

INNOVATION ACT

JULY 29, 2015.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

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

R E P O R T

together with

DISSENTING VIEWS

[To accompany H.R. 9]

[Including cost estimate of the Congressional Budget Office]

The Committee on the Judiciary, to whom was referred the bill (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, having considered the same, reports favorably thereon with an amendment and recommends that the bill as amended do pass.

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The Amendment

The amendment is as follows:

Strike all after the enacting clause and insert the following:

SECTION 1. SHORT TITLE; TABLE OF CONTENTS.

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

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

- Sec. 1. Short title; table of contents.
- Sec. 2. Definitions.
- Sec. 3. Patent infringement actions.
- Sec. 4. Transparency of patent ownership.
- Sec. 5. Customer-suit exception.
- Sec. 6. Procedures and practices to implement 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 all claims necessary to produce the identification (under paragraph (3)) of each process, machine, manufacture, or composition of matter (referred to in this section as an ‘accused instrumentality’) that is alleged to infringe any claim of each patent that is identified under paragraph (1).

“(3) For each claim identified under paragraph (2), an identification of each 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 (or a representative 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.

“(b) INFORMATION NOT READILY ACCESSIBLE.—If information required to be disclosed under subsection (a) is not readily accessible to a party after an inquiry reasonable under the circumstances, as required by Rule 11 of the Federal Rules of Civil Procedure, 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) AMENDMENT OF PLEADINGS.—Nothing in this section shall be construed to affect a party’s ability to amend pleadings as specified in the Federal Rules of Civil

Procedure. Amendments permitted by the court are subject to the pleading requirements set forth in this section.

“(d) 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.

“(e) 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 who asserts a claim for relief arising under any Act of Congress relating to patents against another party, and who subsequently unilaterally (i) seeks dismissal of the action without consent of the other party and (ii) extends to such other party a covenant not to sue for infringement with respect to the patent or patents at issue, may be the subject of a motion for attorneys fees under subsection (a) as if it were a non-prevailing party, unless the party asserting such claim would have been entitled, at the time that such covenant was extended, to dismiss voluntarily the action without a court order under Rule 41 of the Federal Rules of Civil Procedure, or the interests of justice require otherwise.”.

(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 subsection (f).

(C) AMENDMENT.—

(i) IN GENERAL.—Section 273 of title 35, United States Code, as amended by subparagraph (B), is further amended by striking subsection (g).

(ii) EFFECTIVE DATE.—The amendment made by this subparagraph 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).

(3) EFFECTIVE DATE.—Except as otherwise provided in this subsection, 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.—Except as otherwise provided under this subsection, 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 expiration of the time period during which a certification under paragraph (4)(B) is required to be filed, that the interested party has been identified in the initial disclosure under section 290(b) 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) ADDITIONAL REQUIREMENTS FOR JOINDER.—

“(A) INITIAL STATEMENT.—This subsection shall not apply to an action unless a party defending against an allegation of infringement of a patent claim files, not later than 14 days before the date on which a scheduling conference is held or the date on which a scheduling order is due under Rule 16(b) of the Federal Rules of Civil Procedure, a statement that such party holds a good faith belief, based on publicly available information and any other information known to such party, that the party alleging infringement has no substantial interest in the subject matter at issue other than asserting the patent in litigation.

“(B) CERTIFICATION.—This subsection shall not apply to an action if the party alleging infringement files, not later than 45 days after the date on which such party is served with the initial statement described under subparagraph (A), a certification that—

“(i) establishes and certifies to the court, under oath, that such party will have sufficient funds available to satisfy any award of reasonable attorney’s fees and expenses under section 285 if an award is assessed;

“(ii) demonstrates that such party has a substantial interest in the subject matter at issue other than asserting the patent in litigation; or

“(iii) is made under oath that there are no other interested parties.

“(5) EXCEPTION FOR UNIVERSITY TECHNOLOGY TRANSFER ORGANIZATIONS.—This subsection shall not apply to a technology transfer organization whose primary purpose is to facilitate the commercialization of technologies developed by one or more institutions of higher education (as defined in section 101(a) of the Higher Education Act of 1965 (20 U.S.C. 1001(a))) if such technology transfer organization is alleging infringement on behalf of an entity that would not be subject to this subsection.

“(6) 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 employee of the party alleging infringement—
 - “(I) whose principal source of income or employment is employment with the party alleging infringement; or
 - “(II) whose sole financial interest in the patent or patents at issue is a salary or hourly wage paid by the party alleging infringement;
- “(ii) 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
- “(iii) a person whose sole financial interest in the patent or patents at issue is ownership of an equity or security interest in the party alleging infringement, unless such person also has the right or ability to direct or control (membership on the board of directors alone is not sufficient to demonstrate such right or ability) the civil action.

“(7) SUBSTANTIAL INTEREST.—In this subsection, the term ‘substantial interest’ includes an interest in the subject matter of a patent at issue if the party—

- “(A) invented the subject matter; or
- “(B) commercially practices or implements, made substantial preparations directed particularly to commercially practicing or implementing, or is engaged in research and development in, technology in the field of the subject matter.”

(d) DISCOVERY STAY.—

(1) AMENDMENT.—Chapter 29 of title 35, United States Code, as amended by subsection (a), is further amended by inserting after section 281A (as added by such subsection) the following new section:

“§ 281B. Stay of discovery pending a preliminary motion.

“(a) IN GENERAL.—Except as provided in subsection (d), in an action for patent infringement under section 271 or an action for a declaratory judgement that a patent is invalid or not infringed, discovery shall be stayed if—

- “(1) the defendant moves to—
 - “(A) sever a claim or drop a party for misjoinder under Rule 21 of the Federal Rules of Civil Procedure;
 - “(B) transfer the action under section 1404(a) of title 28;
 - “(C) transfer or dismiss the action under section 1406(a) of title 28; or
 - “(D) dismiss the action pursuant to Federal Rule of Civil Procedure 12(b);

and

“(2) such motion is filed within 90 days after service of the complaint and includes a declaration or other evidence in support of the motion.

“(b) EXPIRATION OF STAY.—A stay entered under subsection (a) shall expire when all motions that are the basis for the stay are decided by the court.

“(c) PRIORITY OF DECISION.—In an action described in subsection (a), the court shall decide a motion to sever a claim or drop a party for misjoinder under Rule 21 of the Federal Rules of Civil Procedure, to transfer under section 1404(a) to title 28, to transfer or dismiss under 1406(a) of title 28, or to dismiss the action pursuant to Federal Rule of Civil Procedure 12(b) before the earlier of the date on which the court—

“(1) decides any other substantive motion, provided however that the court may decide a question of its own jurisdiction at any time; or

“(2) issues a scheduling order under Rule 16(b) of the Federal Rules of Civil Procedure.

“(d) EXCEPTION.—

“(1) DISCOVERY NECESSARY TO DECIDE MOTION.—Notwithstanding subsection (a), the court may allow such discovery as the court determines to be necessary to decide a motion to sever, drop a party, dismiss, or transfer.

“(2) COMPETITIVE HARM.—Subsections (a) and (c) shall not apply to an action in which the patentee is granted a preliminary injunction to prevent harm arising from the manufacture, use, sale, offer for sale, or importation of an allegedly

infringing product or process that competes with a product or process made, sold, or offered for sale by the patentee.

“(3) CONSENT OF THE PARTIES.—The patentee and an opposing party shall be excluded, in whole or in part, from the limitations of subsections (a) and (c) upon such parties’ filing with the court a signed stipulation agreeing to such exclusion.

“(4) FDA AND BIOLOGICAL PRODUCT APPLICATION.—Subsections (a) and (c) shall not apply to an action that includes a cause of action described under section 271(e)(2).”.

(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 281A, as added by subsection (a), the following new item:

“281B. Stay of discovery pending a preliminary motion.”.

(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) VENUE.—

(1) AMENDMENT.—Subsection (b) of section 1400 of title 28, United States Code, is amended to read as follows:

“(b) VENUE FOR ACTION RELATING TO PATENTS.—Notwithstanding subsections (b) and (c) of section 1391 of this title, any civil action for patent infringement or any action for a declaratory judgment that a patent is invalid or not infringed 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 an act of infringement of a patent in suit and has a regular and established physical facility that gives rise to the act of infringement;

“(3) where the defendant has agreed or consented to be sued in the instant action;

“(4) where an inventor named on the patent in suit conducted research or development that led to the application for the patent in suit;

“(5) where a party has a regular and established physical facility that such party controls and operates, not primarily for the purpose of creating venue, and has—

“(A) engaged in management of significant research and development of an invention claimed in a patent in suit prior to the effective filing date of the patent;

“(B) manufactured a tangible product that is alleged to embody an invention claimed in a patent in suit; or

“(C) implemented a manufacturing process for a tangible good in which the process is alleged to embody an invention claimed in a patent in suit;

or

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

(2) MANDAMUS RELIEF.—For the purpose of determining whether relief may issue under section 1651 of title 28, United States Code, a clearly and indis-

putably erroneous denial of a motion under section 1406(a) of such title to dismiss or transfer a case on the basis of section 1400(b) of such title shall be deemed to cause irreparable interim harm.

(3) **RETAILERS NOT ELIGIBLE FOR CUSTOMER STAY.**—If a defendant does not meet the definition of a retailer under section 296(a)(6) of title 35, United States Code, as added by section 5, solely because the defendant manufactures or causes the manufacture of the covered product or process in suit, the retail facilities of such defendant shall not constitute a regular and established physical facility for purposes of section 1400(b)(2) of title 28, United Code, as added by paragraph (1).

(4) **TELEWORKERS.**—The dwelling or residence of an employee or contractor of a defendant who works at such dwelling or residence shall not constitute a regular and established physical facility of the defendant for purposes of section 1400(b)(2) of title 28, United Code, as added by paragraph (1).

(h) **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).

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

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

“(G) For each patent identified under subparagraph (A), 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.

“(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) DEFINITIONS.—In this section:

“(1) COVERED CUSTOMER.—The term ‘covered customer’ means a retailer or end user that is accused of infringing a patent or patents in dispute based on—

“(A) the sale, or offer for sale, of a covered product or covered process without material modification of the product or process in a manner that is alleged to infringe a patent or patents in dispute; or

“(B) the use by such retailer, the retailer’s end user customer, or an end user of a covered product or covered process without material modification

of the product or process in a manner that is alleged to infringe a patent or patents in dispute.

“(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 covered process, or a relevant part thereof.

“(3) COVERED PROCESS.—The term ‘covered process’ means a process, method, or a relevant part thereof, that is alleged to infringe a patent or patents in dispute where such process, method, or relevant part thereof is implemented by an apparatus, material, system, software, or other instrumentality that is provided by the covered manufacturer.

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

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

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

“(5) END USER.—The term ‘end user’ includes an affiliate of an end user, but does not include an entity that manufactures or causes the manufacture of a covered product or covered process, or a relevant part thereof.

“(6) RETAILER.—The term ‘retailer’ means an entity that generates revenues predominately through the sale to the public of consumer goods or services, or an affiliate of such entity, but does not include an entity that manufactures or causes the manufacturer of a covered product or covered process, or a relevant part thereof.

“(b) STAY OF ACTION AGAINST CUSTOMER.—Except as provided in subsection (d), in any civil action in which a party asserts a claim for relief 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 covered process if the following requirements are met:

“(1) PARTY TO THE ACTION.—The covered manufacturer is a party to the action or to a separate action (in which a party asserts a claim for relief arising under any Act of Congress relating to patents) involving the same patent or patents related to the same covered product or covered process.

“(2) AGREEMENT TO BE BOUND BY ISSUES DETERMINED.—The covered customer agrees to be bound as to issues determined in an action described in paragraph (1) without a full and fair opportunity to separately litigate any such issue, but only as to those issues for which all other elements of the common law doctrine of issue preclusion are met.

“(3) DEADLINE TO FILE MOTION.—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 or paper in the action is served that specifically identifies the covered product or covered process as a basis for the covered customer’s alleged infringement of the patent and that specifically identifies how the covered product or covered process is alleged to infringe the patent; or

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

“(4) MANUFACTURER CONSENT IN CERTAIN CASES.—In a case in which the covered manufacturer has been made a party to the action on motion by the covered customer, the covered manufacturer and the covered customer consent in writing to the stay.

“(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 the suit against the covered customer (such as a covered product or covered process identified in the motion to lift the stay is not a material part of the claimed invention or inventions in the patent or patents in dispute); or

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

“(2) SEPARATE MANUFACTURER ACTION INVOLVED.—In the case of a stay entered under this section based on the participation of the covered manufacturer in a separate action described in subsection (b)(1), a motion under paragraph (1) may only be granted if the court in such separate action determines that the showing required under paragraph (1) has been made.

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

“(e) WAIVER OF ESTOPPEL EFFECT.—The court may, upon motion, determine that a consent judgment or an unappealed final order shall not be binding on the covered

customer with respect to one or more of the issues that gave rise to the stay based on a showing that such consent judgment or unappealed final order would unreasonably prejudice or be manifestly unjust to the covered customer in light of the circumstances of the case if, following the grant of a motion to stay under this section, the covered manufacturer described in subsection (b)(1)—

“(1) obtains or consents to entry of a consent judgment relating to such issue that gave rise to the stay; or

“(2) fails to prosecute to a final, non-appealable judgment such issue that gave rise to the stay.

“(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.”.

(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) **PILOT PROGRAM FOR RULES AND PROCEDURES ON DISCOVERY BURDENS AND COSTS AND CASE MANAGEMENT.**—

(1) **DEFINITIONS.**—In this subsection, the term “electronic communication” means any form of electronic communication, including email, text message, and instant message.

(2) **DEVELOPMENT OF RULES AND PROCEDURES.**—Not later than 3 months after the date of the enactment of this Act, the Director of the Administrative Office of the United States Courts shall designate not fewer than 6 of the district courts of the United States that are participating in the patent cases pilot program established under section 1 of Public Law 111–349 (28 U.S.C.137 note) to develop rules and procedures to implement the proposals described in paragraphs (3) through (5) to address the asymmetries in discovery burdens and costs, and to establish case management procedures, in any civil action arising under any Act of Congress relating to patents.

(3) **TYPES OF DISCOVERY RULES AND PROCEDURES TO BE CONSIDERED.**—The discovery rules and procedures required under paragraph (2) shall address each of the following:

(A) **DISCOVERY OF CORE DOCUMENTARY EVIDENCE.**—Whether and to what extent each party to the action is entitled to receive core documentary evidence and should 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 may seek non-core documentary discovery as otherwise provided in the Federal Rules of Civil Procedure.

(B) **ELECTRONIC COMMUNICATION.**—If the parties request discovery of electronic communication, how such discovery should be phased to occur relative to the exchange of initial disclosures and core documentary evidence, and appropriate limitations to apply to such discovery.

(C) **SCOPE OF DOCUMENTARY EVIDENCE.**—The kinds of evidence that should constitute “core documentary evidence”.

(4) **SPECIFIC DISCOVERY RULES AND PROCEDURES TO BE CONSIDERED FOR ADDITIONAL DOCUMENT DISCOVERY.**—The discovery rules and procedures required under paragraph (2) shall address whether the following provisions, or variations on the following provisions, should apply:

(A) **IN GENERAL.**—Whether each party to the action may seek any additional document discovery otherwise permitted under the Federal Rules of Civil Procedure beyond core documentary evidence, if such party bears the reasonable costs, including reasonable attorney’s fees, of the additional document discovery.

(B) **REQUIREMENTS FOR ADDITIONAL DOCUMENT DISCOVERY.**—Whether, 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.

(C) GOOD CAUSE MODIFICATION.—Whether a court, upon motion and for good cause shown, may modify the requirements of subparagraphs (A) and (B) and any definition of core documentary evidence.

