our ideas, including our intellectual property, are protected. The patent system is so central to this idea in the American spirit that it's actually enshrined in our Constitution. I know that all the witnesses here and probably most of the folks in this room know

that our patent system empowers any individual from any walk of life to turn an idea into a product and in turn transform our society. Our patent system is one of the things that has allowed us to be at the cutting edge of innovation and make us the envy of the rest of the world. So it is certainly vital that we protect the patent system and address its abuses, and hopefully that is something we all can agree upon here today. My familiarity with this issue started before I came to Congress where I was the U.S. attorney for the Eastern District of Texas, a district mentioned by Mr. Kramer in answering some of the questions, and the district sometimes referred to as the rocket docket. As the U.S. attorney, I often felt that some of the judicial resources that I needed to go after hardened criminals and drug traffickers and child predators were instead sometimes diverted to handle patent litigation because patent plaintiffs, and I think this is not in dispute, flock to our area because they saw it as a quote-unquote plaintiff friendly environment. So Mr. Kramer, you discussed this in your testimony and in answering one of the questions as it relates to the fee shifting provision that exists in the current law. So I'd like to follow-up and ask you whether in your opinion, are the problems surrounding, from your perspective, abusive patent litigation the result of plaintiff-friendly judicial districts like the Eastern District of Texas? And if so, what do you think we can do here in Congress to send a message to judicial districts that are tipping the scales in favor of abusive patent behavior?

Mr. KRAMER. Sure. Thank you for the question. Excellent question. Thank you for all your hard work in the Eastern District. Certainly I think that forum shopping is part of the problem. One of the things that Congress can do is put everybody on the same playing field, and H.R. 9 does that, and it is very friendly to both plaintiffs and defendants because it does the things that you would do if you were going to design a system from the beginning. For example, let's focus the case from the start. Let's prioritize important decisions like claim construction, like venue. Let's make sure that we avoid needless discovery disputes. Let's make sure that we get all the parties who really have an interest in the litigation present in the litigation, and let's make sure that the cases that are being brought are reasonable cases. If they're not reasonable, then they should not have been brought in the first place, but so long as a case is reasonable, fees will not be shifted and that's a good thing. So H.R. 9 does those things. That's why we support it.

Mr. RATCLIFFE. Thank you, Mr. Kramer. I'd like to follow-up on a point because I've had conversations with stakeholders across the spectrum on this issue. I have heard from folks who both support this bill and oppose this bill, and a common concern from some of them, and specifically universities and others seem to be on the fee-shifting provision which has been described to me as a strict loser pays system. As I read the bill, losers are required to pay only if the claims are not reasonably justified. But I understand that some are concerned that this provision would chill the ability of inventors to challenge infringing parties. So, Mr. Kramer, provide some clarity for me here. Specifically, does this bill give judges enough room to address this issue. And can you speak, or will you speak to some of the folks' concerns that the fee shifting provision

here would deter venture capitalists, for example, from investing in patents.

Mr. KRAMER. Thank you for the question. Let me address the fee-shifting issue. Certainly the provisions in the bill allow for the judge to take into consideration special circumstances and whether it's an individual inventor, for example. So there's plenty of room in the bill for the judge to make exceptions, and it is not a strictly loser pays provision because, again, if you have a reasonable case, even if you lose, you don't have to pay. So I think it's a good provision for that reason.

With respect to venture capital companies, certainly when venture capital companies invest in innovation, they invest in real products, they invest in jobs, that is all good behavior that will not be at all affected by the provisions of H.R. 9. If a venture capital company is supporting litigation for the sake of litigation, then they may be drawn in for purposes of the joinder provision for fee shifting if, indeed, they have sponsored litigation that is unreasonable. And that is the least I would expect of any corporate entity, any individual. If you bring an unreasonable case, as a society we should not really tolerate that.

Mr. RATCLIFFE. Thank you, Mr. Kramer. And, again, I have questions I wish I could ask from each of you. Thank you for being here. I'm out of time. I yield back.

Mr. ISSA. I thank the gentleman. We now go to the gentlelady from Washington, Ms. DelBene.

Ms. DELBENE. Thank you, Mr. Chair. And thanks to all of you for being here so late on this panel. I guess I'll start with Mr. Kramer. In Yahoo's experience, how has discovery worked in patent cases that you've defended yourself against, and what improvements do you think, if any, are necessary in this process right now?

Mr. KRAMER. Sure. Thank you, Congresswoman, for that question. I can give you a great example from the three trials that I attended on behalf of Yahoo in Texas. In each of those cases there was a discovery period where we produced hundreds of thousands of pages of documents electronically. In those cases we used less than 1 percent of the documents that we produced. So very minimal discovery is actually used at the end of the day in trial to prove a case. It is an expense that we could have avoided. In a typical case, I think what you want to do is prioritize claim construction because in our experience that is pivotal. It crystalizes the parties' decisions, and we're able to reach settlement more quickly and easily once we have that decision from the Court. I think if you push off some of that unnecessary discovery until you get the claim construction decision, that's going to help a lot. And H.R. 9 does that, and that's why we support it.

Ms. DELBENE. Now, you were just speaking with Mr. Johnson about the trial you said in your testimony and just now that you prevailed at three trials and won eight summary judgments. Is that correct?

Mr. KRAMER. If memory serves, yes.

Ms. DELBENE. In the last few years, but in none of those cases were you awarded attorney's fees?

Mr. KRAMER. That is correct.

Ms. DELBENE. And so with the Supreme Court's decision in *Octane Fitness* and *Highmark*, do you think it would make it more likely that you would receive attorney's fees if you prevail in similar cases in the future, or if so, or if not, why not?

Mr. KRAMER. I would hope that it would. It is unclear at this time whether we would prevail certainly in some forums. I think if you look at the statistics that have been gathered so far on those fee shifting cases, it is on a forum-by-forum basis, and that again feeds into plaintiff's choice of forum. A lot of times I cannot get a case transferred, so it's an issue. So even if a plaintiff brings a bad case, even with the *Octane Fitness* case, I'm not sure that I would get my fees recovered in that case. The reason is because even though the Supreme Court granted, they loosened the standard a little in the *Octane Fitness* case, in the companion case, the *Highmark* case, they said appropriately it was for the discretion of the district court. But as we know, on a district-by-district basis it's going to vary, and what H.R. 9 does, is it puts all the jurisdictions, all the forums on the same playing field, and so I think that would be a vast improvement.

Ms. DELBENE. Do others have feedback on what they think the impact of *Octane Fitness* or *Highmark* would have on future cases?

Mr. SIMON. I guess I was asked this. I think it will have a mild impact; but, again, the Supreme Court also said two things. One Mr. Kramer said about it's about discretion of the court, which means venue becomes all the more important. I think the second that matters is that it said it's still exceptional; so it's going to happen very, very rarely.

Mr. ARMITAGE. There's actually some data on the IPO website where they track each decision on a motion for attorneys' fees. I think in the month of March, for example, there were 6 cases in which they were awarded and 19 cases in which they weren't, more or less.

Mr. SAUER. The Federal Circuit Bar Association yesterday sent a letter to the Chairman of this Committee giving more recent updates, and so according to their account, it's more than tripled the rate. But with that said, what I'm hearing is I think this discussion would benefit, and especially our members would benefit from an understanding of how often exactly, you know, would Congress intend for fees to be shifted? There seems to be an assumption that under the standards that are proposed in the bill, fee shifting would be rare; it would be a very unusual occasion. And what I hear from the testimony is it's not often enough. It would have to happen more often. So I would like to get a better understanding at the end of the day how often is then, you know, is the sweet spot, because either it's very rare, or we want it to be a lot more common; but how a lot more common is kind of unclear to me.

Mr. ARMITAGE. I think one of the virtues of this bill is it changes behavior. It sets a default rule that you will get your fees unless your defenses are reasonable in law or fact. And, therefore, if you're a patent owner with strong patent, you're likely to be up against someone who will not defend as they might otherwise have defended if they don't have a good case of noninfringement against your patent. It makes strong patents stronger, and basically makes

weak patents pretty much unenforceable because you've doubled down on your attorney costs.

Ms. DELBENE. My time is expired. Thank you very much. And I yield back, Mr. Chair.

Mr. ISSA. We now go to the gentleman from San Diego who recently named the John Rhoades Federal Judiciary Center in his district, an expansive complex that normally would have more patent cases being heard, but they do seem to end up in Texas. Mr. Peters is recognized.

Mr. PETERS. Thank you, Mr. Chairman. Thank you for your excellent work on that as well. I want to thank all the witnesses for being here. I want to thank Mr. Kramer in particular for spending some time with me on the phone, and I hope you will continue to take my calls as we sort through this. Just on those three cases you won, were the plaintiff's claims reasonable under the standards set forth by H.R. 9?

Mr. KRAMER. In my opinion, I think the first case, the *Bright Response* case which I believe is in my testimony was clearly unreasonable, and I should have gotten my attorney's fees. But I think it's an exceptional case because the plaintiff essentially came to court knowing that their patent was invalid, yet they made me take it all the way through trial.

Mr. PETERS. Under the new jurisprudence under the Supreme Court, would that be a case where a court could consider fees under a loosened standard?

Mr. KRAMER. It would be, yeah.

Mr. PETERS. I just think that the point is, sort of implication from the question from Ms. DelBene was you had three cases and you didn't get your fees. What's the right rate? I had the same question pop in my head that maybe Mr. Sauer did. I want to give Mr. Sauer just a chance maybe if you would. Your testimony did say and I think your written testimony and your oral testimony that you believe in targeted patent reforms, and I wanted to give you a chance to say what those are, in particular to distinguish them from, to explain why they would be different from what's in H.R. 9, either in degree, or also if H.R. 9 is missing any reforms that you would include.

Mr. SAUER. I will take the last one first. You know, what is not an H.R. 9 but should be there is we need to talk more about how to make the IPR proceeding of administrative patent challenges a more fair and balanced proceeding that has more due process protections for patentees.

With respect to the Innovation Act, what I heard and that is shared by BIO's members, is there are a lot of shared objectives, things we want to do. When we say more targeted reforms, we don't just mean the ones where we see clearly there is going to be a good chance for consensus, that is transparency, that is dealing with demand letters, small business protections. But we also think that those provisions should deal with enhanced pleadings. You know, we agree that pleadings should be elevated to the standards that apply to other civil litigation. And we can work to make these pleadings, pleading requirements more targeted.

You know, Michelle Lee testified about this concept of at least one claim apply to at least one product in a way that states a plau-

sible claim. I think all these ways will make the provisions more targeted. Likewise, I was encouraged to hear the number of alternative ideas to come to grips with discovery stays. I think that is what we mean with targeting the bill. Like we urge moderation without abandoning the same objectives.

Mr. PETERS. Right. I might also mention that, the question I heard from Mr. Ratcliffe before he left about venture capital, that has been addressed by the venture capital industry themselves, who have indicated that particularly the personal liability for sponsoring litigation does have a tremendously chilling effect probably both on the litigation itself but also on the investment side. And I think that is something that we should probably resolve as part of going forward with the patent reform.

And, finally, Mr. Chairman, if we could, Biocom wrote a letter dated today, April 14, about their concerns with this bill. I would ask that it be included in the record.

Mr. ISSA. Without objection, so ordered.