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

(E) 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 described in subparagraphs (A) and (B) will be sought.

(iii) Any issues about infringement, invalidity, or damages that, if resolved before the additional document discovery described in subparagraphs (A) and (B) commences, might simplify or streamline the case.

(5) CASE MANAGEMENT RULES AND PROCEDURES TO BE CONSIDERED.—The rules and procedures required under paragraph (2) shall also address case management procedures for any civil action arising under any Act of Congress relating to patents, including initial disclosure and early case management conference practices that—

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

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

(b) IMPLEMENTATION OF RULES AND PROCEDURES.—Within 18 months after the designation by the Director of the Administrative Office of the 6 district courts to develop the rules and procedures pursuant to subsection (a), the 6 district courts shall complete the development of the rules and procedures, and begin to implement them.

(c) EXPANSION OF PILOT PROGRAM FOR RULES AND PROCEDURES ON DISCOVERY BURDENS AND COSTS AND CASE MANAGEMENT.—After the rules and procedures developed by the pilot program pursuant to subsection (a) have been in effect for at least 2 years, the Judicial Conference of the United States, using existing resources, may expand the application of some or all of those rules and procedures to be implemented by all the district courts, and the United States Court of Federal Claims, for any civil action arising under any Act of Congress relating to patents.

(d) 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.

(e) 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 licensee shall not be relieved of any of its obligations to maintain the quality of the products and services offered under or in connection with the licensed trademark, service mark, or trade name, and the trustee shall retain the right to oversee and enforce quality control for such products or services, or both.”.

(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.

(f) IN GENERAL.—Not later than 12 months after the date of the enactment of this Act, the Judicial Conference of the United States, with the assistance of the Director of the Federal Judicial Center and the Director of the Administrative Office of the United States Courts, shall prepare and transmit to the Committees on the Judiciary of the Senate and the House of Representatives a report on discovery proceedings in cases pertaining to litigation involving patent laws of the United States. The report shall contain, after looking at data compiled for the previous two years before the date of the enactment of this Act, the following:

(1) The percentage of courts that have distinct phases of discovery in the court rules.

(2) A description of at least two of the definitions of such phases.

(3) Identify by name any court that does not have such distinct phases and a description of why such courts have not implemented such phases.

(4) With regard to proceedings in courts that have phases, in the case of a discovery proceeding that extends beyond the core documents phase, a description of—

(A) what additional discovery was requested and any consistent pattern or trend in the reasons or justifications for the request;

(B) how much longer, on average, the proceedings lasted than those settled within the first phase; and

(C) any patterns for the courts that repeatedly have extended requests.

(5) Looking at proceedings in the courts that do not have phase rules, a description of—

(A) how long, on average, the discovery proceedings last; and

(B) the scope of the requests.

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 re-

quired 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) **REFORM OF PATENT TRIAL AND APPEAL BOARD PROCEEDINGS.**—

(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 a semicolon; and

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

“(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; and

“(15) providing that a review may not be instituted unless the petitioner certifies that the petitioner and the real parties in interest of the petitioner—

“(A) do not own and will not acquire a financial instrument (including a prepaid variable forward contract, equity swap, collar, or exchange fund) that is designed to hedge or offset any decrease in the market value of an equity security of the patent owner or an affiliate of the patent owner, during a period following the filing of the petition to be determined by the Director; and

“(B) have not demanded payment, monetary or otherwise, from the patent owner or an affiliate of the patent owner in exchange for a commitment not to file a petition under section 311 with respect to the patent that is the subject of the petition, unless the petitioner or the real party in interest of the petitioner has been sued for or charged with infringement of the patent, during a period to be determined by the Director.”.

(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 a semicolon; and

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

“(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; and

“(14) providing that a review may not be instituted unless the petitioner certifies that the petitioner and the real parties in interest of the petitioner—

“(A) do not own and will not acquire a financial instrument (including a prepaid variable forward contract, equity swap, collar, or exchange fund) that is designed to hedge or offset any decrease in the market value of an equity security of the patent owner or an affiliate of the patent owner, during a period following the filing of the petition to be determined by the Director; and

“(B) have not demanded payment, monetary or otherwise, from the patent owner or an affiliate of the patent owner in exchange for a commitment not to file a petition under section 311 with respect to the patent that is the subject of the petition, unless the petitioner or the real party in interest of the petitioner has been sued for or charged with infringement of the patent, during a period to be determined by the Director.”.

(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) DECLARATION EVIDENCE.—

(A) PRELIMINARY RESPONSE TO PETITION FOR INTER PARTES REVIEW.—Section 313 of title 35, United States Code, is amended by striking the period at the end and inserting “, including affidavits or declarations of supporting evidence and opinions.”.

(B) PRELIMINARY RESPONSE TO PETITION FOR POST-GRANT REVIEW.—Section 323 of title 35, United States Code, is amended by striking the period at the end and inserting “, including affidavits or declarations of supporting evidence and opinions.”.

(5) RIGHT OF DUE PROCESS.—

(A) INTER PARTES REVIEW.—Section 316(b) of title 35, United States Code, is amended by striking “and the ability” and inserting “the rights to due process of the patent owner and the petitioner, and the ability”.

(B) POST-GRANT REVIEW.—Section 326(b) of title 35, United States Code, is amended by striking “and the ability” and inserting “the rights to due process of the patent owner and the petitioner, and the ability”.

(6) SERIAL OR REDUNDANT PETITIONS.—The Director shall designate as precedential (and may change the designation as the Director determines to be appropriate), with respect to the application of subsections (d) and (e) of section 325 of title 35, United States Code, the decisions of the Patent Trial and Appeal Board in each of the following decisions:

(A) *Dell Inc. v. Electronics and Telecomms. Research Inst.*, IPR2015–00549, Paper 10 (PTAB Mar. 26, 2015).

(B) *Zimmer Holdings, Inc. v. Bonutti Skeletal Innovations LLC*, IPR2014–01080, Paper 17 (PTAB Oct. 31, 2014).

(C) *Prism Pharma Co., Ltd. v. Choongwae Pharma Corp.*, IPR2014–00315, Paper 14 (PTAB July 8, 2014).

(D) *Unilever, Inc. v. The Procter & Gamble Co.*, IPR2014–00506, Paper 17 (PTAB July 7, 2014).

(7) PRELIMINARY RESPONSE TO INTER PARTES REVIEW AMENDMENT.—

(A) AMENDMENT.—Section 313 of title 35, United States Code, is amended by adding at the end the following new sentence: “The Director may accept a reply by the petitioner to new issues raised in the preliminary response, upon request by the petitioner to file such reply, within a time period set by the Director.”

(B) CONFORMING AMENDMENTS.—Section 314 of title 35, United States Code, is amended—

(i) in subsection (a), by striking “any response” and inserting “any response or reply”; and

(ii) in subsection (b)—

(I) in paragraph (1), by striking “receiving a preliminary response to the petition” and inserting “receiving the later of a preliminary response to the petition or a reply to such preliminary response”; and

(II) by amending paragraph (2) to read as follows:

“(2) if—

“(A) no such preliminary response is filed, the last date on which such response may be filed; and

“(B) such preliminary response is filed and no such reply is requested, the last day on which such reply may be requested.”.

(8) EFFECTIVE DATE, REGULATIONS, AND TRANSITION FOR SHORT SALES.—

(A) EFFECTIVE DATE.—Sections 316(a)(15) and 326(a)(14) of title 35, United States Code, as added by paragraphs (1) and (2) shall take effect on the date of the enactment of this Act.

(B) REGULATIONS REQUIRED.—Not later than one year after the date of the enactment of this Act, the Director shall issue regulations to carry out sections 316(a)(15) and 326(a)(14) of title 35, United States Code, as added by paragraphs (1) and (2).

(C) TRANSITION.—During the period that begins on the date of the enactment of this Act and ends on the date of the issuance of the regulations required pursuant to subparagraph (B), a petition filed under chapter 31 or 32 of title 35, United States Code, on or after the date of the enactment of this Act may not be instituted unless the petitioner certifies that the petitioner and the real parties in interest of such petitioner—

(i) do not own a financial instrument described in sections 316(a)(15) and 326(a)(14) of title 35, United States Code, as added by paragraphs (1) and (2), during the one-week period following the date on which the petition is filed; and

- (ii) have not demanded anything of value from the patent owner or an affiliate of the patent owner during the period between September 16, 2012, and the date of the filing of the petition.
- (9) EFFECTIVE DATE.—Except as otherwise provided, 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.—
- (1) AMENDMENTS.—
- (A) CONDITIONS FOR PATENTABILITY; NOVELTY.—Section 102 of title 35, United States Code, is amended by inserting at the end the following new subsection:
- “(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 in the application on which the second patent 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 subsection unless—
- “(1) the second claimed invention is consonant 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 the second patent issues disclaiming the right to bring or maintain a civil action under section 281 to enforce the second patent, except that such disclaimer shall not apply if—
- “(A) the relief being sought in the civil 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 the first patent issues has recorded an election limiting the enforcement of the first patent relative to the second patent in the manner described in this paragraph, the owner of the first patent is a party to the civil action, or a separate action under section 281 to enforce the first patent can no longer be brought or maintained.”.
- (B) DIVISIONAL APPLICATIONS.—Section 121 of title 35, United States Code, is amended by striking the third sentence.
- (C) LIMITATIONS.—Paragraph (2) of section 154(b) of title 35, United States Code, is amended by inserting at the end the following new subparagraph:
- “(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 that extends beyond the expiration of such 17-year period years shall be void.”.
- (2) EFFECTIVE DATE, IMPLEMENTATION, AND OTHER TRANSITION PROVISIONS.—
- (A) IN GENERAL.—The amendments made by paragraph (1) 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).
- (B) SAVINGS CLAUSE.—If a second claimed invention in a second patent issued before the date of the enactment of this Act is subject to the amendments made by paragraph (1) and would not have been invalid had the amendments made by paragraph (1) and the provisions of this paragraph not been enacted, then, notwithstanding section 102(e) of title 35, United States Code, as added by paragraph (1), prior art under such section 102(e) may not be considered in determining the validity of such second claimed invention.
- (C) PROVISIONAL REJECTIONS TO CONTINUE.—If a first claimed invention in a first application for patent subject to the amendments under paragraph (1) would, if issued as a patent, constitute prior art under section 102(e) of title 35, United States Code, as added by paragraph (1), with respect to a second claimed invention in a second application, the first claimed invention may be provisionally cited by the Office as prior art in a notice under section 132 of title 35, United States Code, in connection with the examination of the second claimed invention.
- (D) PATENT TERM; RULE OF CONSTRUCTION.—

(i) IN GENERAL.—If the term of a patent is based upon the amendments made to subsection (a) of section 154, title 35, United States Code, by the Uruguay Round Agreements Act (Public Law 103–465; 108 Stat. 4809)—

(I) the patent term as provided under subsection (a) of such section 154, any adjustment to said term as provided under subsection (b) of such section 154, and any extension of such term as provided under section 156 of title 35, United States Code, shall not constitute, nor be deemed by the Office or the courts to constitute, an unjustified period of protection under the patent or an unjustified extension of the right to exclude under the patent relative to an earlier-expiring patent;

(II) the Office shall not condition the issuance of such a patent on a disclaimer of any portion of the term of the patent; and

(III) the Office may condition the issuance of such a patent on the making of an election as described in section 102(e)(2) of title 35, United States Code, as added by paragraph (1) in lieu of the filing of a disclaimer with respect to the ownership or separate enforcement of the patent that would otherwise be required by the Office in cases of non-statutory double patenting.

(ii) DISCLAIMERS IN PENDING APPLICATIONS.—A terminal disclaimer made in connection with an application for patent with respect to one or more other applications or patents shall be given no effect and shall be treated as having never been made if—

(I) within one year after the date of the enactment of this Act, an election as described in section 102(e)(2) of title 35, United States Code, as added by paragraph (1), has been made in connection with the application or any patent issuing thereon and has effect with respect to each such other application or patent with respect to which the disclaimer was made;

(II) the application was pending before the Office on or after July 1, 2015; and

(III) the term of a patent issued on the application would be based upon the amendments made to subsection (a) of section 154 of title 35, United States Code, by the Uruguay Round Agreements Act.

(iii) DISCLAIMERS OTHERWISE UNAFFECTED.—Except as provided in clause (ii), nothing in this subsection shall be construed to negate the effect of a terminal disclaimer limiting the enforcement of a patent issued on or before the date of the enactment of this Act.

(iv) TERMINAL DISCLAIMER DEFINED.—In this subparagraph, the term “terminal disclaimer” has the meaning as such term is described in section 1.321 of title 37, Code of Federal Regulations.

(E) EXCLUSIVE RULES.—

(i) FIRST-INVENTOR-TO-FILE PATENTS.—A claimed invention of a patent described in section 3(n)(1) of the Leahy-Smith America Invents Act (35 U.S.C. 100 note) and issued before, on, or after the date of the enactment of this Act may not be held invalid on any nonstatutory double-patenting ground.

(ii) FIRST-TO-INVENT PATENTS.—A claimed invention of a patent not described in section 3(n)(1) of the Leahy-Smith America Invents Act and issued before, on, or after the date of the enactment of this Act may not be held invalid with respect to a claimed invention of another patent based on any nonstatutory double patenting ground if one of the claimed inventions is prior art to the other claimed invention under section 102 of title 35, United States Code, as in effect on the day prior to the effective date of the amendments made by section 3(b)(1) of the Leahy-Smith America Invents Act.

(F) EFFECT OF RULE OF CONSTRUCTION AND EXCLUSIVE RULES.—Subparagraphs (D) and (E) shall take effect on the date of the enactment of this Act, except that they shall not apply to any defense raised in a civil action brought before such date.

(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).
- (3) PROCEEDING CONSOLIDATION CLARIFICATION.—Section 315(c) of title 35, United States Code, is amended to read as follows:
- “(c) JOINDER.—
- “(1) JOINDER OF PARTY.—If the Director institutes an inter partes review, the Director, in his or her discretion, may join as a party to that inter partes review any person who meets the requirement of properly filing a petition under section 311 that the Director, after receiving a preliminary response under section 313 or the expiration of the time for filing such a response, determines warrants the institution of an inter partes review under section 314.
- “(2) JOINDER OF LATER FILED PETITION.—For good cause shown, the Director may allow a party who files a petition that meets the requirement described in paragraph (1) and concerns the patent of a pending inter partes review to join the petition to the pending review.”.
- (e) CLARIFICATION OF JURISDICTION.—
- (1) IN GENERAL.—An action or claim arises under an Act of Congress relating to patents if such action or claim—
- (A) necessarily requires resolution of a disputed question as to the validity of a patent or the scope of a patent claim; or
- (B) is an action or claim for legal malpractice that arises from an attorney’s conduct in relation to an action or claim arising under an Act of Congress relating to patents (including as described in paragraph (1)).
- (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.
- (f) 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.
- (g) MANAGEMENT OF THE UNITED STATES PATENT AND TRADEMARK OFFICE.—
- (1) IN GENERAL.—Section 3(b)(1) of title 35, United States Code, is amended in the first sentence—
- (A) by striking “be vested with the authority to act in the capacity of the” and inserting “serve as Acting,”; and
- (B) by inserting before the period “or in the event of a vacancy in the office of the Director”.
- (2) EFFECTIVE DATE.—The amendments made by paragraph (1) shall take effect on the date of the enactment of this Act and shall apply with respect to appointments and vacancies occurring before, on, or after 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.—Section 32 of title 35, United States Code, is amended by striking the fourth sentence and inserting the following new sentences: “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 18 months after the date on which the Director of the Office of Enrollment and Discipline received a written grievance (as prescribed in the regulations established under section 2(b)(2)(D)) about a specified individual that describes the misconduct forming the basis for the proceeding. If the misconduct that forms the basis for the proceeding under this section is at issue in a court or administrative-agency proceeding, the 18-month period for commencing the proceeding under this section shall be tolled until the court or agency’s decision regarding the misconduct becomes final and non-appealable. The 18-month period for commencing a proceeding under this section also may be tolled by agreement between the parties.”