[The information referred to follows:]

BIOCOM

April 14, 2015

The Honorable Bob Goodlatte
Chairman
Committee on the Judiciary
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Goodlatte:

Biocom represents the Southern California life science community, which includes biotechnology, medical device, and diagnostic companies, universities and research institutions, as well as service providers and patient groups. With more than 660 members dedicated to developing life-enhancing and life-saving products, Biocom leads advocacy efforts to positively influence the region's life science community in the development and delivery of innovative products. Biocom and our member companies are deeply concerned that H.R. 9, the *Innovation* Act, as currently written, would undermine the U.S. patent system, while failing to address deceptive litigation practices.

H.R. 9 aims at deterring patent litigation abuses - which Biocom agrees need to be addressed - but it would do so by using the false premise that all patent holders are potentially "patent trolls" and the best way to curb abuses is to enact sweeping reforms that would weaken intellectual property protections for all inventors. Biocom strongly believes that Congress should enact reasonable and balanced legislation that specifically targets bad actors and deceptive behaviors - not the legitimate innovators who need to defend themselves against infringers.

Patents are so important to America's prosperity that they have been enshrined in our Constitution as fundamental rights. Those rights have provided the foundation for a culture of innovation and entrepreneurship that has been an essential driver of our exceptional economic growth and global leadership throughout centuries. Patents are the lifeblood of our economy as they help turn ideas into companies, products, and jobs. Intellectual property creates tens of millions of American jobs and accounts for more than a third of our gross domestic product (GDP).

Research and development (R&D) in the life sciences costs billions, and bringing new products to market can take over a decade, with a failure rate of over 90 percent. The patent system is the primary incentive for investment in R&D by enabling risk-taking innovators to recoup their investment, secure financing - especially as public and private financing becomes more scarce-, gain competitive advantage, and deter infringers. The vast majority of our members are small companies and patents often are their most valuable asset - sometimes their only one. Reforms that weaken patents would undermine the ability of inventors to secure capital and invest in R&D, which would in turn do harm to innovation, entrepreneurship, employment, economic growth, and global competitiveness.

H.R. 9 would effectively devaluate patents by making it more difficult, expensive, and lengthy for inventors to enforce their intellectual property rights and defend themselves against infringers. One of the most objectionable provisions in the bill would make all parties financially connected to an innovator liable in a litigation lawsuit. Investors, universities, and research institutes would therefore be responsible for legal fees, which would significantly disrupt the culture of collaboration and partnership that drives research and innovation in the life sciences. Another concerning provision would make the loser of a lawsuit responsible for the legal costs incurred, thus further discouraging innovators to bring suits.

The two provisions described above would be especially detrimental to our small companies and start-ups seeking to enforce their patents because they do not possess the resources to cover additional costs and cannot afford the risks associated with defending themselves against infringement. Many may be forced to sell their patents to large firms better capitalized and equipped to litigate. Increasing the cost of patent enforcement risks creating a system where only large companies can enforce patents, favoring large firms over small businesses and infringers over innovators, and negatively altering our innovation and startup-based economy. The bill, which aims at protecting end-users and consumers against patent trolls, would have the unintended consequence of putting small companies and innovators at greater risk of infringement, engendering another kind of egregious litigation practices, while not being able to stop the well-funded, resourceful trolls. Legislative intervention at this time could very well engender more rather than less litigation.

In addition, several provisions address matters that have already been dealt with outside of legislation. Indeed, H.R. 9 does not take into consideration recent judicial and administrative developments that have changed the patent law landscape. The Judicial Conference of the United States has already adopted changes to the Federal Rules of Civil Procedure that will ensure that discovery is "proportional to the needs of the case," and that patent cases meet the heightened pleading standards required of all other federal cases. The Supreme Court also decided several cases on pleading standards, fee shifting, and patentability this past year that make it easier to defeat meritless claims.

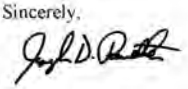
Furthermore, the Federal Trade Commission (FTC) and state attorneys general have been actively using their authority to stop abusive demand letters and protect small businesses and consumers from abusive practices. The Leahy-Smith America Invents Act (AIA) significantly reformed the U.S. patent system and included several provisions to reduce deceptive practices and increase patent quality. The law was fully implemented only two years ago and its effects are only now beginning to take hold. The U.S. Patent and Trademark Office (USPTO) has also just launched a comprehensive initiative to improve the quality of patents. The full effects of all these substantive changes have yet to be observed and additional legislation is likely to be unnecessary and repetitive. Several studies have already showed that litigation rates plummeted in 2014.

While we can all agree that abusive practices need to be stopped, we strongly oppose doing so by weakening patent rights across the board and undermining the patent system that has been the foundation of innovation and growth in the United States. Reducing patent litigation should never come at the price of limiting patent owners' ability to defend their technologies and businesses against infringers. H.R.9's overly broad provisions would apply to all litigants seeking to assert patents, not just patent trolls, going well beyond what is needed to curb egregious practices and causing severe unintended consequences for legitimate innovators.

Congress must exercise caution and enact targeted and balanced legislation that addresses the abuses while strengthening our patent system so it works for all innovators and makes the innovations and breakthroughs of tomorrow possible. We do not believe that H.R. 9 in its current form accomplishes this goal.

Thank you for your consideration of our concerns.

Sincerely,



Joe Panetta
President and CEO
Biocom

Mr. PETERS. And thank you. I yield back.

Mr. ISSA. Thank the gentleman. We now go to the Ranking Member of the full Committee, Mr. Conyers.

Mr. CONYERS. Thank you, sir. I apologize for my absences during the hearing. But I did want to ask Deputy General Counsel Sauer a question or two. I apologize to Mr. Kramer, Armitage, and Simon. In your testimony, you suggest that that the new impleader authority in the measure under consideration, H.R. 9, is one-sided because it benefits only winning defendants. Why do you think this does harm to small companies and individual inventors if you do in fact?

Mr. SAUER. There are two aspects about the impleader provision in particular that we believe really interfere with the ability of biotech companies to operate in their licensing and partnership and financing ecosystems.

The first is the provision that talks about the notices of potential liability under the impleader provision of the bill. At the defendant's option, the accused infringer would get to send out notices to all the patentee's business partners, the licensors and their VC companies, to invite those to either renounce their interest in the patent or otherwise dissolve, if you will, their business relationship with the patentee or else be subjected to potential attorneys fee awards. So early in the case, there is a letter that will come to business partners that exposes them to liability and has a certain menace attached to it. That is one. We think that will interfere with business relationships.

Secondly, the definition of those who could be impleaded, you know, is quite broad and could capture, for example, VC investors if they have certain voting rights. It is all those who stand to benefit from the litigation and have the right to direct or have the right and direct to control the litigation. So that captures universities, VCs who have a seat on the board. And these are the kind of entities that small biotech companies very much need to do business with in order to advance their innovations. And so those were the two main concerns.

Mr. CONYERS. Thank you. In what I think was your testimony, you have described H.R. 9 as an overbroad attempt to deter abusive patent litigation. But, at the same time, I read into your remarks that it is woefully inadequate. What should H.R. 9 include other than inter partes review? Is that a fair question?

Mr. SAUER. That is a fair question because the patent system has to work for all industries. And as the biotech industry, right we don't operate in a vacuum. I think it behooves us to take account of the needs of other industries for whom the patent system may not work in the same way. So if you are asking me what else should the bill include, I would say the bill should include that, which other industries need to the extent it doesn't hurt biotech and to the extent it makes for a better patent system that works for everybody who has to participate in it, not just biotech. So you know, we want to be quite reasonable in that sense.

Mr. CONYERS. I see. Would H.R. 9 affect your member companies and other small businesses and individual inventors to obtain much needed funding? Would it help? Or would the bill have negative consequences for the innovation economy itself?

Mr. SAUER. It would, there is no doubt in our mind that it would have negative consequences, at least on innovation in biotechnology because we depend so much on external funding. To say it again, it takes us more than a decade to bring a product to market. And once we are on the market, these products are very long-lived. So we depend on investors' confidence. And those investors expect that their investments will be secured, among other things, by patents that are meaningful and enforceable.

Mr. CONYERS. Finally, let me ask you about the suggestion that limiting discovery is too rigid and would delay litigation costing plaintiffs market share and potentially increasing damages for a defendant. In what ways, in your opinion, does this proposed measure make matters worse?

Mr. SAUER. The proposed measure proposes to stay basically merits discovery until the court has ruled on the interpretation of the patent claim. The problem beyond that is that going into the litigation, at the very beginning, the parties don't really know what kind of information they need to discover to even interpret the patent claim. In district courts that do this often, there are local patent rules that have set up a streamlined process to get to a claim construction process and claim construction ruling quickly. And these processes, you know, lay out certain categories of information that need to be exchanged by both parties, to both parties with documents to back them up. I think it would be a good idea for Congress to look to local patent rules in the more sophisticated districts for inspiration of how such a streamlined process could be crafted. Our objective too would be, if we can, to get to a claim construction hearing in cases where that is necessary within a year or less. I think that would be a good outcome.

Mr. CONYERS. I thank you. And I thank Chairman Issa.

Mr. ISSA. I thank all of you. And hopefully I am last but not least. Did you go? No, you didn't. Well then I won't be last. Thank you for returning, Mr. Deutch. The gentleman is recognized.

Mr. DEUTCH. Thank you, Mr. Chairman. That is too kind. I appreciate it.

First, I would like to thank the witnesses for your testimony today. We are well aware of the serious abuses that have plagued the patent system in recent years. The question is what scope of congressional action will stop these abuses without also endangering America's innovation economy? That is what we are grappling with here.

The legislation that we are considering is the same as legislation that passed out of this Committee in 2013. But as all of our witnesses have noticed, the context surrounding this bill has changed dramatically. The Supreme Court has issued six landmark patent decisions related to subject matter eligibility and fee shifting standards. The standard pleading form for patent complaints will be eliminated later that year. The Patent and Trademark Office is in the process of implementing the America Invents Act to improve patent quality. District courts with high volumes of patent filing have updated their local rules. And the FTC is exercising its powers to protect end users from abusive demand letters.

Undoubtedly, all of those charged with building a strong and efficient patent system have more to do to put an end to abusive be-

havior. My primary concern with H.R. 9, as currently drafted, centers on the broader litigation reforms. These reforms push the patent litigation system in a direction that it is already heading and may result in unintended consequences that harm legitimate patent owners, including entrepreneurs and small businesses, independent inventors, and major research universities. Now, Mr. Armitage, a question for you, section 3(a) of H.R. 9 would add pleading requirements just as the judicial conference eliminates form 18. And the question is won't eliminating form 18 impose the specificity requirements in *Twombly* and *Iqbal* on patent cases and won't the pleading rules in H.R. 9 go further than the pleading standard for other Federal courts?

Mr. ARMITAGE. One way to compare the standards currently in H.R. 9 is actually to go read local patent rules that have been put in place in recent years, look at what the initial mandatory disclosures are in those rules. I looked at two for the purposes of this hearing, Northern District of Illinois and California, and what I discovered is they're great similarities. What I was proposing in my testimony was very simple, use those rules as a template for pleading standards in H.R. 9, have them only apply to those district courts where they don't actually have best practices in local rules. That way you would encourage uniformity across district court with best practices, not have a statutory provision that would be out of step with *Twombly* requirements, and probably have much less concern among critics of that provision.

Mr. DEUTCH. Okay. Thank you. Mr. Sauer, you note in your testimony that limiting discovery before claims construction could delay discovery on merits by at least 12 months. Can you explain just a bit more from your perspective why this may have negative, unintended consequences for legitimate patent owners among your members. And could you give examples of instances where a delay in discovery would be wasteful or harm a patent holder's right to defend their property rights?