(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).

(9) GLOBAL WORKSHARING.—

(A) AMENDMENT.—Section 122 of title 35, United States Code, is amended by adding at the end the following new subsection:

“(f) FOREIGN OR INTERNATIONAL FILING.—

“(1) PROVISION OF INFORMATION.—The Director may provide information concerning an application for patent to a foreign or international intellectual property office if a corresponding application is filed with such foreign or international intellectual property office. If the corresponding application is an international application, such information may also be provided to an International

Searching Authority, an International Preliminary Examining Authority, or the International Bureau.

“(2) DEFINITIONS.—For purposes of this subsection, the terms ‘international application’, ‘International Searching Authority’, ‘International Preliminary Examining Authority’, and ‘International Bureau’ have the same meaning given those terms under section 351.”.

(B) CONFORMING AMENDMENT.—Section 122(a) of title 35, United States Code, is amended by striking “subsection (b)” and inserting “subsections (b) and (f)”.

(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 applications for patent that are pending on, or filed on or after, such effective date.

(10) JURISDICTION FOR APPEALS OF TRADEMARK CASES.—

(A) COURT OF APPEALS.—Section 1295(a)(4)(C) of title 28, United States Code, is amended by striking “title 35” and inserting “title 35 or section 21(b) of the Act of July 5, 1946 (commonly referred to as the ‘Trademark Act of 1946’) (15 U.S.C. 1071(b))”;

(B) CONFORMING AMENDMENT.—Section 39(a) of the Act of July 5, 1946 (commonly referred to as the “Trademark Act of 1946”) (15 U.S.C. 1121(a)) is amended by striking “under this Act” and inserting “under this Act (except as provided in section 1295(a)(4) of title 28, United States Code)”.

(C) EFFECTIVE DATE.—The amendment made by subparagraph (A) shall apply in any case in which a final judgment is entered by the district court on or after the date of enactment of this Act.

(11) OFFICERS AND EMPLOYEES AMENDMENT.—

(A) AMENDMENT.—Section 3(b)(3)(A) of title 35, United States Code, is amended by striking “appoint” and inserting “appoint, or nominate for appointment by the Secretary of Commerce,”.

(B) APPLICABILITY.—Section 3(b)(3)(B) of title 35, United States Code, as added by subparagraph (A) shall apply to all officers nominated for appointment by the Secretary of Commerce before, on, or after the date of the enactment of this Act.

(i) EXTENSION OF FEE-SETTING AUTHORITY.—Section 10(i)(2) of the Leahy-Smith America Invents Act (Public Law 112–29; 125 Stat. 319; 35 U.S.C. 41 note) is amended by striking “7-year” and inserting “17-year”.

SEC. 10. EFFECTIVE DATE.

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

Purpose and Summary

The Leahy-Smith America Invents Act (“AIA”), signed into law just over 3½ years ago, was a landmark Act that made fundamental changes to American patent law. Its principal provisions, such as its adoption of the first-inventor-to-file system of establishing a patent’s priority date, its simplified definition of prior art, and its creation of a limited prior user right, are reforms that were literally decades in the making. Other provisions, such as the AIA’s revision of existing administrative proceedings for post-issuance review of patents, and its creation of several new administrative proceedings, will ensure that such proceedings are efficient alternatives to civil litigation that are fair to both patent owners and accused infringers.

Despite the breadth and depth of the AIA’s reforms, however, it was apparent even before the Act was signed into law that further legislative work remained to be done. The harm inflicted on American innovation and manufacturing by various abusive patent-enforcement practices has been widely known and acknowledged for most of the last decade. Some of these problems clearly have grown worse even since the AIA’s enactment. What has been absent in the past, however, is a consensus among different American indus-

trial and technological sectors as to how to cure these abuses without undermining the patent system’s purpose of encouraging research and innovation.

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

Every member of this Committee wishes to see the patent system fulfill its constitutional mandate to “promote the progress of science and the useful arts.” As one industry leader noted during the hearings, the proper goal of reform legislation

is to ensure that the patent system fairly rewards those who contribute to our society through the invention and development of new and useful products and processes. A fair, efficient, and reliable patent system will continue to stimulate the investment in innovation that is necessary in today’s technologically complex world to create the new products and processes that will lead to better lives for Americans and the rest of the world. In addition, the best promise for preserving and enhancing our place in an increasingly competitive global marketplace will be to stimulate U.S. investment in research by universities and small and large companies.²

¹See *Abusive Patent Litigation: The Impact on American Innovation and Jobs, and Potential Solutions: Hearing Before the Subcomm. on Courts, Intellectual Property, and the Internet of the H. Comm. on the Judiciary*, 113th Cong. (2013) [hereinafter *March 2013 hearing*]; *Abusive Patent Litigation: The Issues Impacting American Competitiveness and Job Creation at the International Trade Commission and Beyond: Hearing Before the Subcomm. on Courts, Intellectual Property, and the Internet of the H. Comm. on the Judiciary*, 113th Cong. (2013) [hereinafter *April 2013 hearing*]; *H.R. 3309: Improving the Patent System to Promote American Innovation and Competitiveness: Hearing Before the H. Comm. on the Judiciary*, 113th Cong. (2013) [hereinafter *October 2013 hearing*]; *Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse: Hearing Before the S. Comm. on the Judiciary*, 113th Cong. (2013); *Examining Recent Supreme Court Cases in the Patent Arena: Hearing Before the Subcomm. on Courts, Intellectual Property, and the Internet of the H. Comm. on the Judiciary*, 114th Cong. (2015) [hereinafter *February 2015 hearing*]; *The Impact of Abusive Patent Litigation Practices on the American Economy: Hearing Before the S. Comm. on the Judiciary*, 114th Cong. (2015); *Patent Reform: Protecting American Innovators and Job Creators from Abusive Patent Litigation: Hearing Before the Subcomm. on Courts, Intellectual Property, and the Internet of the H. Comm. on the Judiciary*, 114th Cong. (2015) [hereinafter *March 2015 hearing*]; *H.R. 9, the “Innovation Act.” Hearing Before the H. Comm. on the Judiciary*, 114th Cong. (2015) [hereinafter *April 2015 hearing*]; *S. 1137, the “PATENT ACT:” Finding Effective Solutions to Address Abusive Patent Practices: Hearing Before the S. Comm. on the Judiciary*, 114th Cong. (2015) [hereinafter *May 2015 Senate hearing*].

²*March 2013 hearing* at 61 (Statement of Philip S. Johnson, Chief Intellectual Property Counsel, Johnson & Johnson, on behalf of the 21st Century Coalition for Patent Reform); see also *April 2015 hearing*, Statement of the Honorable Michelle K. Lee, Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office [hereinafter *Director Lee’s testimony*], at *3 (“[A]ny 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.”) Because the record of the April 14, 2015 hearing has not been published as of the filing of this report, citations to the testimony in that record are to

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

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

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

Background and Need for the Legislation

Testimony before Senate and House Committees has established that misuse of various patent-enforcement mechanisms is a serious problem—and one that has grown worse in recent years. One witness described how the cost of patent litigation—driven by its technical nature and complexity—can lead to settlements driven by the economics of litigation rather than the merits of the case. He noted the “common complaint” that in patent litigation,

too many specious claims or defenses are filed solely for the purpose of forcing an unjust settlement, typically at a cost that is less than the cost of successfully completing the litigation. While this type of abuse no doubt exists in other types of litigation, it may be more effective in patent litigation, where the subject matter is complex, extensive document discovery is available, a large number of poten-

the material as submitted, rather than to the pages of the GPO print, and are identified by asterisks. Director Lee's responses to questions posed by members during the hearing are cited according to the time at which they were made during the webcast of the hearing. The webcast is available at <http://judiciary.house.gov/index.cfm/2015/4/hearing-hr-9-innovation-act>.

³*Id.*; see also *February 2015 hearing* at 55 (Statement of Robert P. Taylor, on behalf of National Venture Capital Association) (“For thousands of . . . companies, . . . patents are the only way to insure a return on investment sufficient to justify the risks involved.”); *March 2013 hearing* at 81 (Statement of Dana Rao, Vice President of Intellectual Property and Litigation, Adobe Systems) (“the patent system gives us the freedom to invest in R&D, knowing that our key differentiating innovations can be protected and that the patent system will be there to help us earn a return on that investment.”).

tial witnesses may be deposed, and expert testimony is a practical necessity. Coupled with the difficulty in patent cases of distinguishing specious from meritorious claims and defenses, many parties choose to settle rather than litigate to a final conclusion.⁴

Another witness described how improper patent litigation tactics can negatively affect both accused infringers and patent owners:

I have 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.

. . . 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 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.⁵

This witness concluded by noting that “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.”⁶

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

Growing and systematic abuse has led to increasing waste, inefficiency, and unfairness. The historical trend of litigation illustrates the problem well. . . . [F]rom 1995, when Yahoo was founded, through 2006, Yahoo had between two to four defensive patent cases on its active docket at any given time. In stark contrast, since the beginning of 2007, Yahoo has had between 20 to 25 cases on its active docket at any given time. That is a tenfold increase in patent litigation.⁷

⁴March 2013 hearing at 64 (Statement of Philip S. Johnson, Chief Intellectual Property Counsel, Johnson & Johnson, on behalf of the 21st Century Coalition for Patent Reform).

⁵April 2015 hearing, Statement of Robert A. Armitage, Former General Counsel, Eli Lilly & Co., at *4.

⁶*Id.*

⁷October 2013 hearing at 27 (Statement of Kevin Kramer, Vice President and Deputy General Counsel for Intellectual Property, Yahoo! Inc.); see also *id.* at 28 (“Along with the increase in numbers, Yahoo has seen a decrease in the substantive merits of the cases filed against it.”).

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

When I joined the company 4 years ago, JCPenney had no patent cases. Over the last 4 years, the company has had to defend or settle over two dozen patent infringement lawsuits that have nothing to do with the products JCPenney actually sells. . . . [T]his number does not include those claims that are settled upon receipt of demand letters.⁸

The fact that a representative of a major retailer testified before a congressional Committee about patent-litigation abuses is illustrative of another recent phenomenon: problems with the patent-enforcement system have reached beyond the industrial sectors that are directly involved in technological innovation. Increasingly, patent lawsuits have affected businesses that one ordinarily would not expect to be involved with the patent system. Concerns about abusive litigation practices have been expressed to this Committee by constituencies as diverse as the National Retail Federation,⁹ the Food Marketing Institute (which conducts programs on food safety for food retailers and wholesalers),¹⁰ the National Association of Realtors,¹¹ and the American Bankers Association.¹²

During her recent testimony before the Committee, USPTO Director Michelle Lee confirmed the existence of problems with the current patent-enforcement system:

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.¹³

Other witnesses who appeared before the Committee also described how recent trends in patent litigation have negatively affected small businesses:

In response to the wave of patent troll cases, we have changed our business practices. [F]or example, in the past, . . . we might have considered licensing technology from a small inventor, . . . [a] few guys in a garage who are putting together a very exciting idea about tech-

⁸ *March 2013 hearing* at 39 (statement of Janet L. Dhillon, Executive Vice President, General Counsel and Corporate Secretary, J.C. Penney).

⁹ *Id.* at 122 (“In recent years, over 200 retailers have contacted NRF about this issue because they have been, or are currently, the target of patent trolls’ abusive practices.”).

¹⁰ *Id.* at 163.

¹¹ *March 2013 hearing* at 160.

¹² *Id.* at 220–221.

¹³ *Director Lee’s testimony* at *2; see also *id.* at 2:21:05 (colloquy with Ms. DelBene).

nology. . . . [But now,] we are taking a second look at that. . . . [W]e [often] do not license that technology because we are concerned that that young inventor, that startup, may not have the wherewithal to defend and indemnify us in a patent troll case. And I think that that is a very unfortunate thing for innovation in general.¹⁴

Similarly, other witnesses have noted that “[c]ompanies that make \$10 million or less in revenue are the majority of unique defendants”—and that “[s]tartups are particularly vulnerable. Although startups are a crucial source of new jobs, [patent-troll] demands have impacted their ability to hire and meet other milestones, caused them to change their products, and shut down lines of business.”¹⁵

Director Lee also addressed the argument made by some opponents of the Innovation Act that recent events have obviated the need for legislative reform. Director Lee acknowledged that “[s]ince December 2013, when the House of Representatives passed the Innovation Act, H.R. 3309, . . . there have been a number of changes to the patent landscape.”¹⁶ She described actions undertaken by the USPTO, the courts, and others, but went on to note:

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 not address all currently outstanding problems—some of which have become more apparent since the AIA’s enactment.¹⁷

Director Lee concluded that “the USPTO believes that legislation to curtail abusive patent litigation is necessary and appropriate at this time.”¹⁸

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

Absent resolution, the concerns over the existing patent litigation rules and procedures—producing litigation consequences that often bedevil both plaintiffs and defendants

¹⁴ *March 2013 hearing* at 140–141 (statement of Janet L. Dhillon, Executive Vice President, General Counsel and Corporate Secretary, jcpenny); *see also April 2013 hearing* at 46 (Statement of Colleen V. Chien, Assistant Professor, Santa Clara University Law School) (“Allowing suits against customers as we currently do puts small suppliers in a difficult position— . . . they make small suppliers unattractive, because of their inability to indemnify large companies.”).

¹⁵ *April 2013 hearing* at 42 (Statement of Colleen V. Chien, Assistant Professor, Santa Clara University Law School); *see also February 2015 hearing* at 30, 32 (Statement of Krish Gupta, Senior Vice President and Deputy General Counsel, EMC Corporation).

¹⁶ *Director Lee’s testimony* at *2.

¹⁷ *Id.* at *2–3.

¹⁸ *Id.* at *3.

alike—seem certain to doom the broad public support for the patent system.¹⁹

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

I. PATENT INFRINGEMENT ACTIONS

1. *Attorney’s Fees*

Witnesses who appeared before the Committee have repeatedly described how the high cost of mounting a defense to a complaint of patent infringement can force a defendant to settle the case and pay the plaintiff—even when the defendant has good reason to believe that it would have prevailed at trial on a defense of non-infringement or invalidity. Witnesses also predicted that allowing more liberal shifting of attorney’s fees against losing parties would reduce the frequency of such nuisance settlements, and would allow more defendants to challenge patents that are invalid or that have been asserted beyond what their claims reasonably allow. As one witness stated at a March 14, 2013 hearing:

Given that it costs \$5 million to defend [against] a patent through trial, and the average settlement demand is less than \$1 million, the [patent-assertion entities] have an economic advantage over the targeted defendants. If, however, the PAEs faced the real possibility that the \$5 million would be shifted to them if they were unsuccessful, I believe they would think twice about bringing lawsuits based on meritless patents. And it would just take one defendant out of the hundreds of targets to challenge them to take the profit out of the aggressive litigation model.²⁰

Witnesses also urged that any new fee-shifting standard be applied evenhandedly to plaintiffs and defendants, and recommended that the law not attempt to discriminate among patent business models. As one witness noted, “non-meritorious litigation positions are no more acceptable coming in the form of specious infringement defenses or counterclaims pled by an accused infringer, and no

¹⁹*October 2013 hearing* at 61 (Statement of Robert A. Armitage, Former General Counsel, Eli Lilly & Co.).

²⁰*March 2013 hearing* at 89 (Statement of Dana Rao, Vice President of Intellectual Property and Litigation, Adobe Systems); *see also October 2013 hearing* at 31 (Statement of Kevin Kramer, Vice President and Deputy General Counsel for Intellectual Property, Yahoo! Inc.) (“Without that threat of fees, there is no disincentive for plaintiffs to file weak cases or, worse yet, bring weak cases to trial. Congress’s providing clarity as to when courts should shift fees will force patent plaintiffs to act more responsibly during litigation and when contemplating whether to file suit at all.”); *March 2013 hearing* at 105 (Statement of John Boswell, Senior Vice President and General Counsel, SAS) (“If Congress did something to [expand the availability of fee awards], then we would have less incentive to settle. We would be inclined to take the cases until you got a decision. As soon as you do that, the entire business model of the patent trolls changes, because they use early settlements to fund litigation. And as soon as people stop settling, the whole paradigm shifts.”); *April 2015 hearing*, Statement of Robert A. Armitage, Former General Counsel, Eli Lilly & Co., at *5 (“[Default fee shifting] 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.”); *id.* at *4 (“[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.”).

more acceptable coming from a patent owner that practices its patent than from a non-practicing entity.”²¹

Another industry witness has urged the Committee to adopt a clear standard for fee awards, rather than leaving such matters to the whim of district judges. He noted that “patent trolls file cases in jurisdictions where judges are disinclined to award attorney fees. Providing greater discretion to judges who are not using the discretion they currently have does not seem to be particularly helpful.”²²

One leading industry coalition urged the Committee to enact a rule that shifts fees and costs to the losing party unless its litigation position was “substantially justified” or special circumstances would make a fee award unjust.²³ This is the standard that is employed by the Equal Access to Justice Act,²⁴ which has been applied since 1980 to allow awards of attorney’s fees against the Federal Government.

Finally, the Committee is pleased to note that USPTO Director Michelle Lee testified at the April 14 hearing that “[t]he USPTO generally supports the approach taken in § 3(b) of H.R. 9.”²⁵ As Director Lee noted:

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.²⁶

²¹*April 2013 hearing* at 14 (Statement of Kevin H. Rhodes, Vice President and Chief Intellectual Property Counsel of 3M Company); *see also March 2013 hearing* at 74 (Statement of Philip S. Johnson, Chief Intellectual Property Counsel, Johnson & Johnson, on behalf of the 21st Century Coalition for Patent Reform) (“abusive litigation behavior should be targeted regardless of the party that engages in it. With respect to patent owners, there is no basis to single out [non-practicing entities] for special treatment as opposed to patent owners who practice their inventions—if either type of patent owner takes an unjustified litigation position, fee shifting is warranted.”).

²²*March 2013 hearing* at 241 (Answer of John G. Boswell, Senior Vice President, Chief Legal Officer, and Corporate Secretary, SAS, to Questions for the Record from Ranking Member Melvin Watt). Such concerns militate against adoption of the standard employed by the Copyright Act, which one Court of Appeals has interpreted to provide that “[a] district court has discretion to decline to award attorney’s fees even when the plaintiff’s copyright infringement case is quite weak.” *Airframe Sys., Inc. v. L-3 Commc’ns*, 658 F.3d 100, 109 (1st Cir. 2011).

²³*March 2013 hearing* at 74 (Statement of Philip S. Johnson, Chief Intellectual Property Counsel, Johnson & Johnson, on behalf of the 21st Century Coalition for Patent Reform) (“[S]ince 2006, the 21st Century Coalition has supported amending 35 U.S.C § 285 to require fee awards to prevailing parties, unless the court makes a finding that the losing party’s position was ‘substantially justified’ or that ‘special circumstances’ make the fee award ‘unjust.’ Similar language to amend 35 U.S.C § 285 was proposed first in the Patent Reform Act of 2006, S. 3818, 109th Cong., 2d Sess. (introduced August 3, 2006).”); *see also April 2015 hearing*, Statement of Hans Sauer, Ph.D., Deputy General Counsel for Intellectual Property, Biotechnology Industry Organization, at *9–10.

²⁴28 U.S.C. sec. 2412(d).

²⁵*Director Lee’s testimony* at *3.

²⁶*Id.* The Committee is aware that legislation that was introduced in the Senate recently includes a provision that is similar to § 3(b), but that would award fees on the basis of whether the losing party’s conduct was “objectively reasonable.” *See* S. 1137, 114th Cong., § 7(b). The Committee perceives no reason to adopt this approach, given that there is no substantive difference between “objectively reasonable” and the standard imposed by EAJA. *See Pierce v. Underwood*, 487 U.S. 552, 565 (1988) (holding that a litigation position is substantially justified if it “justified to a degree that could satisfy a reasonable person”) (citation omitted); *Aqua Shield v. Inter Pool Cover Team*, 774 F.3d 766, 774 (Fed. Cir. 2014) (holding that litigation positions are “objectively unreasonable” if “no reasonable litigant could realistically expect them to succeed”) (citation omitted).

Director Lee noted that § 3(b)'s test "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)."²⁷ These 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."²⁸

Director Lee emphasized that:

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 *after* 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.²⁹

Director Lee concluded by noting that "[t]he USPTO . . . 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

²⁷ Director Lee's testimony at *3.

²⁸ Director Lee's testimony at *3; see, e.g., *Home Gambling Network, Inc. v. Piche*, No. 2:05-CV-610-DAE (D. Nev. May 22, 2014) (patentee's legal theory was clearly precluded by controlling law and his theory of infringement was based on claim scope that was clearly disclaimed during prosecution); *Lumen View Tech., LLC v. Findthebest.com, Inc.*, No. 13 CIV. 3599 (DLC) (S.D.N.Y. May 30, 2014) (even under patentee's claim construction, no reasonable defendant would have found infringement); *Kilopass Tech. Inc. v. Sidense Corp.*, No. 3:10-cv-02066-SI (N.D. Cal. Aug. 12, 2014) (patentee's doctrine-of-equivalents theory was not supported by pre-suit investigation and lacked a reasonable basis); *LendingTree, LLC v. Zillow, Inc.*, No. 3:10-cv-00439-FDW-DCK (W.D.N.C. Oct. 9, 2014) ("The Court cannot help but construe LendingTree's pursuit of this case against NexTag after producing and reviewing the electronic discovery and witness testimony as an indication of at least a moderate level of unreasonableness."); *IPVX Patent Holdings, Inc. v. Voxernet LLC*, Case No. 5:13-cv-01708 HRL (N.D. Cal. Nov. 5, 2014) ("It was unreasonable of IPVX to assert literal infringement without comparing the elements of the claim to the accused product in more than a wholly conclusory fashion."); *Bayer CropScience AG et al., v. Dow AgroSciences LLC*, Civil No. 12-256 (RMB/JS) (D. Del. Jan. 5, 2015) (patentee's suit was precluded by a license that was susceptible to only one reasonable interpretation); *Lugus IP, LLC v. Volvo Car Corp.*, Civil Action No. 12-2906 (JEL/JS) (D.N.J. March 26, 2015) (patentee's case was objectively unreasonable because "the prosecution history of the patent . . . specifically distinguished [the patentee's] product from prior art . . . [that was] similar to Defendant's product"); *Brilliant Optical Solutions, LLC v. Comcast Corp.*, Civil Action No. 13-cv-00886-REB (D. Colo. March 27, 2015) ("A careful reading of [the] agreement demonstrates that Comcast had a license to use the covered device. . . . Prosecution of an infringement claim in the fact of such a license is objectively unreasonable."); *Cognex Corp. v. Microscan Sys., Inc.*, No. 13-cv-2027 (JSR) (S.D.N.Y. June 30, 2014) (defenses offered were particularly weak and lacked support in the evidence, and defendant engaged in unreasonable litigation tactics).

²⁹ *Id.*; see also *February 2015 hearing* at 13 (Statement of Herbert C. Wamsley, Executive Director, Intellectual Property Owners Association) ("[Despite *Octane* and *Highmark*,] we conclude that legislation is still needed. The existing statute still requires a case to be 'exceptional' for an attorney fee award. *Octane* fails to provide a clear, objective test for lower courts to apply. . . . Some judges will not be inclined to award fees despite this lower standard."); *id.* at 39 (Statement of Dana Rao, Vice President of Intellectual Property and Litigation, Adobe Systems) ("[Under *Octane*], much is left to the discretion of district courts—discretion that is exercised very differently by different judges.").

and defendants because it would encourage each side to prepare and analyze their cases responsibly.”³⁰

2. Heightened Pleading Standards

An industry witness described the burdens placed on patent-infringement defendants by vague, uninformative complaints:

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.³¹

The same witness cited as an example a recent patent complaint that had been filed against 132 different defendants and that broadly alleges 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.” The witness noted:

[T]he 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 know 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.³²

³⁰*Director Lee’s testimony* at *4; *see also id.* at 2:23:15 (colloquy with Mr. Gohmert) (noting that fault-based fee shifting will lead to “heightened discipline” among the attorneys litigating patent cases).

³¹*April 2015 hearing*, Statement of David M. Simon, Senior Vice President of Intellectual Property, Salesforce.com, Inc., at *3; *see also id.*, Statement of Kevin Kramer, Vice President and Deputy General Counsel for Intellectual Property, Yahoo! Inc., at *5; *October 2013 hearing* at 32–33 (Statement of Kevin Kramer, Vice President and Deputy General Counsel for Intellectual Property, Yahoo! Inc.); *March 2015 hearing* at 14 (Statement of Mark Griffin, General Counsel, Overstock.com, Inc.) (“Currently, courts do not require that a patent holder explain how a patent is infringed, or even identify the product involved, which makes it nearly impossible for someone who has been sued to evaluate the case and decide how to respond.”).

³²*April 2015 hearing*, Statement of David M. Simon, Senior Vice President of Intellectual Property, Salesforce.com, Inc., at *3.

The witness concluded by stating that “[s]uch clear absence of notice pleading is to my knowledge not tolerated in any other area of the law.”³³

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

While current law does not require the disclosure of infringement theories in a plaintiff’s complaint, Rule 11 does require that the plaintiff have conducted due diligence and arrived at a tenable, good-faith theory of infringement before filing suit. The bill’s heightened pleading requirement, therefore, imposes no new burden on diligent plaintiffs; they merely need to disclose the results of their required analysis. But [proposed §281A] will have a real effect on those plaintiffs who are not as diligent, barring them at the outset from filing suit where they have conducted no proper due diligence and ensuring that the plaintiff has in fact conducted an analysis, and that the plaintiff has a real basis for filing suit.³⁴

Another witness described the expected “salutary effects” of proposed §281A’s heightened pleading standards:

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 [abusive] 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

³³*Id.* The Committee is aware that some have questioned Congress’s authority to prescribe pleading standards and other aspects of Federal judicial procedure. The Committee notes, however, that “[f]rom almost the founding days of this country, it has been firmly established that Congress, acting pursuant to its authority to make all laws ‘necessary and proper’ to the[] establishment [of the lower Federal courts], also may enact laws regulating the conduct of those courts and the means by which their judgments are enforced.” *Willy v. Coastal Corp.*, 503 U.S. 131, 136 (1992); see also *Sibbach v. Wilson & Co.*, 312 U.S. 1, 9 (1941) (“Congress has undoubted power to regulate the practice and procedure of Federal courts . . .”); Paul Taylor, *Congress’s Power to Regulate the Federal Judiciary: What the First Congress and the First Federal Courts Can Teach Today’s Congress and Courts*, 37 *Pepp. L. Rev.* 847 (2010).

³⁴*October 2013 hearing* at 20 (Statement of Krish Gupta, Senior Vice President and Deputy General Counsel, EMC Corporation); see also *April 2015 hearing*, Statement of David M. Simon, Senior Vice President of Intellectual Property, Salesforce.com, Inc., at *4 (“[S]ection 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.”).

could be years later. This benefits both large and small defendants.³⁵

The Committee is mindful that some witnesses, though generally supportive of § 3(a)'s heightened pleading requirements, have noted that different claims in a patent may be substantially similar, and have questioned the utility of requiring heightened pleading of all such claims that infringe only the same accused products and processes.³⁶ These concerns have been addressed in an amendment that was adopted during the Committee's executive session.

3. Joinder of Interested Parties

A witness testifying before the Committee described how abusive litigants' ability to operate through limited-liability entities could undermine the effectiveness of the Innovation Act's fee-shifting provisions. He noted that such litigants often operate through a shell corporation whose only asset is the patent that was asserted—and if an award has been made against that litigant under § 285, “that sole asset [necessarily] has . . . been established to either not be infringed or to be invalid.”³⁷ As a result, an award of attorney's fees “is truly a pyrrhic victory” for the prevailing party.³⁸ The witness went on to note that § 3(c) of the Innovation Act:

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 attorney's 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.³⁹

³⁵April 2015 hearing, Statement of David M. Simon, Senior Vice President of Intellectual Property, Salesforce.com, Inc., at *4; see also *Director Lee's testimony* at *4 (“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.”).

³⁶See, e.g., *Director Lee's testimony* at *4 (“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.”); *id.* at 1:07:50 (colloquy with Mr. Nadler) (noting that in cases “with multiple patents, . . . sometimes there are tens or hundreds of claims. That would be a voluminous complaint if you are going element by element.”); April 2015 hearing, Statement of Hans Sauer, Ph.D., Deputy General Counsel for Intellectual Property, Biotechnology Industry Organization, at *8–9 (“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.”); *id.*, Statement of Robert A. Armitage, Former General Counsel, Eli Lilly & Co., at *11.

³⁷April 2015 hearing, Statement of David M. Simon, Senior Vice President of Intellectual Property, Salesforce.com, Inc., at *5.

³⁸*Id.*

³⁹*Id.*

Section 3(c) of the Innovation Act provides courts with a limited ability to pierce the corporate veil and assign liability for attorney’s-fee awards to financiers who seek to profit from abusive patent litigation. The Committee acknowledges that the provision has been the subject of criticism. Some have suggested that it would apply to start-up companies, and thus would deter investment in such companies.⁴⁰ Others have suggested that the provision would also assign personal liability to the employees of a start-up company.⁴¹ And it has been proposed that the provision be clarified to more clearly protect passive investors in an enterprise.⁴² It is not the intent of the Committee to allow proposed § 299(d) to operate against start-up companies, or to ever extend personal liability to bona fide employees or passive investors in or lenders to an enterprise. Section 3(c) has been clarified in the Committee’s executive session to address these and other concerns, and to ensure that the provision does not deter investment in small technology companies.

4. Venue

During the Committee’s April 14 hearing, several witnesses recommended that the Committee consider proposals to stay discovery in patent cases during the pendency of a motion to transfer venue, and suggested that current law’s restrictions on venue for patent cases be clarified. In response to a question from Mr. Farenthold, USPTO Director Michelle Lee stated that staying discovery pending a motion to transfer venue:

[Is] an idea worthy of consideration. . . . A motion to transfer occurs early in a patent case. Often, it doesn’t take long for a judge to rule on it. And it doesn’t involve extensive discovery [on the merits of the case]. . . . [Instead, the issue will be] where is the [defendant’s] prin-

⁴⁰ See *Director Lee’s testimony* at *7 (“Overriding [the limited liability of corporate employees and shareholders] may serve as a substantial deterrent to investment in new enterprises and potentially job creation, particularly in 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.”); *April 2015 hearing*, Statement of Hans Sauer, Ph.D., Deputy General Counsel for Intellectual Property, Biotechnology Industry Organization, at *13 (asserting that proposed § 299(d) limitations “do[] 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.”); *id.* at *14 (“the joinder provisions . . . have the potential for significant negative business impact on investment-intensive innovation, especially for smaller companies and non-profit and academic innovators.”); *March 2015 hearing* at 38 (Statement of Bryan Pate, Co-Founder and CEO, ElliptiGO, Inc.) (“It’s one thing to lose \$50,000 in an investment. It’s another thing to be on the hook personally for over a million dollars in legal fees. That’s a huge shift in the risk profile of an already risky investment. There are many safer places to put that money and I doubt we would have landed our initial investors under those conditions.”).