Mr. SAUER. The delay in discovery could certainly be wasteful because in the exchange of contentions that Mr. Armitage described is also embedded a production of documents to back up these contentions. So, in other words, in districts where it works pretty well, the parties have to not just work toward claim construction but also lay bare their theory of the case and the evidence that backs it up. This is not relevant just for claim construction. If this kind of evidence can be developed in a patent case, it is relevant for claim construction and also often gets the case in a position for early summary judgment because we discover relevant information alongside that which is relevant for claim construction.

This is not to say that, you know, there are certain kinds of evidence that, especially under the modified rules of civil procedure, you know, which are going to be required to be proportionate to the needs of the case, the judges shouldn't take a hard look at the kinds of evidence that should be produced in every case. Damages discovery may not be relevant in every case. Willfulness discovery may not be relevant in every case. Discovery about inequitable conduct may not be relevant in a lot of cases before liability has even been established. So that is the response to the second half of your question. I forgot the first half.

Mr. DEUTCH. That is a perfectly appropriate response as we are headed down to vote. And I am out of time. Thanks again to the witnesses. And, Mr. Chairman, thank you. For giving me the time.

Mr. ISSA. Of course. Thanks for your participation on both panels. We now get to just me and I am up against the clock too. Mr. Kramer, Mr. Armitage, Mr. Simon, I am going to ask you because you sort of have firsthand knowledge of your companies. Earlier we had a figure that came from Gary Shapiro at the Consumer Electronics Association and everyone said well, how did he get that figure. I just want to ask it in a different way. I did the arithmetic, it is 3/10ths of 1 percent of GDP. So the question is, is 3/10ths of 1 percent something that, in fact, you think excess patent litigation could, in fact, be hurting innovation and, thus, our GDP by that amount? Sometimes the only way to break something down is to say, you know, 3/10ths of a cent per dollar, do these trolls and excess litigation of this sort, does it cost us that, not in actual legal fees, but in the hit to all parts of it including innovation?

Mr. KRAMER. My answer is that it is a problem. It continues to be a problem. I have not quantified it in terms of GDP. But certainly for the high tech industry, we see new cases all the time. Even if we settle them, we tend to get more. I just won a case under 101, only for the troll to go and sue me again in another country on a similar patent, the foreign equivalent. So this problem is not going away. Because it is not going away, I think it deserves our attention. Because it is a significant problem, we should address it. H.R. 9 does that. Thank you.

Mr. ISSA. Mr. Armitage, would you say that your time at Eli Lilly that 3/10ths of 1 percent might have been spent directly and indirectly related to litigation?

Mr. ARMITAGE. So when I am enforcing a patent that is worth $20 or $30 billion, no one asks me what the cost of defense is, that is true. But the problem is that same order of magnitude of cost for defense applies to patents that, for example, may only be worth $5 or $10 million. It makes them effectively worthless. So unless you address abusive litigation practices across the board, what you are saying to a whole spectrum of inventors is, go get your patents but they are effectively unenforceable. Or when you are faced with a patent infringement allegation that costs millions to defend, you effectively have no defense. I think that is why we are here today, the integrity of the patent system is at stake.

Mr. ISSA. Mr. Simon, just a guess, you have spent a few dollars related to troll activity, what do you think it costs you?

Mr. SIMON. Well, I have seen studies that at least I personally find credible in the tens of billions of dollars. So the numbers don't surprise me. But however it is measured, for our company, millions of dollars means lots of engineers, means lots of R&D, means lots of things we cannot do for our customers.

Mr. ISSA. Okay. For all of you, I am going to ask a final set of questions and they really have to do with, Ms. Lee. With the director, we talked earlier about fee shifting. And throughout the day, there has been a lot of discussion about shell corporations and so on. She had some concerns. You all, Mr. Sauer, has some concerns. Let's talk about what a shell corporation isand so on.

So, Mr. Kramer, I will start with you. When you sue on behalf of Yahoo, you put the whole company behind it, right? You don't form a separate shell and stick the patent in there?

Mr. KRAMER. That is exactly correct.

Mr. ISSA. Okay. And you do control—all three of you in your roles, you controlled the conduct of the patent?

Mr. KRAMER. Correct.

Mr. ISSA. Okay. Now, a passive investor, let's see if we can go through a definition, because it is important to me that we get the bill right. If a passive investor is somebody who gives money to a venture and that venture includes the activities that might lead to suits but also includes, let's say, a university looking for people to produce the product, to license, perhaps even that venture is going to produce a product using that technology, would you say that is a shell corporation or would that, by definition, shield the limited partners because it had purposes other than just litigation? In the current bill and in your history. Mr. Kramer, you have got the biggest smile, I will start with you.

Mr. KRAMER. Yeah, it is a complex fact pattern, number one.

Mr. ISSA. The bill does say that if your primary purpose of the enterprise is more than just the litigation, then there is no piercing of that corporate veil. And that is where I want to ask. Because I think we have real questions about what a passive investor is. Is it an investor in a lawsuit or is it an investor in a technology?

Mr. KRAMER. A passive investor would be the investor in the technology, right. We should support investment in technology because that is how we get jobs, that is how we grow the industry. We don't grow the GDP by investing in suing each other. And that is the problem. So I think if you have an interest, a direct interest in the litigation, you have an active stream of revenue from that litigation, then I think the joinder provision should kick in. And if the shell corporation cannot pay the fees, then whoever is backing it financially should be on the hook.

Mr. ISSA. So are the rest of you comfortable with that, that if the corporation has some purpose other than just suing and we make that clear, if it is not already clear in the legislation, you are comfortable with that, that an enterprise that, let's say, has licensed half a dozen people, is actively supporting that, and may be developing more technology would be exempt, even if they have no money, even if their claim was frivolous. In your experience, are you comfortable with us not dealing with that part of the so-called troll, you know troll industry? Because that is the way I think the bill is structured today. And I think that is what even, Mr. Sauer, I think that is what you would want to see is that somebody who is actively trying to do something more than just sue would find themselves exempt from their investors being at risk.

I just want to make sure that we have got that consensus. Because I think it is important because that is the intent of what I think the bill does. And I want to make sure I understand today, and with Ms. Lee, I want to make sure that we get the bill to say that in a term everybody understands. So any final comments? Mr. Armitage?

Mr. ARMITAGE. I think I am with you. Remember, this is a context where someone takes a patent, asserts it, it has no reasonable

basis on which to assert the patent, it loses, it has no money, and, therefore, this provision means nothing unless someone pays. So, I think in that context what you said is fair. But you can't have too much sympathy for a passive investor if the only purpose of the investment was to bring relatively meritless claims on patents of this type.

Mr. ISSA. Mr. Simon, you are dealing with a lot more start-ups, a lot more people who have these sort of one-off patents. How do you feel about that, you know, that limited protection that we are giving you to pierce the corporate veil in this case?

Mr. SIMON. Well, given the press of time, I will say I think Mr. Armitage pretty much stated it very well, as he normally does, even when I disagree with him. But this time, I agree with them.

Mr. ISSA. Okay. And, finally, you get the last word on this subject.

Mr. SAUER. And I will keep it short. I think there is a lot of unanimity trying to achieve the same goals. I do note the provision in H.R. 9 is different from the one that was in the Cornyn bill in the last Congress. Right so there are a number of different ways one can get at this. There is yet a different provision that is circulating that Senator Hatch is working on. I think we can make a lot of progress and I would urge maybe getting a bunch of stakeholders together which I believe has worked well during the AIA.

Mr. ISSA. Well, we are going to continue to do that. And I want to thank all of you for your testimony. Pursuant to the rules, I will say this concludes today's hearing. I want to thank all of my witnesses. Without objection, all Members will have 5 legislative days to submit additional written questions for you all and additional materials for the record.

And with that, we stand adjourned.

[Whereupon, at 5:40 p.m., the Committee was adjourned.]

APPENDIX

MATERIAL SUBMITTED FOR THE HEARING RECORD

Prepared Statement of the Honorable John Conyers, Jr., a Representative in Congress from the State of Michigan, and Member, Committee on the Judiciary

We all agree that the exploitation of the patent process and abusive patent litigation practices must be stopped.

In responding to these serious problems, however, Congress must not harm our patent system, discourage innovation, weaken patent rights, or increase patent litigation.

Unfortunately, H.R. 9 goes too far in its approach. And, for that reason, I continue to have serious concerns with this legislation.

To begin with, the bill does not take into consideration current ongoing developments.

For instance, the United States Patent and Trademark Office is in the midst of implementing the America Invents Act and has undertaken various efforts to prevent problems of abusive patent litigation. And, the Office just held a Patent Quality Summit to address the issues surrounding weak quality patents.

The legislation should also reflect how the federal courts are changing the patent litigation landscape.

For example, the Supreme Court will soon eliminate the use of Form 18 in patent proceedings, which will lead to the higher pleading requirements of *Twombly* and *Iqbal*.

Recent Supreme Court decisions such as *Octane Fitness,* which lowered the standard by which a court may award attorneys' fees, and *Highmark,* which gives deference to district court decisions on appeal, should effectively make it much easier for prevailing parties to obtain attorneys fees.

And other decisions, such as *Alice,* which declared that abstract ideas could not be patented, and *Nautilus,* which set a higher standard for certainty and specificity for patent claims, will make it easier to invalidate many vaguely-worded software patents and business method patents and prevent the Office from granting them in the first place.

Further, many lower courts are adopting model discovery orders and guidelines that limit discovery in patent lawsuits, while others are promoting early and active judicial case management.

Legislation also should not ignore the actions the Federal Trade Commission and state Attorneys General are taking to stop deceptive practices in sending vague patent demand letters.

Cumulatively, these various efforts address many of the concerns about abusive patent litigation.

Unfortunately, H.R. 9 ignores the changing landscape and goes well beyond tackling abusive patent litigation. *It actually weakens every single patent in America.*

- H.R. 9's heightened pleading requirements simply create needless hurdles for legitimate inventors to access the courts.

These requirements will work an unfairness against patent holders across the board because they are drafted in a one-sided manner; they will prolong litigation; and are unnecessary because the courts are already addressing pleading standards.

- The bill's fee shifting requirement favors wealthy parties and chills meritorious claims. They are drafted in an over-broad manner to apply beyond

patent infringement actions. They deprive courts of discretion and will confuse courts and litigants about who is the prevailing party in an action. And, again, they are unnecessary in light of recent Supreme Court decisions.

- The bill's discovery limitations are counter-productive. They will delay litigation; lead to greater expenses for the parties; and are more properly dealt with by the courts.
- Further, H.R. 9 mandates that the federal judiciary adopt a series of new rules and judicial changes. The federal judiciary, with its very deliberative rule-making process, would do far better than Congress legislating changes.

By unbalancing the patent system, we send a signal to inventors that their inventions are not worthy of full legal protection. And, overly broad legislation, such as H.R. 9, could engender *more rather than less* litigation, while weakening patent enforcement protections.

Finally, legislation to stop abusive patent litigation should target the underlying issues fostering abusive patent litigation.

One of the most effective steps we can take in responding to abusive patent litigation is to ensure that poor quality patents are not issued to begin with.

We need to provide our examiners the resources they need to review and analyze the hundreds of thousands of complex and interrelated patent applications they receive every year.

Therefore, we must stop the diversion of patent fees, which has already led to an estimated $1 billion in fees diverted over the last two decades. And to protect these funds from a sequester or appropriators' decisions to siphon money from the U.S. Patent and Trade Office.

Legislation should also address the problem of the extortionist use of demand letters. At *every* hearing on abusive patent litigation, witnesses have requested a legislative fix to curtail the use of vague and deceptive patent demand letters.