⁴¹ *March 2015 hearing* at 38 (Statement of Bryan Pate, Co-Founder and CEO, ElliptiGO, Inc.) (“[O]ne of the first employees we hired had recently earned her MBA from Stanford’s Graduate School of Business. She could have worked for any number of great companies. If she knew that one of the many risks of working for ElliptiGO included the potential loss of her house from a failed patent enforcement action, I doubt she would have come onboard.”).

⁴² *Director Lee’s testimony* at *7 (“[T]o help ensure that the prospect of joinder does not chill investment in new companies, § 3(c) should include . . . [a] 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.”); *id.* at 1:03:02 (colloquy with Mr. Goodlatte), 1:23:05 (colloquy with Mr. Conyers), 2:15:50 (colloquy with Mr. Deutch); *April 2015 hearing*, Statement of Hans Sauer, Ph.D., Deputy General Counsel for Intellectual Property, Biotechnology Industry Organization, at *14 (“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. . . . 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.”).

incipal place of business, do [the parties] have an R&D center [in the district], do they have ties to the area? Staying discovery pending a motion to transfer venue, in combination with [tighter] venue restrictions, . . . will improve the system.⁴³

A leading industry witness also noted that the non-enforcement of current law’s venue restrictions allows litigants to file a large number of cases in particular districts, thereby “plac[ing] undue burdens on those courts” and the residents of those districts.⁴⁴ Another witness noted that:

[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.⁴⁵

The Committee notes that existing statutory provisions *already* restrict the venue where a patent-infringement action may be brought. Indeed, such statutory limits have been in place since 1897. These limits were designed to protect parties from the burden and inconvenience of litigating patent actions in districts that are remote from any of the underlying events in the case. The 1897 Act is now codified at § 1400(b) of title 28—it has never been repealed. In 1990, however, the U.S. Court of Appeals for the Federal Circuit “reinterpreted” the statute in a way that robbed it of all effect. In its infamous decision in *VE Holding Corp. v. Johnson Gas Appliance Co.*,⁴⁶ the court construed § 1400 to allow venue for a corporate defendant wherever personal jurisdiction is proper. In effect, the Federal Circuit collapsed the tests for personal jurisdiction and venue, rendering § 1400 a nullity. It is long past time for Congress to restore § 1400 to its role of protecting patent owners and accused infringers from the burden of being forced to litigate in remote locations, and ensuring that patent lawsuits do not unfairly burden particular courts. Congress must correct the Federal Circuit’s mistake, and clarify that patent lawsuits may only be brought in districts with some reasonable connection to the dispute.

II. TRANSPARENCY OF PATENT OWNERSHIP

A Committee witness catalogued the reasons why the patent law should require greater disclosure as to who owns or has a financial interest in a patent. The witness explained that greater transparency would allow a party seeking to practice a technology to more readily and completely determine whether other patents also

⁴³ *Director Lee’s testimony*, at 1:47:55; *see also id.* at 1:04:56 (colloquy with Mr. Goodlatte); *id.* at 2:28:27 (colloquy with Mr. Jeffries); *id.* at 2:33:55 (colloquy with Mr. Cicilline) (“[T]ightening venue requirements, . . . in combination with a stay of discovery pending a ruling on a motion to transfer, would encourage judges to rule quickly and promptly [on the motion and] get the litigation in the proper district.”).

⁴⁴ *April 2015 hearing*, Statement of David M. Simon, Senior Vice President of Intellectual Property, Salesforce.com, Inc., at *11.

⁴⁵ *April 2015 hearing*, Statement of Robert A. Armitage, Former General Counsel, Eli Lilly & Co., at *8–10.

⁴⁶ 917 F.2d 1574 (Fed. Cir. 1990).

need to be evaluated and possibly licensed, and noted that such ownership information would aid in identifying relevant prior art:

There are many costs associated with an incomplete ownership record, as well as benefits associated with a complete ownership record. First, the lack of transparency throughout the life of the patent hinders the public's ability to accurately assess the risk of entering into a new technology market and increases the cost of performing patent clearance analyses. Second, parties may not necessarily achieve a meaningful "patent peace" in settlements or licenses because they have no way of double-checking the true extent of the other party's patent holdings, and therefore might not negotiate a broad enough license to foreclose future conflicts. Third, a similar double-checking problem may occur in the context of standard setting, where some entities may try to hide standard-essential patents. Fourth, a complete ownership record would benefit the USPTO by providing examiners with another tool to search for prior art, and to make accurate prior art determinations in the context of the [common-ownership] exceptions. Finally, having a complete ownership record would facilitate the use of post-grant proceedings at the USPTO by giving potential petitioners more information to assess the benefits or risks of filing petitions and to locate the most relevant prior art (which is crucial because of the estoppel provisions of these proceedings).⁴⁷

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

[T]he large patent aggregation entities are typically holding the patents in other names or shell companies, because they don't want to draw attention to the size of their portfolio. . . . [T]hey also want to ensure that . . . declaratory judgment actions and reexamination proceedings [are not] initiated against them.⁴⁸

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

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

⁴⁷ *March 2013 hearing* at 98 (Statement of Dana Rao, Vice President of Intellectual Property and Litigation, Adobe Systems); *see also id.* at 99 ("as defendants, we should know who is getting the ultimate economic benefit from the patents that are being asserted against us.")

⁴⁸ *Id.*

[O]ur experience plays a role in our viewpoint on this issue. In several cases, settlement has been complicated by the “investors” or “partners” that had a financial interest in a litigation. . . . This often comes to light during mediation or settlement talks when a plaintiff reveals that it cannot accept a lower offer because it would not satisfy unnamed investors in the endeavor. Transparency into the ownership stakes in a patent or in the plaintiff would help to avoid these issues and help to ensure that the parties at the bargaining table are the ones with the power and authority to settle the litigation.⁴⁹

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

[A] patent is a government grant. Like real property or any other government grant, it is reasonable to expect that the government’s records disclose who owns that right. If anything, the expectation [of transparency] should be greater in patent cases given the ability to enforce that right through litigation and the strict liability for infringement.⁵⁰

III. THE CUSTOMER-SUIT EXCEPTION

A leading industry witness described the phenomenon of patent infringement suits that are filed against the customer who uses an allegedly infringing product, rather than against the manufacturer who made the product. The witness noted the potentially coercive nature of such suits—and their potential to overcompensate the plaintiff:

A patent litigation practice that has been sharply criticized is the institution of suits against large numbers of assemblers, distributors, or retailers rather than the original manufacturer or provider of the component or product alleged to infringe. This tactic takes advantage of the fact that such suits threaten defendants with the disruption of aspects of their businesses that are at best tangentially related to the invention which is the subject of the patent, and that each individual defendant has less motivation to litigate the issue to final conclusion than the manufacturer of the product at issue. The result can be to collect enormous sums as the result of a very large number of small settlements whose cumulative value far exceeds the amount that could have been recovered from the original manufacturer.⁵¹

⁴⁹ *October 2013 hearing* at 34 (Statement of Kevin Kramer, Vice President and Deputy General Counsel for Intellectual Property, Yahoo! Inc.).

⁵⁰ *Id.*

⁵¹ *March 2013 hearing* at 65 (Statement of Philip S. Johnson, Chief Intellectual Property Counsel, Johnson & Johnson, on behalf of the 21st Century Coalition for Patent Reform); *see also id.* at 250 (Answers of Philip S. Johnson, Chief Intellectual Property Counsel, Johnson & Johnson, to Questions for the Record from Ranking Member Melvin Watt); *April 2013 hearing* at 45 (Statement of Colleen V. Chien, Assistant Professor, Santa Clara University Law School).

Similarly, another witness described how “[b]y targeting multiple customers or end users, a [patent-assertion entity] may create increased settlement opportunities, particularly when the customers or end users lack sufficient technical knowledge of the accused product or sufficient resources to litigate.”⁵² The same witness noted that current law’s remedies for such abuses have proven inadequate: “the stay of a customer suit . . . is not automatic, but rather is committed to the discretion of the district court. Unfortunately, courts have been inconsistent in their willingness to stay such customer suits, thus encouraging their filing.”⁵³

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

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

Its targets—it has sent over 13,000 letters threatening litigation—often are nonprofits, local and state governments, and small and medium-sized businesses including retirement homes, children’s health clinics, coffee shops, cafes, restaurants, and convenience stores. These entities are targets because they (like most every modern business) provide Wi-Fi on their premises, using equipment supplied by Cisco and other manufacturers. Some of this equipment is already licensed under the patents-in-suit because of broad licenses previously granted by the previous owners. But the PAE doesn’t tell their targets this, or that the patents are subject to commitments to license on a reasonable and nondiscriminatory basis to all comers. Instead, the PAE tells these targets, who may have spent as little as \$40 on their wireless equipment, that, unless they pay at least \$2,000 or \$3,000 per location within 2 weeks, they will be sued and have to engage counsel to review thousands of pages of documents.⁵⁴

⁵² *April 2013 hearing* at 36–38 (Statement of Kevin H. Rhodes, Vice President and Chief Intellectual Property Counsel of 3M Company); *see also March 2013 hearing* at 76 (Statement of Philip S. Johnson, Chief Intellectual Property Counsel, Johnson & Johnson, on behalf of the 21st Century Coalition for Patent Reform); *October 2013 hearing* at 21–22 (Statement of Krish Gupta, Senior Vice President and Deputy General Counsel, EMC Corporation).

⁵³ *April 2013 hearing* at 36–38 (Statement of Kevin H. Rhodes, Vice President and Chief Intellectual Property Counsel of 3M Company).

⁵⁴ *March 2013 hearing* at 15–16 (Statement of Mark Chandler, Senior Vice President and General Counsel, Cisco Systems Inc.). Although the suits described by this witness clearly appear to be abusive, the Committee recognizes that in some situations, a patent owner will have legitimate reason to sue users of a product rather than the manufacturer of the product. For example, as one witness who appeared before the Subcommittee noted, “[w]hen a product is made and sold abroad but then used in the U.S., the downstream user may be the only entity that is subject to U.S. patent law.” *March 2013 hearing* at 244 (Answer of Graham Gerst, Partner, Global IP Law Group, LLC to Questions for the Record from Ranking Member Melvin Watt). The same

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

Increasingly, these suits are directed at our customers, who in turn look to us to indemnify them of liability for using our products. Since 2009, Adobe has received more than 100 such indemnification requests. In one recent example, hundreds of retailers were sued by a particular [patent-assertion entity]. Each of these retailers faced the choice of settling for relatively low amounts, less than \$100,000, or ending up in expensive protracted litigation costing as much as \$5 million per suit.⁵⁵

Despite Federal Circuit precedent recognizing a customer-suit exception,⁵⁶ a review of recent district court decisions confirms witnesses' characterization of the courts as inconsistent in their application of the law. The current caselaw is a dog's breakfast of overlapping, inconsistent, and conflicting decisions. Even in the relatively simple scenario of the customer who uses or sells the manufacturer's product, and a patent that has claims covering that very product or the process used to make the product,⁵⁷ courts have refused to stay an infringement suit against the customer despite the participation of the manufacturer in a suit involving the same patent. Some courts have denied a stay in such circumstances on the ground that the manufacturer has been sued in the same court as the customer.⁵⁸ Other courts, by contrast, have denied a stay when the manufacturer files a declaratory-judgment action challenging the patent in another district. These courts have held that a stay should be denied if the manufacturer could have intervened in the

witness also described a scenario in which "it is clear that the downstream user is infringing, but there is no way to know who manufactured the device the downstream user is using. In those cases, the end user is the only one to sue." *Id.* Another Subcommittee witness explained why the law should not immunize end users against suits for infringement: "It may be the case that, due to the nature of the patented invention, infringement depends on how a customer uses, installs, or integrates a product with other products." *April 2013 hearing* at 36–38 (Statement of Kevin H. Rhodes, Vice President and Chief Intellectual Property Counsel of 3M Company). The same witness also noted that "end user immunity might run the risk that would-be infringers could game the system, with the manufacturer stopping just short of selling an infringing product so that the customer who is immune from infringement can complete the assembly of what would otherwise be an infringing device." *Id.*

⁵⁵*March 2013 hearing* at 86 (Statement of Dana Rao, Vice President of Intellectual Property and Litigation, Adobe Systems); see also *March 2013 hearing* at 246 (Answer of Graham Gerst, Partner, Global IP Law Group, LLC to Questions for the Record from Ranking Member Melvin Watt) ("[T]he tactic of suing a large number of targets with bogus claims only became common over the last few years."):

⁵⁶See *Katz v. Lear Siegler, Inc.*, 909 F.2d 1459 (Fed. Cir. 1990).

⁵⁷The customer is liable for infringement in such a situation under 35 U.S.C. § 271(g).

⁵⁸See, e.g., *Heinz Kettler GmbH & Co. v. Indian Indus., Inc.*, 575 F. Supp. 2d 728, 730 (E.D. Va. 2008) ("the customer suit exception is inapplicable in this case . . . [b]ecause plaintiffs have simultaneously sued both the manufacturer (Escalade) and the customer (Sears) of the allegedly infringing table-tennis tables") (emphasis in original); *Alloc, Inc. v. Unilin Decor N.V.*, No. 02–C–1266, 03–C–342, 04–C–121, at *3 (E.D. Wis. Dec. 15, 2005) (no customer-suit stay because "the allegedly infringing manufacturers . . . and the allegedly infringing customer . . . are defending claims of infringement in the same consolidated suit in the same jurisdiction") (emphasis in original); *IP Innovation L.L.C. v. Dell Computer Corp.*, No. 03–C–3245, at *2 (N.D. Ill. Apr. 9, 2004); *Watson Indus., Inc. v. Canon, Inc.*, No. 03–C–422–C, at *1 (W.D. Wis. Nov. 24, 2003); *Beck Sys., Inc. v. Marimba, Inc.*, No. 01–C–5207, at *2 (N.D. Ill. Nov. 20, 2001) ("When all parties are joined in one simultaneous action, the same problems are not presented, and the rationale underlying the customer suit exception does not apply."); *Bingo Brain, Inc. v. California Concepts, Inc.*, No. 99C6139, at *2 (N.D. Ill. May 24, 2000). *Contra, In re Papst Licensing GmbH & Co. KG Litig.*, 767 F. Supp. 2d 1 (D.D.C. 2011) (allowing a stay despite the manufacturer and customer's being sued in the same district).

suit against the customer.⁵⁹ Of course, these competing lines of cases could be alternately applied in *every* customer case to deny a stay *regardless* of whether the manufacturer filed suit in another district or intervened in the customer action.

Another source of inconsistency in courts' application of customer-suit stays has been patent infringement actions that assert only method claims. In this scenario, the customer uses or sells the manufacturer's product, and that product is uniquely made to carry out the patented process. For example, if a patent claims the use of wireless Internet access, and the product is a router that enables such access, the router itself does not directly infringe under § 271(a) because the patent does not claim the product. Instead, it is the customer who purchases the router and installs it at home who is the only direct infringer, because he is the one who is "using wireless Internet access." The retailer is liable only "indirectly," as a contributory infringer,⁶⁰ because he sells a product that is specially made or adapted to implement the patented process and that lacks substantial noninfringing use.