Yet, H.R. 9 does not do enough to resolve this issue. Legislation should be drafted to apply to *all* parties because certain defendants can employ abusive litigation tactics too.

In responding to the problem of abusive patent litigation, Congress should do so in a more balanced and effective approach than H.R. 9.

Statement of the

National Retail Federation

National Council of Chain Restaurants

and

Shop.org

submitted to the

U.S. House of Representatives
Judiciary Committee

for its hearing

"H.R. 9, THE 'INNOVATION ACT'"

held on

April 14, 2015

David French
Senior Vice President,
Government Relations

On behalf of:

National Retail Federation
1101 New York Avenue, N.W., Suite 1200
Washington, D.C. 20004
(202) 783 –7971
www.nrf.com

Introduction

Chairman Goodlatte, Ranking Member Conyers, and members of the House Judiciary Committee, on behalf of the National Retail Federation (NRF) and its communities, the National Council of Chain Restaurants and Shop.org, I appreciate the opportunity to submit this written statement to the Committee in connection with its hearing, "H.R. 9, The 'Innovation Act,'" held on April 14, 2015.

NRF is the world's largest retail trade association, representing discount and department stores; home goods and specialty stores; Main Street merchants; grocers; wholesalers; chain restaurants; and Internet retailers from the United States and more than 45 countries. Retail is the nation's largest private sector employer, supporting one in four U.S. jobs and 42 million working Americans. Retail contributes $2.6 trillion to annual GDP and is a daily barometer for the nation's economy. Retailers create opportunities for life-long careers, strengthen communities, and play a critical role in driving innovation.

Retailers are Significantly Impacted by Abusive Patent Litigation Practices

Members of the National Retail Federation thank the Committee for addressing abusive patent litigation practices and their harmful effect on competitiveness and innovation. For nearly a decade patent trolls have asserted infringement claims against retailers. Retailers use capital resources to settle with or fight patent trolls' infringement claims that they would otherwise use to invest in their businesses, engage in their communities, and create jobs. H.R. 9, the Innovation Act, covers important facets of patent litigation reform that will curtail patent trolls' ability to exploit the current economic asymmetries in the legal system to prey on operating companies, like retailers.

Retail, at its core, is a highly competitive industry, and operates on thin profit margins. Many retailers are incorporating cutting-edge innovative technology, especially in online and mobile retailing, to expand and grow their businesses. Patent trolls, who are not investing in technological innovation, providing jobs or giving back to their communities, employ tactics that target retailers and cut at the heart of this growth and ingenuity.

In recent years, hundreds of retailers have contacted NRF about this issue because they have been, or are currently, the target of patent trolls' abusive behavior. In fact, the majority of patent trolls' lawsuits are against retailers and other small business, 55% of whom make $10 million or less annually.[1] The threat typically comes from firms whose business model is buying obscure patents that are about to expire and then either licensing the patents to retailers through the threat of litigation or filing lawsuits in an effort to force a settlement. Often retailers will choose to pay the licensing fee because patent litigation is prohibitively expensive.

[1] James E. Besson and Michael J. Muerer, "The Direct Costs from NPE Disputes," Boston Univ. School of Law, Law and Economics Research Paper No. 12-34, June 28, 2012.

Patent trolls employ a strategy that focuses on businesses such as retailers and restaurants because businesses that "use" technology, but don't manufacture it, are more numerous than manufacturers and suppliers and therefore more profitable to the trolls. One manufacturer or vendor may supply a product or service to thousands of retail end users. Thus, there are many more entities from which to demand a royalty. End user retailers are also easy prey because they lack the legal resources and in-house expertise to fight complex patent infringement claims. Compared to high tech companies, retailers typically operate on thin profit margins. Patent trolls, knowing that patent litigation is exorbitantly expensive and that retailers are operating on these thin margins with a lack of technical expertise, will often price a settlement demand (which may still be in the millions) below the cost of litigating, effectively blackmailing a retailer into settlement.

In 2012, patent trolls sued more non-tech Main Street companies than tech companies.[2] In 2013, the number of patent cases filed continued to grow rapidly and increased by 25%.[3] On April 23, 2014, more new patent lawsuits were filed on a single day than on any other day in at least the last 14 years.[4] And so far in 2015, patent lawsuit filing has surged. Four hundred ninety-nine patent litigation cases were filed in February, marking the third straight month-on-month increase in patent lawsuit filing.[5] This is a flagrant abuse of the system. The time is now to pass H.R. 9, the bipartisan Innovation Act, and take back the patent litigation system to return it to its original purpose: fostering innovation and investment that benefits the entire economy.

The Innovation Act is Necessary to Protect Retailers from Patent Troll Abuses and Frivolous Lawsuits

H.R. 9, the Innovation Act, is the patent reform legislation that is necessary to curb patent trolls' abusive practices and protect retailers and other end users of technology from frivolous patent infringement lawsuits. For this legislation to be truly effective, NRF urges the Committee to consider several key provisions: to bring clarity to abusive demand letters; to make trolls explain their claims; to protect customers; to make patent litigation more efficient; to stop discovery abuses; to make abusive trolls pay; and to provide less expensive alternatives. The incorporation of these key provisions will ensure that Congress passes the most robust and effective version of the Innovation Act.

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[2] Colleen Chien, "Patent Trolls by the Numbers," Patently-O, March 14, 2013, http://www.patentlyo.com/patent/2013/03/chien-patent-trolls.html

[3] Price Waterhouse Coopers, "2014 Patent Litigation Study," July 2014, http://www.pwc.com/us/en/forensic-services/publications/2014-patent-litigation-study.jhtml

[4] Ryan Davis, "Draft Patent Troll Bill Spurs Huge Spike in New Suits," Law360, May 2, 2014, http://www.law360.com/articles/533893/draft-patent-troll-bill-spurs-huge-spike-in-new-suits

[5] Michael Loney, "US Patent Litigation Surges in February, Driven by Software Cases," Managing Intellectual Property, March 10, 2015, http://www.managingip.com/Article/3434536/US-patent-litigation-surges-in-February-driven-by-software-cases.html

Reform Abusive Demand Letters

Patent trolls often assert infringement claims by sending reams of vague, misleading, or deceptive letters, targeting small and medium-sized businesses. Rather than taking the time and expense to appropriately file a proper lawsuit, patent trolls use these so-called "demand letters" to coerce businesses into immediately purchasing expensive licenses of uncertain value or else face the threat of protracted and costly patent litigation.

Demand letters, often sent to hundreds of businesses at once, are typically mass-produced form letters that have few or no facts about what alleged infringement has supposedly occurred. Not only do the demand letters fail to include information about the patent that is allegedly being infringed, but they also fail to disclose what the business being sued has done to infringe it. The only information that patent trolls strive to make clear in their demand letters is the threat of a costly lawsuit. While most recipients of patent troll demand letters are likely not infringing patent rights, they will often pay what amounts to extortion to the troll through expensive attorney fees for legal advice, exorbitant litigation costs in court, or hefty settlement sums because it is a practical business decision. It is more cost effective to settle rather than fight a bogus claim. Retailers use not only capital resources to investigate and subsequently fight or settle these claims, but also human resources that are diverted to address patent infringement claims. These are resources that retailers would prefer to invest in their businesses, to engage in their communities, and to create jobs.

Patent trolls target small businesses with demand letters that are usually not related to their primary business. Rather, the troll is often accusing retailers and other Main Street businesses of infringement for using a commercial product such as a printer, a Wi-Fi router, a machine tool, a piece of hardware, or a type of internet technology the business purchases from a commercial vendor to use in the course of its own operations. Patent trolls' claims not only affect e-commerce and mobile retailing, but also the operations of traditional "brick and mortar" retail stores. These types of claims purport to cover the way magnetic strips on credit cards are read in point of sale systems, the printing of receipts at cash registers, the sale of gift cards, and the connection of any device (such as a computer or printer) to an Ethernet network. Recently, patent trolls have sent demand letters to dozens of Main Street businesses about technology related to transportation, cargo shipment, and package tracking and delivery.

Requirements that demand letters be more specific and transparent will deter trolls from mass mailing form letters to small businesses across the country. Demand letters must reveal the actual identity of the party with the financial interest who is making the demand, not just a web of shell companies. Any party with an ultimate financial interest in any recovery, excluding those owning less than ten percent of the voting shares of a publically traded corporation, must be disclosed. Moreover, the letter must include the patent numbers of the allegedly infringed patents; the model numbers or trade names of accused products or services; the factual basis for the infringement claim; and whether the patent has been the subject of a RAND declaration or commitment to any standard setting organization.

Make Patent Trolls Explain Their Claims

Patent trolls, which produce no products or services themselves and instead only threaten and sue productive businesses that do, often file tens to hundreds of cookie-cutter lawsuits that include no real details. When a patent troll files a lawsuit today against a defendant alleging patent infringement, the patent troll does not have to explain in the lawsuit how their patent is supposedly infringed. Additionally, the patent troll is not required to identify the actual product that is allegedly committing patent infringement or how it infringes on the patent.

When a patent troll files an infringement claim that contains no details against a legitimate business, that business is left completely in the dark as to which of its actions or products are allegedly infringing a patent. As a result, businesses cannot prepare an answer to the claim, design a defense strategy, or even figure out which documents need to be collected and produced. Patent trolls exploit this known asymmetry in the patent litigation system to target retailers, restaurants, and other Main Street businesses, making the discovery process an unfettered and expensive fishing exposition for some unknown and undefined alleged infringement.

Retailers support the legislative language contained in the Innovation Act that requires patent infringement claims to include a clear statement containing basic information such as which patent has been infringed and what the defendant has done to allegedly infringe it. Mandating that patent trolls disclose their identity prior to litigation will ensure that they cannot hide behind a web of shell companies to avoid accountability for advancing spurious claims. Additionally, patent reform legislation should require that plaintiffs identify the model number of each accused product or process and each party with any financial interest in any recovery, excluding those owning less than ten percent of the voting shares of a publically traded corporation. The inclusion of this provision in the Innovation Act will level the playing field for retailers and small American businesses and defend them against patent trolls' extortive schemes.

Protect Customers

Traditionally, discussions about patent litigation focused on two parties—a patent holder and the manufacturer of a product that allegedly infringes the patent holder's patent. Under current law, a third party, or the "end user," can also be sued for patent infringement simply for using a product in their day-to-day business. Increasingly, patent trolls are targeting end users, including retailers of all sizes, by suing them for patent infringement or demanding extortionate settlement payments.

Patent trolls target end users simply for their use of everyday commercial off-the-shelf products. In the real world, these targets have included retailers that offer their customers free Wi-Fi; restaurants that provide nutrition calculators to their customers; retailers that put a clickable shopping cart icon on their websites; grocers that use aisle scanners to keep track of where food is shelved in their stores; and retailers who link to their website within their mobile app. Patent trolls target businesses on Main Street, ranging from retail to restaurants to hotels to

non-profits to realtors to homebuilders, because there are so many more end users than manufacturers.

Most end users operate in non-technical industries and therefore lack technical expertise with the patented subject matter because the patented technology is merely ancillary to their businesses, such as patented products like Wi-Fi routers. It follows that end users also lack familiarity with patent litigation and are not in an advantageous position to judge the merits of a patent troll's threat or lawsuit. All of these factors set end users apart from patentees and product manufacturers and make them particularly attractive victims to patent trolls who are looking for quick settlements. End users are more likely to avoid the costs and risk of litigation by settling claims, even if they are meritless.