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

A number of courts, unfortunately, have held that when the customer is sued as a direct infringer of a process patent, and the manufacturer could only be sued as an indirect infringer, the customer-suit exception is inapplicable and no stay of the customer suit is permitted. These cases effectively immunize almost all method patent claims against the customer-suit exception.⁶¹ Other courts, by contrast, have recognized that a customer accused of infringing a method claim by using a manufacturer's product is still a customer, and that a stay of the customer suit in favor of an action to which the manufacturer is a party is appropriate.⁶²

Another scenario that has resulted in inconsistent application of the customer-suit exception involves a component that causes a larger product to infringe when the component is incorporated into

⁵⁹See, e.g., *Largan Precision Co., Ltd. v. Fujinon Corp.*, No. C-10-1318 SBA (JL), at *5 (N.D. Cal. Mar. 31, 2011); *BBC Int'l Ltd. v. Lumino Designs, Inc.*, 441 F. Supp. 2d 438, 443 (E.D.N.Y. 2006) ("[T]he customer suit exception does not apply because BBC could have been sued for infringement in the Northern District of Illinois."); *Air Prods. and Chems., Inc. v. MG Nitrogen Servs., Inc.*, 133 F. Supp.2d 354, 356-57 (D. Del. 2001); *Emerson Elec. Co. v. The Black & Decker Mfg. Co.*, 606 F.2d 234, 242 (8th Cir. 1979) (Markey, J).

⁶⁰See 35 U.S.C. § 271(c).
⁶¹See, e.g., *Lodsys, LLC v. Brother Int'l Corp.*, No. 2:11-cv-90-JRG, at *11 (E.D. Tex. Jan. 14, 2013); *Teleconference Sys. v. Proctor & Gamble Pharm., Inc.*, 676 F. Supp. 2d 321, 327 (D. Del. 2009) (customer-suit exception inapplicable "because plaintiff alleges that Cisco's customer are not mere resellers but are direct infringers"); *Privasys, Inc. v. Visa Int'l*, No. C-07-03257 SI, at *4 (N.D. Cal. Nov. 14, 2007) (agreeing that parties "are not mere customers" if they are "involved in carrying out the infringement of the patented method"); *In re Laughlin Prods., Inc.*, 265 F. Supp. 2d 525, 537 (E.D. Pa. 2003) ("[W]here the patentee alleges that the customers themselves have directly infringed the method or process disclosed in the patent, the customer suit exception does not apply."); *Air Prods. and Chems., Inc. v. MG Nitrogen Servs., Inc.*, 133 F. Supp. 2d 354, 357 (D. Del. 2001) (denying a stay where the customer's use of a product "directly infringes the claims-in-suit, while [the manufacturer's] sale of the equipment only induces or contributes to infringement"); *Am. Acad. of Sci. v. Novell, Inc.*, No. C-91-4300 EFL, at *3 (N.D. Cal. July 9, 1992) (customer-suit exception inapplicable "where the patent owner seeks to hold the manufacturer liable solely on a theory of inducement/contributory infringement, claiming direct infringement only against the customer").

⁶²See, e.g., *Select Retrieval, LLC v. L.L. Bean, Inc.*, Civil No. 2:12-cv-00003-NT, at *5 (D. Me. Mar. 15, 2013); *Thermapure, Inc. v. Temp-Air, Inc.*, No. 10-cv-4724, at *9-10 (N.D. Ill. Dec. 22, 2010); *Card Activation Techs. v. Pier 1 Imports, Inc.*, No. 09-C-2021, at *4 (N.D. Ill. Sep. 14, 2009).

the product. If patent claims are drafted broadly to cover the final product “with” the component, the component itself does not directly infringe the patent—only the final product incorporating the component directly infringes. Unfortunately, a line of cases holds that even if a component incorporated into the final product is the principal cause of infringement, and the manufacturer of the component is a party to a suit involving the patent, a customer-suit stay must be denied if the patent’s claims are drawn to cover the larger product.⁶³ Other courts, however, have recognized that a stay remains appropriate in such a scenario.⁶⁴

A final circumstance that has bedeviled the district courts is that of a customer who is also accused of inducement of infringement. As an illustrative example, consider again the case of the router and the patent that covers the process of using wireless Internet access. If the owner of such a patent sues a retailer under § 271(c) for selling routers that infringe a claim to using wireless Internet access, the patent owner also could sue the retailer, per § 271(b), for inducing infringement by purchasers of the router who install the router and directly infringe the patent by using wireless Internet service. Some district courts have held that when such a retailer-customer provides instructions to downstream customers (which would normally support an inducement claim), this creates a “separate interest” in proceeding against the retailer-customer that precludes a customer-suit stay.⁶⁵ Other courts, however, have recognized that adding inducement claims to an action should not defeat the customer-suit exception with respect to a party that otherwise qualifies as a customer.⁶⁶

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

First, if the patent is found invalid or not infringed by the manufacturer’s goods in the suit between the patent owner and the manufacturer, no further cause of action lies against the customer with respect to the same patents and goods.⁶⁷ On the other hand, if the

⁶³ See, e.g., *GeoTag, Inc. v. Frontier Commc’ns Corp.*, No. 2:10-CV-265-JRG, at *2 n.2 (E.D. Tex. Feb. 26, 2013) (customer-suit exception inapplicable where no evidence that “Microsoft and Google supply the entire accused system”); *Cadence Design Sys., Inc. v. OEA Int’l, Inc.*, No. CV11-0713 SBA, at *2 (N.D. Cal. Sep. 20, 2011) (“The [customer suit] exception is . . . inapplicable when a manufacturer makes but a component of an end product, where the end product is accused of infringement”); *Microsoft Corp. v. Commonwealth Scientific and Indus. Research Org.*, No. 6:06-CV-549, at *2-3 (E.D. Tex. Dec. 13, 2007) (even though manufacturer’s computer chip “does the ‘inventive magic,’” customer-suit stay is denied because chip is “only a component of the end product and therefore does not and cannot directly infringe”); *Viking Injector Co., Inc. v. Chemtron, Inc.*, Civ. A. No. 3:CV-93-0791, at *3 (M.D. Pa. Nov. 9, 1993).

⁶⁴ See, e.g., *Pragmatus Telecom, LLC v. Advanced Store Co., Inc.*, Civil Action No. 12-088-RGA, at *3-4 (D. Del. July 10, 2012); *Honeywell Int’l Inc. v. Audivox Commc’ns Corp.*, No. Civ.A. 04-1337-KAJ, at *1, 3 (D. Del. May 18, 2005); *Commissariat a L’Energie Atomique v. Dell Computer Corp.*, No. Civ.A. 03-484-KAJ (D. Del. May 13, 2004); *Ricoh Co., Ltd. v. Aeroflex Inc.*, 279 F. Supp. 2d 554 (D. Del. 2003).

⁶⁵ See, e.g., *Alloc, Inc. v. Unilin Decor N.V.*, No. 02-C-1266, at *3 (E.D. Wis. Dec. 15, 2005).

⁶⁶ See, e.g., *Ultra Prods., Inc. v. Best Buy Co., Inc.*, Civil Action No. 09-1095 (MLC), at *4-6 (D.N.J. Sep. 1, 2009); *Delphi Corp. v. Auto. Techs. Int’l, Inc.*, No. 08-CV-11048, at *5 (E.D. Mich. July 25, 2008); *Beck Sys., Inc. v. Marimba, Inc.*, No. 01-C-5207, at *1 (N.D. Ill. Nov. 20, 2001) (customer-suit stay denied on other grounds); *Tri-Tronics Co., Inc. v. MacGregor & Co., Inc.*, No. 90-C-0630, at *3 (N.D. Ill. July 25, 1990).

⁶⁷ See *MGA, Inc. v. General Motors Corp.*, 827 F.2d 729, 734 (Fed. Cir. 1987) (“The *Kessler* doctrine bars a patent infringement action against a customer of a seller who has previously prevailed against the patentee because of invalidity or noninfringement of the patent”) (citing

patent is found infringed and not invalid in the suit between the patent owner and the manufacturer, a cause of action still lies against the customer—but in the vast majority of cases, no further damages can be recovered from the customer. Principles of claim preclusion do not bar litigating a second action against the customer.⁶⁸ Rather, while the patent owner who prevails in his action against the manufacturer may proceed with a suit against the customer,⁶⁹ any such customer suit is sharply limited by the *single-recovery rule*. That rule provides that while “a patentee is entitled to full compensation for related acts of infringement, . . . the patentee, like any tort victim, is not entitled to multiple recoveries for the same injury.”⁷⁰ Therefore, “a patentee may not sue users of an infringing product for damages if he has collected actual damages from a manufacturer or seller, and those damages fully compensate the patentee for infringement by users.”⁷¹ And in almost all cases, a successful suit against the manufacturer will fully compensate the patent owner for infringing activity by the manufacturer’s customers. This is true whether indirect-infringement claims⁷² or direct-infringement claims were successfully litigated against the manufacturer.⁷³

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

IV. RECOMMENDATIONS TO THE JUDICIAL CONFERENCE

1. *Discovery*

An industry witness aptly summarized the problems posed by some discovery requests in patent-infringement litigation. He noted that plaintiffs who do not practice the claimed invention often lack reciprocal discovery burdens, and therefore feel unconstrained in their imposition of such burdens on defendants:

Kessler v. Eldred, 206 U.S. 285 (1907); *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 349–50 (1971).

⁶⁸ See *Transclean Corp. v. Jiffy Lube Int’l, Inc.*, 474 F.3d 1298, 1306 (Fed. Cir. 2007) (“[A] manufacturer or seller of a product who is sued for patent infringement typically is not in privity with a party, otherwise unrelated, who does no more than purchase and use the product. . . . [and therefore] a patentee’s suit against one would [not] bar a second action against the other under the doctrine of claim preclusion.”).

⁶⁹ See *Shockley v. Arcan, Inc.*, 248 F.3d 1349, 1364 (Fed. Cir. 2001).

⁷⁰ Jerry R. Selinger & Jessica W. Young, *Suing an Infringing Competitor’s Customers: Or, Life under the Single Recovery Rule*, 31 J. Marshall L.Rev. 19, 29 (1997).

⁷¹ *Transclean*, 474 F.3d at 1303.

⁷² See *Glenayre Elecs., Inc. v. Jackson*, 443 F.3d 851, 858–59 (Fed. Cir. 2006) (citing Selinger, *supra*) (“[W]here a patentee alleges that a manufacturer contributes to and induces infringement by its customers simply because it sells infringing products to its customers, damages assessed for indirect infringement normally will be the same as damages that would be assessed had the patentee sued and obtained a judgment against the customers.”).

⁷³ See *id.* at 872 (“[W]here a patentee has enforced its patent against a direct infringer and collected damages sufficient to put him in the same position he would have been in had there not been infringement, the patentee cannot thereafter collect actual damages from an alleged indirect infringer.”); see also Selinger, *supra*, at 52 (“In view of the modern theory of damages, it appears that efforts to procure recovery from different levels in the distribution (or user) chain will be difficult to accomplish, so long as the manufacturer is solvent.”); *October 2013 hearing* at 66–67 (Statement of Robert A. Armitage, Former General Counsel, Eli Lilly & Co.) (“In many situations, the patent owner can be—and ultimately will be—made whole for any acts of infringement that have taken place, or will take place, by suing the manufacturer of an accused product. In this and like situations, separate infringement lawsuits brought against customers may serve no legitimate purpose—at least where the manufacturer is willing and able to stand in the shoes of its customers and the customer agrees that its interests would be served by having the manufacturer take over the defense of the patent.”).

The costs and burdens of discovery can be enormous in any patent case. But in cases brought by [patent-assertion entities], the asymmetry of such costs and burdens increases the risk of litigation abuse. Such patent owners typically have few documents and witnesses, so they may propound extremely burdensome discovery to corporate defendants without fearing that they will be on the receiving end of corresponding burdens. Exacerbating that burden are frequently vague and overreaching infringement allegations, making it difficult for a defendant to determine the metes and bounds of its obligation to preserve evidence and highly disruptive to comply with that obligation. Coupled with the growth of electronically stored information that is an easy target for burdensome discovery requests, the costs of litigation can mushroom out of control and force defendants to settle simply to avoid intrusive discovery.⁷⁴

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

In the case of my company, it is really not an overstatement to say that we communicate almost completely electronically—by email, text, IM, you name it. So, when, in the context of patent litigation, we must respond to an electronic discovery request, we are instantly looking at legal and consulting bills that will run into the millions of dollars if we choose not to settle. In contrast, patent trolls have no witnesses, they have no documents, they have no evidence to discover. In short, there is an asymmetry in the patent troll context.⁷⁵ Patent trolls can and do pursue litigation strategies that make the litigation as expensive as possible because that same tactic cannot be used against them. With no documents to produce and no witnesses to depose, they have very little cost associated with their obligation to respond to discovery requests.⁷⁶

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

⁷⁴*April 2013 hearing* at 32–33 (Statement of Kevin H. Rhodes, Vice President and Chief Intellectual Property Counsel of 3M Company).

⁷⁵Other witnesses also emphasized the lack of reciprocal burdens borne by patent plaintiffs who do not practice the claimed technology. *See, e.g., April 2013 hearing* at 114 (Statement of Russell W. Binns, Jr., Associate General Counsel, IP Law & Litigation, Avaya Inc.) (“A licensing entity typically doesn’t have very many employees. It doesn’t have a terribly large number of documents. It usually has all the documents prepared on a CD before they even start the suit . . .”); *March 2013 hearing* at 74–75 (Statement of Philip S. Johnson, Chief Intellectual Property Counsel, Johnson & Johnson, on behalf of the 21st Century Coalition for Patent Reform) (“[Patent plaintiffs who do not practice the invention] typically have few documents and little to disclose in discovery, so they may propound extremely burdensome discovery to corporations without fearing that they will be on the receiving end of corresponding burdens.”); *March 2013 hearing* at 86 (Statement of Dana Rao, Vice President of Intellectual Property and Litigation, Adobe Systems) (“Suits by [patent-assertion entities] take advantage of lopsidedness in our litigation system. . . . PAEs typically have very little in discovery costs but at the same time they have the ability to make defendants like Adobe spend a lot of resources responding to very broad discovery requests.”).

⁷⁶*March 2013 hearing* at 44–47 (statement of John Boswell, Senior Vice President and General Counsel, SAS).

The number of electronic documents that we had to collect exceeded 10 million. The cost to collect those documents, before considering the attorney's fees to review and make production determinations, was about \$1.5 million. Again, \$1.5 million was just the cost to collect; considering attorney's fees, the cost of the collection was easily double that amount. Of those documents, only 1,873 documents, or .000183%, appeared on an evidence list as possibly being introduced at trial. These are not documents that were actually used, and it is debatable whether any of the 10 million documents collected were even read by the [plaintiff].⁷⁷

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

The dilemma here is that when a company like SAS receives a complaint from a patent troll, it is faced with a Hobson's choice: defend the litigation, which will cost literally millions of dollars, or settle, for a smaller, but not insignificant, amount of money. If you do settle, then the company develops a reputation for being an easy target, which just invites more extortion attempts from the patent-troll community.⁷⁸

2. *Protection of Intellectual Property Licenses in Bankruptcy*

Section 365(n) of title 11 prevents a bankruptcy trustee from terminating licenses to patents and other intellectual property of the debtor. When the 100th Congress enacted § 365(n) in 1989, it recognized that allowing patent and other intellectual property licenses to be revoked in bankruptcy would be extremely disruptive to the economy and damaging both to patent owners and licensing manufacturers.

Manufacturers often invest billions of dollars in reliance on their right to practice a technology pursuant to a license. Allowing the

⁷⁷See also *October 2013 hearing* at 32 (Statement of Kevin Kramer, Vice President and Deputy General Counsel for Intellectual Property, Yahoo! Inc. ("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. . . . [I]n my experience, *less than 1 percent* of the electronic documents that get produced actually get used at trial.") (emphasis in original); *April 2015 hearing*, Statement of Kevin Kramer, Vice President and Deputy General Counsel for Intellectual Property, Yahoo! Inc., at *7 ("In the typical case, what is needed to assess whether a Yahoo product infringes a patent claim is the source code for the product or feature at issue. In fact, in each of the three trials we have had where our infringement was at issue . . . , our source code was a central part of the case.").