As primary targets of patent trolls, retailers support legislative language that will allow for a consistent application of customer stays. The manufacturers' cases should proceed first while the customers' cases are put on hold because the manufacturer is in the best position to defend against infringement.

Make Patent Litigation More Efficient

In a patent or patent application, the invention for which the U.S. Patent and Trademark Office has granted permission is clearly defined. Conversely, claims on patents, particularly technology products, are overly broad and not clearly defined. With such a wide scope, patent litigation claims are drawn out and disputed while trying to determine the meaning behind the claim, significantly increasing legal costs.

Overly broad and unclear patent claims that are stretched far beyond the original invention lead to an extraordinarily expensive and inefficient discovery process for the victims of patent trolls. Locating, reviewing, and producing huge quantities of documents costs thousands, if not millions, of dollars. Because trolls have no operating business of their own and thus very few documents, they face no corresponding burden in litigation. Trolls use this to their advantage by attempting to make litigation so expensive that their victims just settle. Because trolls specialize in picking on smaller companies, this is usually a very successful tactic for trolls as their victims lack the resources to fight the claim in court, even when they have a valid case.

One way to help companies fight patent trolls is to delay discovery with a "Markman hearing," or "claim construction ruling," where the judge rules on the appropriate meaning of key words and phrases in these unclear and poorly defined patent claims. In many cases, Markman hearings quickly resolve the dispute by establishing that the defendant does or does not infringe. Delaying discovery until after this point will save many innocent defendants from huge and unnecessary expense.

Retailers support language contained in the Innovation Act that requires courts to make decisions about whether a patent is valid or invalid at the outset of the litigation process. Limiting discovery during a claim construction period to only the information necessary to determining the meaning of patent terms effectively cripples a patent troll's ability to drag a patent case out for years solely to extort money from retailers and end users based on an invalid

claim. Early Markman rulings will drive early resolutions, preserve scarce judicial resources, and avoid unnecessary and expensive discovery for the parties involved. If a patent troll's claim is deemed invalid, it will be forced to withdraw its case. On the other hand, if a patent troll's claim is deemed valid, an early Markman decision will allow courts to consider summary judgment motions, promoting settlement. A more efficient patent litigation process will greatly reduce the time and money wasted on discovery and litigation for baseless claims, while preserving patent holders' rights to pursue legitimate cases.

Stop Discovery Abuses

Patent litigation is notoriously expensive. A large portion of that expense comes from the costly discovery process when parties must disclose all of the relevant facts and documents to the other side prior to trial. In patent cases, only a small number of the thousands of produced documents are ever even relevant to liability determinations and most of those are core documents. While defendants are forced to waste significant resources producing non-core documents, patent trolls are largely unaffected by the cost and burden of discovery. Due to the fact that patent trolls, as Non-Practicing Entities ("NPEs"), do not produce or create goods or services, they therefore possess very few core and non-core documents. NPEs continue to play a growing role in patent litigation. In 2013, NPEs filed 67% of all new patent infringement cases, compared to 28% in 2009.[6] This inequity in the discovery process enables patent trolls to employ one of their most abusive tactics: seeking expansive discovery to impose significant expenses on defendants as early as possible in the legal process to force quick cash settlements.

Courts have the power to limit excessive and abusive discovery requests by allowing only discovery that is proportional to the value of the case. Requiring all parties to pay for the discovery they request beyond core documents in no way interferes with a court's discretion. The court will still set the schedule, decide what motions to follow, and make all decisions regarding which documents should be subject to discovery. Judges can retain discretion to waive the requirement of paying for requested discovery when the interest of justice requires it. A discovery cost-shifting provision does no more than incentivize both parties to be judicious in their discovery requests by only asking for information that is useful, relevant, and necessary.

Retailers support legislative language contained in the Innovation Act that directs the Judicial Conference to develop discovery rules for patent actions to reduce the costs of discovery in patent litigation. This measure will preclude patent trolls from using the high costs of discovery to extort money from retailers and other businesses. Requiring that the party seeking discovery beyond core documents will pay for any associated costs, including reasonable attorney's fees will help restore balance to patent litigation. This will stop unreasonable patent troll demands and make litigation more efficient. The involved parties would still be able to obtain the documents they need, but trolls will not be able to abuse the discovery process to force innocent parties to pay settlements just to avoid crushing legal fees. Altering the incentive of the parties in this way will actually lessen the number of discovery disputes and free judges to focus on more fruitful and substantive aspects of case management and dispute resolution.

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[6] Price Waterhouse Coopers, "2014 Patent Litigation Study," July 2014, http://www.pwc.com/us/en/forensic-services/publications/2014-patent-litigation-study.jhtml

Make Abusive Trolls Pay

Patent trolls are often just shell companies with no assets established for the sole purpose of being immune from judgment if faced with sanctions or fee demands by a court. This setup enables patent trolls to often file dozens, and in some cases, hundreds of lawsuits in a single day, even though they likely know the cases have little or no merit. Even though this behavior wastes the court's time and costs the businesses they sue thousands in legal fees, the patent trolls do not care because there is no penalty for this behavior under current law.

Trolls leverage the significant expense of patent litigation to force defendants to settle to avoid the millions of dollars required to defend a suit. Even successfully defending against a meritless patent suit can cost over $1 million in legal fees for a small business and an average of over $6 million for a larger company. Under current law, patent trolls face no similar costs or downside risk. Given how costly it is to go to court, many defendants, even those who know they have not committed any patent infringement, simply choose to settle the case and pay the patent troll off. These inequities in current law are what force legitimate businesses to choose the lesser of two evils and pay the trolls, making the patent troll business model profitable and attractive.

The Innovation Act includes a mandate to courts to award the prevailing party's reasonable fees and other expenses incurred in instances where either party brings a patent claim that has no reasonable basis in law and fact. This provision is another step towards making the patent troll business model less attractive and less profitable.

Provide Less Expensive Alternatives

Patents have been an important part of the American economy and legal system since the country was founded. The framers of the Constitution thought it so important to protect the rights of inventors that they gave Congress the power to create the patent system in order "to promote the progress of science and useful arts." The system has served us well, and it set the stage for the innovation that has made our country successful and innovative for more than two centuries.

Unfortunately, in the past decades individuals and companies have found ways to exploit the patent system, leeching money from it without contributing any innovation or invention whatsoever. Patent trolls acquire vague or overly broad patents, not to invent or sell products, but to sue and shake down American job creators. It would be prohibitively expensive and practically impossible for a productive company to determine whether it may be infringing every one of the one million active U.S. patents. As a result, companies are hit with lawsuits covering the fundamental backbone technologies that enable the e-commerce we all take for granted — such as transacting business over the Internet, displaying product images, or the icons we click on web pages.

The granting of poor quality patents has fueled patent trolls, leading to countless lawsuits and demands for royalty payments. Patent trolls have few assets, other than the patents themselves, sustaining themselves through litigation and sucking millions of dollars out of the pockets of consumers and the businesses they target each year.

Congress needs to protect and improve existing administrative alternatives at the U.S. Patent and Trademark Office (PTO) and create a less expensive alternative to litigation for businesses to combat patent trolls. Any reforms made by Congress to the patent litigation system must, minimally, preserve, if not strengthen, the PTO's existing procedures for preventing litigation abuses.

Conclusion

The exorbitant costs associated with seeing a court case through to final adjudication are startling for retailers. We have heard from our members that they spend as much as one million dollars or more annually on patent troll-related expenses and settlement agreements. These expenditures and the employee hours diverted to fighting patent trolls are precious capital resources that retailers would rather reinvest in their businesses. Because many retailers do not have these types of resources to redirect to fight patent trolls, they often will settle the claim when they receive their first demand letter to make the problem go away.

Addressing this abusive and growing patent litigation problem with common sense reform like H.R. 9, the Innovation Act, will help release retailers from the patent trolls' controlling grip on their industry. Because the retail industry contributes $2.6 trillion to our nation's annual GDP, removing or even loosening this grip on retailers will allow innovation and growth to flourish, and undoubtedly benefit the overall U.S. economy.

Congress must act to ensure that bipartisan multi-faceted patent litigation reform legislation includes provisions to reform abusive demand letters; make trolls explain their claims; protect customers; make patent litigation more efficient; stop discovery abuses; make abusive trolls pay; and provide less expensive alternatives to costly litigation. Effective legislation is about stopping the lucrative business model used by patent trolls to assert meritless patents and enrich themselves with shakedown settlements.

We appreciate your leadership, and NRF looks forward to working with you to address this growing and costly problem.

Response to Questions for the Record from the Honorable Michelle Lee, Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office

Questions for the Record for Michelle K. Lee
Under Secretary of Commerce for Intellectual Property and
Director of the United States Patent and Trademark office
Hearing on H.R. 9, the Innovation Act
House Committee on the Judiciary
April 14, 2015

Submitted June 10, 2015

Questions for the record from Chairman Bob Goodlatte (VA-06):

Question 1:
Director Lee, when you were here last, I asked you to release all of the pre-GATT submarine patent applications, primarily to provide the public with notice if technology is about to be removed from the public domain? Can you let me know the status of that?

Answer:

We continue to review the treatment of approximately 440 pending pre-GATT patent applications and are actively trying to engage with the owners so that the Office can finish examining the applications and either grant or reject them. More than 80% of the subject applications are owned by a single individual and involve some of the largest claim sets that the USPTO has ever encountered. We estimate that the individual has only 12 distinct specifications copied many times over, and has 115,000 claims directed to those 12 specifications. In order to make any progress in examining these applications, we recently required the individual to select no more than 600 claims for each distinct specification and identify the support for each claim in the specification. The USPTO is currently involved in several litigations with the owner. One of those lawsuits, which is currently on appeal to the Federal Circuit, appears likely to address the scope of the USPTO's authority to publish information in pending pre-GATT applications. We also have under consideration a proposed rulemaking in which we would inform the public that we are considering publication of all the pre-GATT applications and request comments and feedback on such action from the public as well as the holders of the pre-GATT applications.

Question 2:
Director Lee, I want to ask you about the CBM program. By all metrics it has been very effective in weeding out low quality patents. Can you talk more about how well the program is working and its importance to improving patent quality?

Answer:

I am pleased with the USPTO Patent Trial and Appeal Board's administration of the transitional program for covered business method patents. I believe that we are properly and fairly fulfilling the congressional mandate to provide a timely, inexpensive alternative to district court litigation over the validity of certain business method patents. CBM proceedings, unlike reexamination and inter partes review, also allow the USPTO to apply recent judicial decisions that have clarified the scope of eligible subject matter, thereby providing an important check on patent

quality. As of May 28, 2015, 353 CBM petitions have been filed, which have thus far resulted in 168 instituted trials, 66 settlements, and 50 final written decisions. We continue to work on improving all America Invents Act post issuance proceedings based on input received from our stakeholders through written comments and recommendations and in a series of outreach efforts including eight roundtable events conducted across the country.

Questions for the Record for Michelle K. Lee
Under Secretary of Commerce for Intellectual Property and
Director of the United States Patent and Trademark office
Hearing on H.R. 9, the Innovation Act
House Committee on the Judiciary
April 14, 2015

Submitted June 8, 2015

Questions for the record from Representative Randy Forbes (VA-04):

Question 1:
Ms. Lee, Representative Suzan DelBene and I are co-chairs of the Congressional Trademark Caucus. Recently, Customs announced its 2014 seizures statistics for counterfeit goods, showing that there were less seizures last year, which is concerning. Can you please outline what role USPTO plays in IPR enforcement, most specifically relating to trademarks and any reason why there is a downward trend of seizures?