⁷⁸*March 2013 hearing* at 44–47 (statement of John Boswell, Senior Vice President and General Counsel, SAS).

license to be eliminated in bankruptcy would create commercial uncertainty and would undermine manufacturing investment. Also, under such a regime, inventors would be pressured to transfer their entire interest in a patent, rather than simply provide a license, because only a complete transfer would provide a secure right to practice the patented technology. Use of transfers rather than licensing would both reduce the inventor's return on a valuable patent, and would effectively limit who could practice the technology. For all of these reasons, the 100th Congress concluded that allowing intellectual property licenses to be voided in bankruptcy "is a fundamental threat to the creative process that has nurtured innovation in the United States,"⁷⁹ and enacted § 365(n) to put an end to such bankruptcy practices.

In recent years, some parties have tried to subvert the protections of § 365(n) by filing for bankruptcy in a foreign country, and requesting that U.S. courts extend "comity" to the foreign court's termination of licenses to U.S. intellectual property. Chapter 15 of the Bankruptcy Code creates procedures for recognizing and extending comity to foreign bankruptcy proceedings. Foreign trustees have cited the fact that Chapter 15 does not list § 365(n) among the mandatory provisions that must apply when a U.S. court recognizes a foreign proceeding as a reason to deny such protections to U.S. licensees when a patent owner files for bankruptcy abroad. They also have argued that § 365(n) does not fall within Chapter 15's public-policy exception to recognizing foreign proceedings.⁸⁰ This determination currently must be litigated on a case-by-case basis, and district courts are given discretion in applying the public-policy exception. Such piecemeal litigation and its inherent risks create uncertainty that undermines intellectual property licensees' ability to rely on their licenses—and, ultimately, undermines the fundamental purposes of § 365(n).

U.S. law's failure to clearly protect intellectual property licenses in Chapter 15 proceedings also creates disincentives for manufacturers to invest in the United States. If the right to practice a technology under a U.S. patent remains uncertain—while other Nations provide firm guarantees that licenses to their patents will be protected in a bankruptcy proceeding, whether domestic or foreign to such Nation—a manufacturer contemplating building a fabrication plant would face powerful incentives to invest his resources overseas rather than in the United States. U.S. bankruptcy law must not be permitted to deter investment in plants, equipment, and manufacturing jobs in the United States.⁸¹

V. CORRECTIONS AND IMPROVEMENTS TO THE AMERICA INVENTS ACT

1. *Repeal of Could-have-raised Estoppel for Civil Actions Following Post-grant Review*

The Committee remains persuaded that the AIA's authorization of post-grant review of patents should be amended to limit the estoppel that ensues from those proceedings in civil litigation to only

⁷⁹ S. REP. NO. 100-505, at 3 (1989).

⁸⁰ See 11 U.S.C. § 1506.

⁸¹ Section 6(d) has received the support of the USPTO and industry leaders. See *Director Lee's testimony* at *7; *April 2015 hearing*, Statement of Robert A. Armitage, Former General Counsel, Eli Lilly & Co., at *16-17.

those issues that were actually raised and decided in the post-grant review.⁸²

First, the overlap in the membership and staffing of this Committee between the present Congress and the 112th is too thorough to permit any doubt that the addition of the words “or reasonably could have raised” to § 325(e)(2) of title 35, when the House Judiciary Committee-reported bill was engrossed in June 2011, was, indeed, a mistake.⁸³ More fundamentally, however, the preservation of a civil-litigation could-have-raised estoppel following post-grant review threatens to fatally undermine the new proceeding. Unlike an inter partes review, a post-grant review must be sought within 9 months of when the patent issues, and the proceeding extends to all potential defenses of invalidity. The issues that a petitioner “reasonably could have raised” in a post-grant review thus include *all* challenges to the validity of the patent (to the extent that they might later be deemed to have been reasonably accessible to the petitioner). This includes not only challenges to obviousness based on prior patents and printed publications, but evidence of uses and sales that made the invention accessible to the interested public and questions of the description and enablement of the invention and whether patentable subject matter has been claimed. Some of these issues likely will only become apparent with time, and may require some discovery to develop. But only limited time is available before a post-grant review petition must be filed, and petitioners are required to present a preponderance case at the outset of the proceeding. There is no pre-petition discovery before, or the opportunity to develop and expand challenges after, a post-grant review has been instituted.

Applying a litigation could-have-raised estoppel to post-grant review thus would present petitioners with a daunting prospect: once such a review is instituted, the petitioner effectively would be barred from challenging the validity of the patent on any ground should he later be sued for its infringement, but he would be required to file his petition before he had more than a very limited time—and no discovery—to identify the bases of his petition.

For all these reasons, the Committee concurs with the views expressed by industry leaders and representatives of patent professional associations, who have broadly agreed—both during the development of the AIA and since—that limiting the litigation estoppel that follows a post-grant review to those issues that were actually raised and decided in the proceeding is the approach that “strike[s] the right balance.”⁸⁴

⁸²See The Coalition for 21st Century Patent Reform, “‘Reasonably Could Have Raised’ Estoppel: A Technical Error that Should Be Corrected,” and “A ‘Reasonably Could Have Raised’ Estoppel in Litigation Following Post-Grant Review Will Prevent the Envisioned Benefits of the New Procedure From Being Achieved.” Both papers are printed in the record of the October 29 hearing, at pp. 203–211, and are currently available on the website www.patentmatter.com.

⁸³Mr. Lamar Smith and Senator Leahy, the eponymous sponsors of the Leahy-Smith America Invents Act, each have stated that the addition of “reasonably could have raised” to the § 325(e)(2) estoppel was an error. See 158 Cong. Rec. H6843 (daily ed. December 18, 2012) (Statement of Rep. Smith); 158 Cong. Rec. S8517 (daily ed. December 28, 2012) (Statement of Sen. Leahy).

⁸⁴*Patent Quality Improvement: Post-Grant Opposition: Hearing before the Subcomm. on Courts, the Internet, and Intellectual Prop. of the H. Comm. on the Judiciary*, 108th Cong. (2004) at 32 (Statement of Michael Kirk, Executive Director, AIPLA); see also *id.* at 17 (Statement of Jeffrey Kushan, Sidley Austin Brown & Wood, on behalf of Genentech, Inc.); *Patent Reform Act of 2007: Hearing on H.R. 1908 Before the Subcomm. on Courts, the Internet, and Intellectual Prop.*, 110th Cong. 56 (2007) at 98 (Statement of Anthony Peterman, Director, Patent Counsel,

2. Use of District Court Claim Construction in Inter Partes and Post-grant Reviews

In its regulations implementing the AIA's new inter partes and post-grant reviews, the USPTO instructed the PTAB to read patent claims for their broadest reasonable interpretation ("BRI"),⁸⁵ rather than use the district court's *Phillips* approach.⁸⁶ The BRI approach is eminently reasonable in examination and reexamination, where the applicant or patentee has a broad right to amend after a rejection. In inter partes and post-grant reviews, however, the right to amend is much more limited. Also, amendments come at the cost of subjecting the patent to intervening rights and avoidance of years of accrued damages. Moreover, these reviews can be invoked after the patent has been in force for years, and when its claims could be, or even have been, given a more limited construction in civil litigation.

Use of the BRI approach to claim construction in inter partes and post-grant review can thus potentially produce results that are unfair to patent owners. It could subject a patentee to a review, and even force him to amend his claims, by construing them to include matter that the claims would not be construed to include in a civil action. As a practical matter, however, the patentee has no more patent than what the courts will enforce. Applying the broadest reasonable interpretation of claims in inter partes and post-grant reviews could thus force the patent owner to amend claims to eliminate claim scope that effectively does not exist.⁸⁷

The Committee acknowledges that, over the course of its consideration of this issue, it has become increasingly less apparent how the claim constructions that are produced under the BRI approach differ from those produced under the *Phillips* standard. The original prosecution history of a patent, for example, may be considered under either approach.⁸⁸ And despite the fact that over a thousand IPRs have been instituted since the program was inaugurated in 2012, there is a paucity of examples where use of the BRI approach rather than district court claim construction appears to have affected either the Board's decision to institute or its final written de-

Dell Inc.); *Perspectives on Patents: Post-Grant Review Procedures and other Litigation Reforms: Hearing before the Subcomm. on Intellectual Prop. of the S. Comm. on the Judiciary*, 109th Cong. (2006) at 45–46 (Statement of Mark Chandler, Senior Vice President and General Counsel, Cisco Systems); *Director Lee's testimony* at *7–8; *April 2015 hearing*, Statement of Robert A. Armitage, Former General Counsel, Eli Lilly & Co., at *17–18; *March 2013 hearing* at 22 (Statement of Mark Chandler, Senior Vice President and General Counsel, Cisco Systems Inc.) ("If left uncorrected, this error will unfortunately greatly limit the utility and use of the new procedure to fulfill its intended purpose of pruning or narrowing newly issued patents that are in fact invalid. Because of the broad range of issues available, a potential patent challenger will have to weigh very heavy risks to later civil litigation on the same patent.")

⁸⁵ See 37 C.F.R. § 42.300(b); see generally *SAP America, Inc. v. Versata Dev. Group, Inc.*, CBM2012–00001, Paper 70, at 7–19 (June 11, 2013).

⁸⁶ See *Phillips v. AWH Corp.*, 415 F.3d 1303, 1328 (Fed. Cir. 2005).

⁸⁷ An exhaustive explanation of the reasons why use of district court claim construction is better suited to inter partes and post-grant review than is the broadest reasonable interpretation of claims is provided in a paper prepared by The Coalition for 21st Century Patent Reform, "Why the PTO's Use of the Broadest Reasonable Interpretation of Patent Claims in Post-Grant and Inter Partes Review Is Inappropriate Under the America Invents Act." This paper is printed in the record of the October 29, 2013 hearing, at pp. 212–230, and is currently available on the website www.patentmatter.com.

⁸⁸ See *Microsoft Corp. v. Proxycorn, Inc.*, No. 2014–1542 (Fed. Cir. June 16, 2015) ("The PTO should also consult the patent's prosecution history in proceedings in which the patent has been brought back to the agency for a second review"); *Tempo Lighting, Inc. v. Tivoli, LLC*, 742 F.3d 973, 977–78 (Fed. Cir. 2014) (applying prosecution history to construe claims under the BRI approach); *Phillips v. AWH Corp.*, 415 F.3d 1303, 1317 ("[A] court should also consider the patent's prosecution history, if it is in evidence.") (citation omitted).

cision.⁸⁹ The Committee nevertheless concludes that discontinuation of the use of the BRI approach in AIA trials is warranted. Adoption of the *Phillips* standard will, at the least, protect patentees from attempts to institute review on the basis of claim constructions that already have been rejected by the Federal Circuit.⁹⁰ And the Board’s claim interpretations will more readily provide guidance to district courts if the Board and the courts employ the same approach to claim construction.

Finally, although covered business method reviews are a subspecies of post-grant review, the Committee finds that the unique nature of those proceedings precludes a need to employ district court standards of claim construction there. Only business-method patents are eligible for CBM review. Because such patents are not directed to the application of scientific or mathematical principles,⁹¹ they are generally incapable of creating reproducible results, and are inherently unpatentably abstract, as that standard has been clarified in *Bilski v. Kappos*⁹² and *Alice Corp. Pty. Ltd. v. CLS Bank Int’l*.⁹³ In light of these cases’ restoration of the historic bar on the patenting of business methods, the Committee finds it unnecessary to burden the Board with applying the district courts’ claim-construction approach to define the precise metes and bounds of the unpatentable subject matter claimed in such patents.

3. *Obviousness-type Double Patenting*

The double-patenting doctrine was developed by the courts to control the effects of exceptions to prior art that permit a patentee to obtain multiple patents for obvious variations of the same invention.⁹⁴ An inventor can obtain such obvious-variant patents be-

⁸⁹ See Patents Post-Grant Blog, “PTAB Finds BRI Claim Construction No Different Under *Phillips*,” July 15, 2014.

⁹⁰ See *May 2015 Senate hearing*, Statement of Kevin H. Rhodes, Vice President and Chief Intellectual Property Counsel of 3M Company, on Behalf of the Coalition for 21st Century Patent Reform, at *25 (discussing IPR2015–00858).

⁹¹ The Committee is aware of the Supreme Court’s recent pronouncement that inventions relying on the application natural laws are unpatentable when “the relation itself exists in principle apart from any human action.” *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S.Ct. 1289, 1297 (2012). The Court applied the “laws of nature” exception to subject-matter patentability to invalidate a patent that disclosed determining the appropriate dose of a drug to treat an autoimmune disease on the basis of measurements of the levels of metabolites in the patient’s blood. See *id.* at 1295. *Mayo* poses several quandaries, however. It is not entirely clear why the Court concluded that the discovery of a means of determining the amount of a drug that will cure—rather than kill—the patient is an invention inherently unworthy of a patent. The Court’s reliance on the trio of *Benson*, *Flook*, and *Diehr* to guide its § 101 analysis—despite the fact that the latter clearly overruled the first two, and that none of the three is particularly coherent—does not contribute to clarity in this area of the law. But most fundamentally, were the Committee to take seriously the suggestion that an invention is unpatentable if it adds “nothing of significance” to the natural laws that control its operation, *id.* at 1302, it must also conclude that the Patent Office should be deauthorized, for nothing would remain patentable other than whatever business methods survive *Alice*. It is thus unsurprising that the patent bar, particularly in the life sciences, has greeted *Mayo* as the jurisprudential equivalent of the bombing of Dresden. The Committee will continue to monitor developments in this area.

⁹² 561 U.S. 593 (2010). The respondent in that case, during the October 29, 2013 hearing, described another problematic aspect of the patenting of business methods: “patents covering methods of doing business . . . inherently cover all technology solving the affected business problem.” *October 2013 hearing* at 43 (Statement of David J. Kappos, Former Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office). Such patents inevitably are parasitic of the hard work and ingenuity of the inventor of the technological product or feature that implements the business-method “invention.”

⁹³ 134 S.Ct. 2347 (June 19, 2014).

⁹⁴ The earliest appearance of the double-patenting doctrine—at least in the Supreme Court’s opinions—appears to be in *O’Reilly v. Morse*, 56 U.S. 62 (1853). See *id.* at 114 (observing that if Morse’s broad claim to “the use of the motive power of . . . electro-magnetism, however developed, for making or printing intelligible characters, letters, or signs, at any distance” were valid,

Continued

cause his own earlier-filed patent applications are not prior art to his subsequent applications until a year after the earlier-filed applications publish. As a result, absent the double-patenting doctrine, an inventor could obtain multiple patents for what is basically the same invention, and then sell those patents to different parties, requiring others to obtain multiple licenses from multiple parties in order to practice what is substantially the same invention.

Also, under the pre-URAA⁹⁵ system, in which a patent's term ran 17 years from its issuance, patents could expire 30, 40, or even 50 years after the date that the patent was originally sought. Inventors, by filing a series of continuing applications, could delay prosecution. Without double-patenting rules, patent protection for essentially the same subject matter could remain in force for decades.

The double-patenting doctrine has historically precluded such practices by requiring patentees to disclaim the right to enforce any later-issued obvious-variant patents separately through a common-ownership requirement, and to disclaim the right to enforce such later-issued patents beyond the term of the earliest-issuing (and therefore, earliest expiring) obvious-variant patent.