Answer:

USPTO's role in IPR enforcement is to provide policy leadership, advocacy, and technical expertise in the areas of domestic and international intellectual property enforcement. This work, performed by our Office of Policy and International Affairs (OPIA), includes providing inter-agency policy advice and legislative analysis on domestic and international intellectual property enforcement issues, conducting training programs, and providing technical assistance and capacity-building activities addressing: civil, criminal, border, and administrative enforcement; the role of the courts in civil and criminal intellectual property rights case management; and public outreach on intellectual property enforcement issues.

These efforts are aimed at assisting countries seeking to improve their legal frameworks for the enforcement of IP rights and supporting improvements to "on-the-ground" enforcement efforts and increasing capacity to combat commercial scale counterfeiting and piracy. For example, with respect to China, the leading source of counterfeit and pirated goods, the USPTO has provided technical assistance for China's General Administration of Customs (China Customs), which seizes counterfeit goods on export. USPTO has also worked with companies to help them advise China Customs on how to detect counterfeit goods, and has worked with regulatory authorities to address on-line counterfeiting. Moreover, in addition to pressing for legal reform to address counterfeiting and piracy, USPTO has raised specific cases with Chinese criminal, civil and administrative authorities.

I recently returned from a week-long trip to Beijing, China, where we met with top officials of the Chinese patent, copyright and trademark offices, as well as legislators and jurists, to discuss the importance of intellectual property protection and possible reforms to China's patent, copyright and trademark laws. Specifically on enforcement issues, we met with the State Administration for Industry and Commerce (SAIC), the parent agency of the China Trademark Office, with whom we enjoy a close working relationship. In recent years, SAIC has increased its enforcement efforts,

which may be a contributing factor for the reduction in the amount of counterfeit products available for sale and export from China.

Although IPR seizures declined slightly in 2014 from 2013, Department of Homeland Security's Customs and Border Protection (CBP) recorded its third busiest year for seizures since 2005. For more specific information regarding seizure data, CBP can provide further details. CBP has the powers of search, seizure, and arrest, and the legal authority to make substantive determinations regarding infringement of trademarks and copyrights, pursuant to U.S. statutes.

Question 2:
Ms. Lee, can you please explain how the PTO interacts with other agencies in IPR enforcement. What roles does the PTO take at the National Intellectual Property Rights Coordination Center which is a communications hub for anti-counterfeiting enforcement efforts? Do you think it's been effective or do you think there needs to be changes to make it more effective?

Answer:

The USPTO interacts with a number of other agencies to address on IPR enforcement and, generally, to advise on IP policy. The USPTO's Office of Policy and International Affairs (OPIA) enforcement team leads many of these engagements. For instance, OPIA advises the U.S. Trade Representative's Office on enforcement-related provisions included in trade agreements. Additionally, OPIA's enforcement team has an ongoing relationship with enforcement-focused agencies such as Customs and Border Protection and the Department of Justice. The USPTO has also detailed employees to the Office of the Intellectual Property Enforcement Coordinator for the last several years and, in the past, to the National IPR Coordination Center (IPR Center).

The USPTO's relationship with the IPR Center has been effective and, as a partner agency, we support its mission in a number of ways. For example, criminal complaints that come in to USPTO attorneys through the STOPfakes.gov website and hotline are directed to the IPR Center so that the information can be routed through appropriate channels. We also support training efforts focusing on IP border enforcement in partnership with the IPR Center. In addition, the USPTO provides certified copies of trademark registration certificates (and other documents) free of charge to prosecutors and investigators for use in criminal counterfeit court proceedings. In many instances, these requests come through the IPR Center.

Questiou 3:
Ms. Lee, the USPTO recently reduced the fees paid for electrouic registrations for trademarks. I take it that this was done to incentivize electronic filings. What have the results been thus far? What challenges has USPTO faced?

Auswer:

The results have been very positive. Applicants may now choose from two reduced-fee options that incentivize electronic filing. The first option, called Trademark Electronic Application System (TEAS) Reduced Fee, or TEAS RF, provides a lower filing fee for applicants who agree to

electronic communication throughout the application process. The second option, called TEAS Plus, offers an even lower fee for applicants who are willing to communicate electronically, file a complete application, and meet certain other requirements. In the first few months of filings following the fee reduction, 44% of all applications were filed under TEAS RF and 30% were filed under TEAS Plus. As a result, 74% of applications filed in that period will be processed electronically from start to finish. This is a welcome response, given that electronic communication significantly reduces application pendency and costs for the USPTO.

In addition, we have reduced registration maintenance fees for electronic renewal requests. Most of the registrants filing renewals are now taking advantage of this option. The biggest challenge for the USPTO was the required modification of our electronic systems. However, we completed the work on time, and have successfully implemented all of the new reduced-fee options.

Questions for the record from Representative Doug Collins (GA-09)

Question 1:
Do you believe that Congress can improve the ability of the patent system to promote innovation by curbing the ability of parties engaging in abusive litigation practices to seek extensive, expensive discovery designed to force a settlement?

Answer:

Yes. While the Judicial Conference has recommended, and the Supreme Court has approved, changes to the Federal Rules of Civil Procedure to promote discovery "proportionate" to the needs of a case, we believe that legislative reform is needed to build on that change once adopted. Accordingly, the USPTO generally supports the provisions of §6 of H.R. 9, the Innovation Act, which direct the Judicial Conference to develop rules and procedures to address the asymmetries in discovery burdens and costs in patent cases. A form of fee shifting and heightened pleading requirements would also likely help to curtail discovery abuses. Consideration should also be given to alternative approaches to achieving these goals, and the USPTO would welcome the opportunity to work with the Committee and stakeholders to develop such provisions.

Question 2:
You testified that the "USPTO believes that any changes to discovery rules should facilitate the early resolution of disputes, avoid needless costs, and promote efficiency and fairness." Do you believe that in the majority of cases, staying discovery until any pending motions to transfer venne are resolved, could be consistent with your expressed goals of discovery?

Answer:

Yes. Also consistent with these goals would be consideration of stays during motions to sever accused infringers. However, courts should have the discretion to allow limited discovery to resolve such preliminary motions.

Response to Questions for the Record from Kevin T. Kramer, Vice President, Deputy General Counsel for Intellectual Property, Yahoo!

Questions for the record from
Chairman Bob Goodlatte (VA-06)
Responses from Kevin T. Kramer
Vice President and Deputy General Counsel
Intellectual Property
Yahoo! Inc.

Question:
Mr. Kramer, you said in your testimony that Yahoo! is both a defendant and a plaintiff in patent litigation. Can you please explain the impact of H.R. 9 in both of those scenarios?

Yahoo believes in patents and the patent system. Patents have a positive role to play in society: they encourage investment, enable entrepreneurship and facilitate employment. At Yahoo, we have over 2,000 issued United States patents, a substantial portion of which cover software-related inventions. We invest millions of dollars every year on research, development and innovation to advance the technology that underpins our services and the Internet. Our patents help protect that investment against unauthorized use by competitors. We also currently have an active licensing program. Simply put, we value patents, participate in the system, and generally believe that the patent system works well for its intended purpose.

However, the patent litigation system is out of balance. Systematic abuse has led to increasing waste, inefficiency and unfairness, and these problems impact not only the parties to patent litigation but also the courts and taxpayers who fund our government.

By instituting common sense reforms that level the playing field and make patent litigation more just, speedy and efficient for all entities, as the Innovation Act would do, Congress can make a critical difference for both plaintiffs and defendants. Specifically, the Innovation Act would make patent litigation more efficient throughout the lifecycle of a case: genuine notice pleading, prioritizing claim construction, establishing presumptive limits on discovery, and clarifying when attorneys' fees should be granted to prevailing parties.

H.R. 9's meaningful reforms would start by requiring genuine notice pleading in patent cases; this will focus and streamline the litigation from the start. Plaintiffs are required by Rule 11 of the Federal Rules of Civil Procedure to conduct adequate pre-filing investigations prior to filing complaints anyway. These investigations should include a comparison of the asserted patent claims to the accused products. Not providing this necessary information at the beginning of a case in the complaint slows down the litigation and makes it inefficient and expensive for both parties. It is much easier to resolve a dispute when both parties know what the case involves.

From the perspective of a plaintiff, providing a thorough and specific patent pleading will provide it with a distinct advantage in the litigation. It will show the court that it is prepared to move forward and it will put more pressure on a defendant to put together an effective defense earlier in the proceeding. From the perspective of a defendant, because the plaintiff has more thoroughly set forth its case, it does not have to guess which products are at issue or

which claims are being asserted and it can more easily and efficiently begin to build its defense in a case.

Another important Innovation Act provision is the staging of events in patent cases, in particular, the presumptive limits on discovery pending claim construction. In our experience, and indeed, in most patent infringement cases, claim construction represents a decisive point in litigation. Once the court construes the claims at issue, the parties have more clarity as to the issues to be litigated. In fact, claim construction often determines infringement. Given the likely importance of claim construction's impact on the litigation, it is only logical that such a decision take place early in the case and before other unnecessary discovery is required. Early focus on this key decision makes the litigation more efficient and less expensive for all involved.

For example, once the court rules on claim construction, the plaintiff is in a better position to determine whether it has a good faith basis to proceed with an infringement argument and the defendant is in a better position to assess both non-infringement and invalidity. The result will likely be that the parties are encouraged to settle rather than continue litigating.

Again, as a company that has been a plaintiff as well as a defendant, we are pleased to see that the Innovation Act's discovery stay provision in its current form is quite balanced, offering meaningful exceptions that would allow discovery to proceed in certain cases, including cases between competitors.

The discovery aspect of patent litigation can be abused such that it becomes enormously expensive and time-consuming, requiring the production of hundreds of thousands of pages of documents, most of which are never ultimately used or needed at trial. The Innovation Act also places sensible, presumptive limits on discovery in the first instance to core documents in order to minimize abuse. In addition, the Act also requires the Judicial Conference to develop rules that will allow for additional discovery "if such party bears the reasonable costs, including reasonable attorney's fees, of the additional document discovery." Such rules would encourage all parties in litigation to act more responsibly by focusing the case on those things that matter to the outcome of the litigation, again allowing litigation to proceed (and be resolved) in a more efficient manner.

Finally, one of the most beneficial things the Innovation Act does to bring balance to the system is to clarify the fee-shifting provision that exists in current law. The Act ensures judges shift fees in *unreasonable* cases creating a presumption of fee shifting unless the non-prevailing party's position and conduct are reasonably justified in law and fact, or special circumstances indicate that an award would be unjust. This bears repeating: potential plaintiffs should not be worried, provided their behavior in litigating is reasonably justified in law and fact. Reasonable behavior is the very least we should expect of any plaintiff, and the "special circumstances" offers another loophole which courts have discretion to apply.

As potential plaintiff or defendant, Yahoo supports these provisions.

Questions for the record from
Representative Doug Collins (GA-09)
Responses from Kevin T. Kramer
Vice President and Deputy General Counsel
Intellectual Property
Yahoo! Inc.

Question 1:

I certainly agree with the goal of the discovery stay provisions to prevent actors from engaging in abusive behavior and use the expense of discovery to force settlements and impose excessive costs. However I recognize the diversity in interests that utilize our patent system. Patent holders come in all sizes and models, and while we should prevent abusive behavior, we should also seek to tailor the remedy as narrowly as possible, while still being effective. Could the panel please provide brief input on the current discovery stay language and if there could be merit to modestly increasing the scope of the exceptions to allow for cases in which a blanket stay of discovery until after claim construction could result in increased costs and delayed resolution for two legitimate actors appropriately using our patent litigation system?

As a threshold matter, please note that Yahoo has been both plaintiff and defendant in patent cases, so we appreciate that not all patent disputes involve patent trolls or litigation abuse.

Having said that, we support the Innovation Act's presumptive limits on discovery because, in our experience, and indeed in most patent infringement cases, claim construction represents a decisive point in litigation. Once the court construes the claims at issue, the parties have more clarity as to the issues to be litigated. In fact, claim construction often determines infringement. Given the likely importance of claim construction's impact on the litigation, it is only logical that such a decision take place early in the case and before other unnecessary discovery is required. Early focus on this key decision makes the litigation more efficient and less expensive for all involved: the parties, the court and the taxpayers.

However, there may be times when exceptions are required. Again, as a company that has been a plaintiff as well as a defendant, we are pleased to see that the Innovation Act's discovery stay provision in its current form is quite balanced. It already offers meaningful exceptions that would allow discovery to proceed in certain cases, including those between two operating entities that might characterize themselves or typical patent litigants in their industry as "two legitimate actors appropriately using the patent litigation system." Specifically, the following exceptions offer sufficient flexibility so that in the rare case where a stay may not be appropriate or helpful, it is not required:

- In the discretion of the court:

o 299A(b)(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 . . .as necessary to prevent the manifest injustice."

o 299A(b)(4): ACTIONS SEEKING RELIEF BASED ON COMPETITIVE HARM. "The limitation on discovery . . . shall not apply to an action seeking a preliminary injunction to redress harm arising from the use, sale or offer for sale of any allegedly infringing instrumentality that competes with a product sold or offered from sale, or a process used in manufacture, by a party alleging infringement."

- In the discretion of the parties:

o 299A(c) EXCLUSION FROM DISCOVERY LIMITATION. "The parties may voluntarily consent to be excluded, in whole or in part, from the limitation on discovery . . . if at least one plaintiff and one defendant enter into a signed stipulation, to be filed with and signed by the court.

We do believe that there is merit in increasing the scope of exceptions to allow for a stay of discovery pending resolutions on motions to transfer. In our experience, decisions on transfer motions have been delayed, forcing us to litigate in a venue that is either improper or extremely inconvenient. We would not be opposed to including a stay of discovery pending resolution of a motion to transfer.

Question 2:

Since this Committee last passed the Innovation Act, some things have changed. Not the need for patent reform itself, but certainly for the way in which we approach reform. In the America Invents Act, Congress delegated authority to PTAB in an effort the [sic] reduce costs, and increase fairness and efficiency. However, I have heard that the new PTO post-grant proceedings are creating issues for companies that rely on patents to support their research efforts. Some stakeholders have called into question the fairness of the proceedings, as well as the "kill rate" and whether there are appropriate due process protections in the proceedings. This is all in the context of a patent that has already been granted by the PTO, and which companies are using to support developing product. I would like the panels' brief perspective on the PTO's implementation and respect of Congressional intent as it relates to the PTAB related provisions of the AIA.

The new post-grant proceedings established in the AIA appear to be working well to help improve patent quality by providing greater opportunity for third party input and thereby weeding out questionable claims. Statistical evidence from the PTO demonstrates that the IPR process is a fair one that works well for all stakeholders. USPTO statistics show that as of April 30, 2015, of the 13,699 claims that were challenged in IPRs, only 25% were found unpatentable by the PTAB.[1] This means that 75% of all patent claims survive IPRs. Further, at least as of this date, the Federal Circuit, which is generally perceived as a patentee friendly court, has not reversed the final determination made in any IPR or CBM proceedings. This does not

demonstrate a problem but rather demonstrates that the proceedings are balanced and are reaching correct results. And, this shows that the IPR procedure is an effective tool for dealing with the most problematic patents – the broad and vague patents that are most frequently used by patent trolls.

In my opinion, proponents of changes to IPRs have not built an evidentiary record to justify any changes and rely on anecdotes and innuendos. Not only do the actual statistics show that there are no "patent death squads" as proponents of these changes charge, but in fact, the statistics also show that few IPRs implicate the industries that are currently complaining the most about IPRs: only 8.5% of the IPRs brought in FY2015 involve biotech or pharmaceutical patents.[2]

In fact, the current IPR process is actually slanted in favor of patent owners:

- Instead of encompassing all grounds of invalidity, IPRs are limited to a narrow subset of grounds under sections 102 and 103; namely invalidity solely based on printed documents. Invalidity under section 101 or 112 cannot be pursued in IPRs, making them less effective than they otherwise could be.
- IPRs must be filed within twelve months of service of the complaint, which is often before an accused infringer knows the patentee's positions on infringement and claim construction.
- In order for an IPR to be initiated, the burden is on the petitioner to show that at least one claim is more likely than not invalid. In contrast, there exists a much lower threshold in ex parte reexaminations, which only require a substantial new question of patentability.
- The timeline for IPRs greatly favors the patentee. Patentees need not take a substantive position in an IPR until nine months after proceeding begins. Then, the petitioner only has two months to respond. If the patentee has amended its claims, the petitioner must also find additional prior art within those two months.
- Finally, a defendant in a patent infringement case risks a lot by filing an IPR. Currently, the law provides that a defendant is estopped from raising in the district court any invalidity defense that it could have raised in the PTO. Because that includes more than just what the PTO actually adjudicated, the current estoppels provisions are overbroad and pose a tremendous deterrent against actually using the proceedings.

Finally, simply because a patent has been granted by the PTO does not mean that it is inviolate. In fact, the law already recognizes that patents are only entitled to a "presumption of validity" and that defendants are entitled to defend themselves in patent cases on the grounds of invalidity. Because the PTO is not omniscient and because we should be vigilant against prohibiting Americans from doing things that have already been dedicated to the public domain, we should make sure that there is a robust, cost-effective administrative procedure in place that allows those accused of patent infringement to challenge the validity of patents that have been granted by the PTO.

Question 3:

Some of the universities in Georgia have expressed concerns with H.R. 9. But intellectual property protection is critical to much of the research that they are undergoing and the resulting inventions. I believe there is a great deal in this legislation that would benefit them. If you had to name one provision that you think could benefit universities that have a robust and innovative patent portfolio, what would it be?

We believe that the provisions of H.R. 9 concerning pleading, discovery, and fee shifting would benefit universities, particularly those that have a robust and innovative patent portfolio.

As a threshold matter, we agree that the solution to the patent troll problem must curtail abuse and also allow for the assertion of reasonable cases to protect important patent assets. The Innovation Act offers that solution, not just for Yahoo and our industry, but also for universities. It will focus litigation from the start by making patent complaints more clear, it will also streamline litigation by prioritizing important decisions like claims construction and limiting unnecessary discovery, These common sense changes benefit both plaintiffs and defendants alike, while still giving the district courts the necessary autonomy to manage their dockets.

Under the provisions of H.R.9, the university that makes legitimate and reasonable attempts to enforce its patents will be able to do so without fear of paying fees if it loses, and will have the comfort of knowing that the litigation will be less protracted and more efficient because of the Innovation Act. A university that is seeking to enforce a robust and innovative patent portfolio should love the Innovation Act because it will make litigation less expensive and more streamlined. The university that is a defendant in patent litigation will similarly benefit from more focused, efficient litigation as well.

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[1] http://www.uspto.gov/sites/default/files/documents/inter_partes_review_petitions_%2004%2030%202015_0.pdf

[2] http://www.uspto.gov/sites/default/files/documents/aia_statistics_04-30-2015.pdf

Response to Questions for the Record from Robert A. Armitage, former Senior Vice President and General Counsel, Eli Lilly & Co.

Robert A. Armitage Response to Questions for the Record from Representative Doug Collins (GA-09):

Question 1:
I certainly agree with the goal of the discovery stay provisions to prevent actors from engaging in abusive behavior and use the expense of discovery to force settlements and impose excessive costs. However, I recognize the diversity in interests that utilize our patent system. Patent holders come in all sizes and models, and while we should prevent abusive behavior, we should also seek to tailor the remedy as narrowly as possible, while still being effective. Could the panel please provide brief input on the current discovery stay language and if there could be merit to modestly increasing the scope of the exceptions to allow for cases in which a blanket stay of discovery until after claim construction could result in increased costs and delayed resolution for two legitimate actors appropriately using our patent litigation system?

Robert A. Armitage Response: Use of the Markman process, a procedure employed to arrive patent claim construction that is used to base the determination of both a patent's validity and alleged infringement, is a sensible and efficient way in which to impose a control gate on full-bore discovery in at least a select group of patent litigations. In such cases, completing the Markman process before triggering full-bore discovery could admirably serve the interests and ends of justice. It would lower overall litigation costs. It would serve to stop in its tracks certain abusive litigation practices. The difficulty with the H.R. 9 proposal lies in the flipside of the Markman process A Markman hearing can be—and typically is—an expensive undertaken. Holding an early Markman hearing can delay final resolution of the litigation. In many cases, it can drive up the overall cost to resolution. The Dr.-Jekyll-and-Mr.-Hyde character of the Markman process makes a mandatory legislated rule that does more good than harm difficult to craft. In my testimony, I suggested jettisoning the Markman process as a control-gate on full-bore discovery. I urged instead talking a close look at issues like motions to transfer venue as a replacement for the Markman provision.

Question 2:
Since this Committee last passed the Innovation Act, some things have changed. Not the need for patent reform itself, but certainly for the way in which we approach reform. In the America Invents Act, Congress delegated authority to PTAB in an effort the reduce costs, and increase fairness and efficiency. However, I have heard that the new PTO post-grant proceedings are creating issues for companies that rely on patents to support their research efforts. Some stakeholders have called into question the fairness of the proceedings, as well as the "kill rate" and whether there are appropriate due process protections in the proceedings. This is all in the context of a patent that has already been granted by the PTO, and which companies are using to support developing products. I would like the panel's brief perspective on the PTO's implementation and respect of Congressional intent as it relates to the PTAB related provisions of the AIA.

Robert A. Armitage Response: I have little to add to my written submission, but would like to reiterate a couple of points. We now have enough experience with the new inter partes review proceedings to draw some significant conclusions. It is not premature for Congress to act now. My core belief is that these proceedings both need to be fair and to have the appearance of

fairness. Otherwise, we set a horrible international example for dealing with patents that relate to the most important new technology coming to market. Whether the new IPR proceedings are today operating fairly today or not, we now have the appearance of unfairness to the patent owner. This can be readily addressed through changes to the IPR process, some of which cannot take place without congressional intervention. Congress should afford standard-of-proof parity as between invalidity adjudications in the courts and invalidity adjudications in the USPTO. The makes it imperative that Congress require the PTAB to presume issued patent claims in the IPR proceeding to be valid and accept only clear and convincing evidence of their invalidity—exactly the standards applied in the federal courts hearing invalidity challenges in a patent infringement lawsuit. My belief is that this type of parity would respect Congressional intent. Moreover, it would allow the PTAB to continue the work of canceling patent claims lacking in validity—an action Congress clearly intended take place whenever the patent law's novelty/non-obviousness requirements have not been met.

Question 3:
Some of the universities in Georgia have expressed concerns with H.R. 9. But intellectual property protection is critical to much of the research that they are undergoing and the resulting inventions. I believe there is a great deal in this legislation that would benefit them. If you had to name one provision that you think could benefit universities that have a robust and innovative patent portfolio, what would it be?

Robert A. Armitage Response: Universities, at least based on experience, are principally interested in patent legislation that makes patents rights more readily and reliably available and more unequivocally enforceable. They place a greater emphasis on licensing their patents in preference to launching litigation to enforce them. However, I have seen university-owned patents litigated—sometimes by the universities themselves and other times through active participation of their licensees. For these reasons, several of the provisions in H.R. 9 do nothing to address these more parochial university interests; many provisions do nothing to strengthen patent rights or make them more facile to enforce. This includes the provisions on heightened pleading standards and the Markman-focused stay of discovery. In my written testimony, I explained why I believed the "loser pays" default rule on attorney fees would greatly benefit all users of the patent system, including universities. While I am tempted, therefore, to name that provision as the "one provision," I will demur from doing so out of deference to the views of some in the university community who have stated significant concerns with this proposal. The above considerations lead me to believe that barring the use of the "broadest reasonable construction" in the post-grant review and inter partes review would be the "one provision" that would most benefit universities that have a robust and innovative patent portfolio. As I noted in my testimony, I urge the committee to find a way to attach both a presumption of validity and the "clear and convincing evidence" standard to cancelation of claims in IPR proceedings. If these three changes could be put into H.R. 9, it would make this bill much more attractive to university interests. I do not purport to be in a position to speak for the varied interests with the university community, but offer the above as my best understanding of the manner in which university interests might be best served.

Response to Questions for the Record from David M. Simon, Senior Vice President, Intellectual Property, Salesforce.com

Response to Question 1:

I believe that HR 9 strikes the correct balance by limiting the pre-Markman stay in patent litigation to the type of cases brought by patent trolls. When one parses the statutory exemptions to the pre-Markman stay, it becomes clear that the stay will directly attack the $29 billion annual wastage brought on by troll litigation.

HR 9 denies the pre-Markman stay if the case involves a patent subject to Hatch Waxman, involves competitive situations or involves a plaintiff seeking a preliminary injunction. Such cases are clearly not troll cases and the need for a stay to deal with the asymmetries of patent litigation is not as compelling.

After eliminating Hatch Waxman, competitor and preliminary injunction cases, I believe that the vast majority of the remaining cases are cases involving patent trolls. This is readily apparent since last year between sixty and seventy percent of all new patent cases involved trolls and troll cases do not involve the three statutory exceptions listed above.

Troll cases differ from the exempted three types of cases discussed above due to grossly unequal discovery burdens. The troll generally has minimal documents and the accused defendants may have millions or tens of millions of potentially responsive documents. The evidence is rampant that trolls use the asymmetries in discovery burdens to foster non-meritorious litigation that is profitable merely because the economics of the discovery process compel defendants to settle. This does not promote innovation but rather causes tens of billions of dollars of economic harm. Therefore, I believe that the balance is correct.

In addition, I note that the question appears to posit a situation where it would be in the economic interest of both parties to a litigation to permit discovery. I note that HR 9 specifically permits the parties to agree that the pre-Markman stay should not apply to their case. Presumably, where the litigants agree, they are rational and they would jointly seek to lift the stay. Conversely, where both parties believe the stay is in their best interest, neither party would ask for the stay to be lifted and the stay would clearly be beneficial. Thus, I have difficulty seeing how the provision harms anyone other than those who seek to use the asymmetric discovery burdens to foster unjustified settlements in patent cases.

Question 2

I believe that the committee has been misinformed about "kill rates" regarding patents in inter partes proceedings. PTO statistics show that 24% of the claims in patents that are the subject of the inter partes review are determined by the PTAB to be invalid as set forth in my written statement. That is hardly the death squad that opponents to these procedures claim. Further, no one can point to erroneous decision by the PTAB. The few inter partes proceedings that have been appealed to the Federal Circuit have been affirmed on appeal. Thus, the PTAB is deliberative and judicious in rendering its decisions.

Frankly, I believe that complaints about the IPR process are based off of misinformation. Certainly, the 21st Century Patent Coalition's colorful labeling of the

PTAB as "death squads killing property rights"[1] can only be viewed as disingenuous. I have gone through the AIA PTAB proceedings of sixteen prominent members of the 21 Century Patent Coalition.[2] Eleven of these sixteen companies never had any of their patents challenged by an IPR, CBM or PGR petition. Of the five companies that have had their patents challenged, less than 11% of their challenged claims have been declared invalid and less than 40% of the claims that the petitioners sought to challenge were even included in the instituted trials. In fact, the PTAB only instituted trials in 45% of the matters where petitions were filed. I can only conclude that such scurrilous charge of "death squads" leveled at the administrative patent judges, who left promising and profitable careers to help implement these new procedures, can only be considered a defamatory exaggeration. The inter partes process should not be changed as it clearly eliminates bad patents that trolls use to cause harm.

Question 3

This is a difficult question because I believe that most of the reforms in HR 9 would benefit all holders of robust patent portfolios based on genuine research and development. Nonetheless, I believe that the fee shifting provision of HR 9 would benefit universities the most. That fee shifting provision means that where infringers' lack reasonable justifications for their defenses, those infringers must pay the patentees' attorneys fees. Thus, where universities have legitimate claims, defendants will not be able to stone-wall the university with improper litigation tactics to the fear of the attorneys fee sanction.

Further, a university is unlikely to be the subject of an attorneys fee sanction under this language. The language in HR 9 states that the court should not award attorneys fees if the court finds it unjust under the circumstance. It would be difficult to imagine a set of facts absent truly egregious conduct where a court would be willing to sanction a university. Hence, universities get an affirmative benefit from the provision since unreasonable private litigants sued by a university are much more likely to be sanctioned but have little to fear from the provision based on their exalted position in society.

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[1] 21st Century Patent Coalition, Agenda for Patent Reform in the 114th Congress: Ensure That USPTO Post-Grant Proceedings Are Fair to All Parties at 2 www.patentsmatter.com/issue/pdfs/20150316_AgendaforPatentReforminthe114thCongress.pdf

[2] The list comprises Proctor & Gamble, 3M, Eli Lilly, Exxon, Dupont, Caterpillar, Bristol Meyers, Glaxo, Hoffman-Laroche, Johnson & Johnson, Merck, Novartis, Pfizer, Novo Nordisk, Abbott and Air Liquide.

Response to Questions for the Record from Hans Sauer, Deputy General Counsel for Intellectual Property, Biotechnology Industry Organization

Washington, D.C., June 3, 2015

Dear Congressman Collins:

Thank you for the opportunity to further elaborate on my testimony at the April 14 hearing of the House of Representatives Committee on the Judiciary.

With respect to your question 1:

Biotechnology companies, on whose behalf I testified, are certainly concerned that blanket stays of discovery in patent infringement litigation could lead to delays, increased cost, and prolonged commercial uncertainty for companies who are in commercial disputes involving competing products and infringed patents. Creating exceptions from the proposed discovery stay for certain kinds of disputes is one way to mitigate the risk of unintended harm to legitimate users of the patent litigation system – such as, for example, making the discovery stay inapplicable in litigation between marketplace competitors where infringing products are distributed into the marketplace by the accused infringer and the patent holder suffers actual competitive harm. Such situations have little to do with concerns over so-called "patent trolls" who do not themselves manufacture or sell products, and there would seem to be no reason to not generously exempt such commercial disputes from the Innovation Act's discovery stay provisions.

However, one persistent problem with the proposed stay of discovery pending a judicial claim interpretation has been the difficulty of defining the kinds of limited discovery that should be permitted vs. the kinds of discovery that should be stayed. When judges interpret the language of patent claims, they don't do so in a vacuum. Information about the accused infringing product is highly relevant to understanding the technology in the case. Likewise, information about preexisting technology is necessary to interpret a patent claim to an invention that is claimed as new and patentably different from all that came before it. This uncertainty about the kinds of discovery would be permitted (because it is "necessary for claim construction") vs. that which would be stayed has been an ongoing frustration for all who tried to thread this needle.

I understand that, subsequent to this Committee's hearing of April 14, Committee staff has been exploring an alternative construct under which a patent infringement lawsuit would be stayed altogether if the accused infringer files an early motion to transfer the case to a more proper venue, or to sever defendants. In my opinion, this is an interesting and constructive step in the right direction. This alternative approach would indirectly get at concerns over unfettered "runaway" discovery costs sometimes reported by parties who have been sued in certain district courts where judicial discovery practices are liberal and permissive. Under an appropriately crafted legislative provision, I would expect that the simple dispersal of many patent cases from only a few district courts to a wider range of

more appropriate districts would go a long way in easing the burden of cost and discovery production currently experienced by many users of the patent litigation system.

With respect to your question 2:

The PTAB post-grant proceedings were intended to provide an alternative to district court litigation where certain common questions of patent validity could be resolved more quickly and cheaply than in district court. This form of administrative litigation has been adopted much more quickly and widely than expected – more than 3,500 PTAB trials have been requested on challenged patents since these proceedings became available little over 2 years ago. About 80% of all patents in these proceedings are also involved in district court litigation. The PTAB proceeding itself has much in common with litigation: two parties appear, each presents their case, and the Administrative Patent Judges hear the evidence and decide whose case is stronger and whether the challenged patent claims should be canceled. In this sense, PTAB trials are different from anything the USPTO has done before: an adjudication in an adversarial proceeding, not patent examination or reexamination.

Despite these similarities to litigation, the USPTO has chosen to implement these proceedings under the legal standards applicable to patent examination. Unlike in district court, patents in PTAB trials are under no presumption of validity. There is no standing requirement requiring the parties to be in an actual commercial dispute. The claims are interpreted more broadly than in district court (making it more likely that they – impermissibly – capture preexisting technology), and the proof for invalidation is sufficient if it meets a mere preponderance standard, not clear and convincing evidence as in district court.

All this means that PTAB trials are not only cheaper and quicker than district court litigation – they are also systematically more likely to result in a different outcome. Preliminary statistics support this notion: when patents are challenged in district court on similar legal grounds and similar prior art, patent claims are invalidated approximately 40-45% of the time. In PTAB trials, the rate seems to be in the 65-80% range. In order to guard against the risk of redundant proceedings and inconsistent outcomes between the courts and the PTAB, I believe the best way forward would be to harmonize the legal (not procedural) standards in the PTAB to those in district court, including using the same claim construction standard (the Innovation Act fortunately contains a provision to this effect) and the same standard of proof for invalidating patent claims.

With respect to your question 3

I feel hard-pressed to answer this question, as the majority of the Innovation Act's provisions involve reforms to the ways patents are enforced and litigated, and our major research universities generally avoid being involved in either. Instead, universities such as Georgia Tech, UGA, Emory, or GSU view their mission as teaching, researching, and creating technology and hopefully disseminating it to the private sector for further commercial development, such that inventions which started with publicly-funded research eventually reach the marketplace in the form of new, socially beneficial products. Along the way, jobs are created, investment is stimulated, and regional economies benefit from creative start-up businesses. Royalties from real-life products flow back to the schools

where they are used to fund teaching and research, and reward their most creative scientists and engineers who might otherwise be inclined to disappear to the private sector. University-owned patents play a critical role in this system of licensing, collaboration, reciprocity and reward. Accordingly, it is no surprise that universities have been sensitive to the risk that provisions in the Innovation Act would inadvertently, but systematically, undermine the confidence in, and perceived value of, their intellectual property.

Please do not hesitate to contact me with any further questions you may have regarding my testimony. Again, I thank you for the opportunity to testify and to provide further thoughts.

Respectfully submitted,

Hans Sauer, Ph.D., J.D.

Deputy General Counsel for Intellectual Property

Biotechnology Industry Organization

1201 Maryland Ave., S.W.

Washington, D.C. 20024

(x1) 202-962-6695

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