As recently as the 1980's, double patenting was a relatively simple and straightforward doctrine, and was limited by several key principles. The first among these—which traces its origins to Judge Taft's 1897 decision in *Thomson-Houston Elec. Co. v. Ohio Brass Co.*⁹⁶—is that the double-patenting bar does not apply to an inventor's patents if the same patents could have validly issued to separate inventors. *Ohio Brass* recognized that if “the personality of the owner of two different patents [were to] affect the validity of either, then the anomalous result would follow that the owner of one patent would avoid it by acquiring ownership of another.”⁹⁷ The court dismissed the notion that such a “unity of title avoid[s] the main patent” as a “reductio ad absurdum.”⁹⁸

Ohio Brass also recognized that it is “well settled that a patent may issue for an improvement on an earlier invention either to the original inventor or a stranger”—and rejected the notion that “if, by some chance, the application for the fundamental patent is delayed in its course through the patent office until a patent on the avowed improvement has issued, then the patent on the fundamental invention is void.”⁹⁹ Noting that the “the course of an application for a generic or broad invention may legitimately take longer in its course through the patent office than a comparatively unimportant improvement,”¹⁰⁰ *Ohio Brass* established that the inventor had the right to rely on the order of invention (*i.e.*, pre-AIA priority), rather than the order of issuance, to determine if the later-issued patent should be subject to a double-patenting limit.

A final double-patenting principle, reflected in the PTO's 1967 Official Gazette Notice, is that “[t]he term ‘double patenting’ is

then a second, narrower improvement patent would necessarily be “illegal and void” as “extend[ing] his monopoly beyond the period limited by law”).

⁹⁵The Uruguay Round Agreements Act, PUB. L. NO. 103-465, 108 Stat. 4809 (1994).

⁹⁶80 F. 712 (6th Cir. 1897).

⁹⁷*Id.* at 727.

⁹⁸*Id.*

⁹⁹*Id.* at 724.

¹⁰⁰*Id.* at 727.

properly applicable only to cases involving two or more applications and/or patents of the same inventive entity.”¹⁰¹ The Notice emphasized that in cases involving different inventors, sections 102 and 103 of title 35 already operate to prevent the issuance of patents that are the same or obvious in view of one another, thus precluding the need to apply double-patenting principles.

These three fundamental principles—that double patenting is not a bar where the patents could have validly issued to separate inventors, does not apply where § 103 already operates to prevent the issuance of obvious-variant patents, and that order of priority (rather than issuance) must be used to determine which patent is subject to a double-patenting limit—found expression in a series of the United States Court of Customs and Patent Appeals (“CCPA”) decisions following the adoption of the 1952 Act, creating a relatively simple and rational double-patenting landscape.¹⁰²

The Patent Law Amendments Act of 1984,¹⁰³ by enacting the common-ownership exception to prior art that now appears at § 102(b)(1)(C), unsettled this landscape by requiring the courts to expand the double-patenting doctrine to encompass this new, broader exception to prior art.¹⁰⁴ This resulted in a series of court decisions during the 1990’s that drastically restricted access to the “two-way” test for double patenting—and that ultimately congealed into a rule that violates basic principles of the double-patenting doctrine that trace their origins to *Ohio Brass*.¹⁰⁵

Under the so-called one-way test, an earlier-filed but later-issuing commonly owned patent or application can be invalidated for double patenting even if the earlier-issued patent is nonobvious over the later-issuing patent as prior art.¹⁰⁶ In other words, the related inventors of the two patents are punished for making two separate and nonobvious inventions that, had they been made separately by unrelated inventors, would have been entirely valid and separately enforceable for their full respective terms.

Under current jurisprudence, the two-way test is available only in the “unusual circumstance” where the USPTO is “solely responsible for the delay in causing the second-filed application to issue prior to the first”¹⁰⁷—it is a “narrow exception” that is rendered inapplicable even when the timing of two applications is driven not by “nefarious intent,” but rather by ordinary business decisions.¹⁰⁸

By reversing *Ohio Brass*’s allowance of an order-of-priority test, the recent jurisprudence also abandons the principle that double-patenting does not apply if the patents could have validly issued to separate inventors—embracing a principle that *Ohio Brass* itself had dismissed as a “*reductio ad absurdum*.” In addition, a recent

¹⁰¹ *Double Patenting*, 834 O.G. 1615 (Jan. 31, 1967).

¹⁰² See Robert A. Armitage, *Everything You Ever Wanted to Know About Double Patenting . . . But Never Realized that You Needed to Ask (From The Makers Of Prozac)*, 2001, at *8–17 [hereinafter *Armitage ODP article*]. This paper was presented at a conference of the Intellectual Property Owners Association; a revised and updated version is printed in the record of the October 29 hearing at pp. 170–202.

¹⁰³ PUB. L. No. 98–622 (1984).

¹⁰⁴ See *Armitage ODP article* at *18–19.

¹⁰⁵ *Id.* at *19–28.

¹⁰⁶ See, e.g., *Eli Lilly and Co. v. Barr Labs.*, 251 F.3d 955, 967–68 (Fed. Cir. 2001). Under the two-way test, the double-patenting bar does not apply unless the later-filed but earlier-issued patent also is obvious in view of the earlier-filed but later-issued patent. See *In re Berg*, 140 F.3d 1428, 1432 (Fed. Cir. 1998).

¹⁰⁷ *Lilly v. Barr*, 251 F.3d at 968 n.7 (emphasis in original).

¹⁰⁸ *In re Fallaux*, 564 F.3d 1313, 1317 (Fed. Cir. 2009).

decision has also extend the double-patenting doctrine to cases where the patents *did*, in fact, issue to separate inventors, and thus already operated as prior art against one another.¹⁰⁹ *In re Hubbell* applied the double-patenting doctrine to destroy the earlier-filed application of a university research team for a broad invention because two of its joint inventors later participated in another research team that filed a later, narrow improvement application that issued before the first application did.¹¹⁰ The court reached the absurd result of invalidating the earlier-sought basic invention because of a later-discovered improvement that already was required to be nonobvious over the basic invention.

In another recent decision—one issued since the House of Representative’s passage of the Innovation Act in the 113th Congress on December 5, 2013—the Federal Circuit departed from more than 100 years of consistent jurisprudence that had applied double patenting consequences solely to invalidate the later-issuing of two patents granted on different dates. *Gilead Sciences, Inc. v. Natco Pharma Ltd.*¹¹¹ determined that the first-issued patent’s later expiration date produced an unjustified timewise extension of the right to exclude over the later-issued patent with an earlier expiration date. Where, however, such a first-issued patent can be valid only if it is non-obvious as of the filing (or priority) date that is used to determine its patent term, there is no policy justification for the application of double patenting principles to that patent.

The one-way test, when properly applied, serves the salutary purpose of allowing the courts to rein in the potential for abuse of rules that fail to limit the filing of continuing applications—even decades after an initial patent on an invention has issued.¹¹² Some of the courts’ decisions took note of this special justification for employing the one-way test, suggesting that this approach might be confined to the pre-URAA patents.¹¹³

In 2009, however, the Federal Circuit made clear that it would not “disregard” its recent precedents—as opposed to the logic underpinning the double-patenting doctrine—and would continue to apply the one-way test’s “ad hoc nullification machine”¹¹⁴ to modern patents that run 20 years from their filing.¹¹⁵

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

¹⁰⁹ See, e.g., *Lilly v. Barr*, 251 F.3d 955; *In re Hubbell*, 709 F.3d 1140, 1146–48 (Fed. Cir. 2013); see also *Armitage ODP article* at *27 (“[under these cases,] double patenting would now infect two patents even if the two patented inventions were patentably distinct because the non-obviousness test operated, i.e., one of the two patented inventions was prior art to the other.”).

¹¹⁰ *In re Hubbell*, 709 F.3d at 1142–43, 1146–48.

¹¹¹ 753 F. 3d 1208 (Fed. Cir. 2014).

¹¹² See, e.g., *In re Basell Poliolefine Italia, S.P.A.*, 547 F.3d 1371, 1373–74 (Fed. Cir. 2008) (invalidating for double patenting a patent that issued in 2002 from an application claiming priority to 1954).

¹¹³ See *Takeda Pharm. Co., Ltd. v. Doll*, 561 F.3d 1372, 1377 n.1 (Fed. Cir. 2009); *Boehringer Ingelheim Int’l GmbH v. Barr Labs., Inc.*, 592 F.3d 1340, 1346 (Fed. Cir. 2010).

¹¹⁴ *Hill v. Colorado*, 530 U.S. 703, 742 (2000) (Scalia, J., dissenting).

¹¹⁵ *In re Fallaux*, 564 F.3d at 1318–1319.

The Committee has been urged to revisit the provisions of the Innovation Act relating to double patenting to account for recent judicial developments. In particular, the Committee was asked to consider both broadening and simplifying the double-patenting provisions that appeared in Innovation Act in the 113th Congress.¹¹⁶ The amendments in section 9(c) of this bill reflect these recommendations.

4. PTO patent reviews

During the course of the Committee’s consideration of the present bill, a “technical” but serious defect in AIA §18 was brought to the Committee’s attention.¹¹⁷ AIA §18(a)(1)(C) delineates the types of prior art that may be employed in a covered business method patent review of a first-to-invent business-method patent. Subparagraph (C) ensures that the *Metallizing Engineering* doctrine, and other discovery-intensive pre-AIA loss-of-right rules, cannot be asserted in a CBM proceeding. Subparagraph (C) bases its definition of the prior art that may be cited against a first-to-invent patent on pre-AIA §102(a) and (b). The subparagraph neglects, however, to incorporate pre-AIA §102(e).

This omission precludes using patents and published applications in a CBM proceeding as of their effective filing dates, rather than as of their publication or grant dates. The word “patented,” as used in pre-AIA §102(a) and (b), makes a patent effective as prior art only as of its publication or grant date, and in any event extends only to issued patents rather than published applications—the former are mere “printed publications,” and thus effective as prior art only as of their publication dates.¹¹⁸ Section 9(e) of the Innovation Act corrects this legislative oversight, ensuring that the swarm of business-method patents and abandoned-but-published applications that followed the Federal Circuit’s *State Street* decision can serve as prior art in a CBM proceeding as of the date that they were filed, rather than as of when they were published.

As the Committee noted in its report accompanying the AIA, a petition to initiate a CBM review may be granted if the petitioner is either sued for or accused of infringement.¹¹⁹ The Committee reaffirms that a demand letter or other pre-litigation communication suggesting that infringement may have occurred constitutes an accusation of infringement and satisfies AIA §18(a)(1)(B)’s prerequisite for filing a petition for review.

5. “Arising Under” Jurisdiction and *Gunn v. Minton*

Prior to 2013, Federal Circuit and regional circuit caselaw recognized that certain causes of action, though created by state law, effectively determine the legal force or effect of the claims in a patent—and therefore “arise under” Federal patent law and are within

¹¹⁶See *April 2014 Hearing*, Statement of Robert A. Armitage, Former General Counsel, Eli Lilly & Co., at *21 (“I would urge the Committee to consider a simpler and more comprehensive statutory text . . . , 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.”).

¹¹⁷See Patents Post-Grant Blog, “The Statutory Defect That May Doom Your CBM Petition,” Sept. 23, 2013.

¹¹⁸See MPEP §2126; *In re Ekenstam*, 256 F.2d 321, 325 (CCPA 1958); 78 FR 11059, 11074 (Feb. 14, 2013).

¹¹⁹See H.R. REP. NO. 112–98, at 54 (2011).

the exclusive jurisdiction of the Federal district courts and the Federal Circuit.

These causes of action include, for example, state-law actions for breach of a licensing agreement in which liability turns on whether a party has sold products that infringe a patent.¹²⁰ Other such causes of action include state-law actions for business disparagement, unfair competition, injurious falsehood, or interference with prospective economic advantage in which liability depends on whether a patent is infringed by a product or whether the patent is invalid or unenforceable. Typically in such cases, a competitor sues the patentee because the patentee has informed the competitor's customers that the products that they have purchased from the competitor infringe the patentee's patent.¹²¹

Because the Federal Circuit and regional circuits agreed that these types of state-law causes of action, which effectively assign legal liability based on a determination of the scope and the validity of the claims in a patent, "arise under" Federal patent law, the Federal district courts had original (and removal) jurisdiction over such actions, and the Federal Circuit had appellate jurisdiction over them.

The Supreme Court's recent decision in *Gunn v. Minton*,¹²² however, has cast doubt over whether such actions continue to "arise under" Federal patent law. The Court's opinion concluded that "arising under" jurisdiction exists when the validity or construction of a Federal statute is in question, when a case's resolution will affect numerous other Federal cases, or when a case affects the Federal Government.¹²³

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

The Federal Circuit recently has suggested that its past cases finding "arising under" jurisdiction for patent-related state-law business disparagement and injurious falsehood claims "may well have survived the Supreme Court's decision in *Gunn*."¹²⁴ That statement, however, is only dicta, and the matter remains unresolved in the Federal Circuit. Moreover, some regional courts of appeals have begun to apply *Gunn* broadly. They effectively have treated *Gunn*'s partial enumeration of the factors that can render a patent issue "substantial" for purposes of arising under jurisdiction as an exclusive list of such factors.¹²⁵ Courts such as the Elev-

¹²⁰ See, e.g., *Scherbatskoy v. Halliburton Co.*, 125 F.3d 288 (5th Cir. 1997) (transferring appeal to the Federal Circuit); *U.S. Valves, Inc. v. Dray*, 190 F.3d 811 (7th Cir. 1999) (same).

¹²¹ See, e.g., *Additive Controls & Measurement Sys., Inc. v. Flowdata, Inc.*, 986 F.2d 476 (Fed. Cir. 1993); *Hunter Douglas, Inc. v. Harmonic Design, Inc.*, 153 F.3d 1318 (Fed. Cir. 1998), *overruled on other grounds*, *Midwest Indus., Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356 (Fed. Cir. 1999).

¹²² 133 S.Ct. 1059 (Feb. 20, 2013).

¹²³ See *Gunn*, 133 S.Ct. at 1066–67.

¹²⁴ *Forrester Envtl. Servs., Inc. v. Wheelabrator Techs., Inc.*, 715 F.3d 1329, 1334 (Fed. Cir. 2013).

¹²⁵ See *MDS (Canada) Inc. v. Rad Source Technologies, Inc.*, 720 F.3d 833, 842–43 (11th Cir. 2013) ("The substantiality inquiry under *Grable* looks [] to the importance of the issue to the

enth Circuit in *MDS (Canada) Inc.* have thus held that even a case in which liability turns on whether a particular product infringes a claim in a patent does not “arise under” the Federal patent laws.¹²⁶

It is important that “arising under” jurisdiction continue to extend to these types of cases. If it were otherwise, a patent owner could successfully prosecute an infringement action in Federal court with respect to a product, yet simultaneously be held liable for “business disparagement” in state court for asserting that the same product infringes the same patent. Similarly, a licensee manufacturer could successfully assert a defense of noninfringement in Federal court, yet be held liable for breach of contract in state court with respect to the same patent and the same product. One of the principal reasons for creating the Federal Circuit in 1982 was to prevent inconsistent adjudications as to the legal effect of a patent—that is, to avoid situations where one circuit finds a patent infringed by a product and valid and another circuit finds the opposite. But a broad reading of *Gunn* effectively threatens this very result.

Finally, the Committee has become persuaded that the Supreme Court’s holding in *Gunn* should be abrogated in its entirety, and that Federal courts’ jurisdiction over legal malpractice suits that arise out of patent litigation or prosecution should be restored.¹²⁷ The more difficult questions that are posed by such actions typically are ones of patent law, rather than legal-malpractice law. Some recent malpractice cases, for example, have involved questions of whether a patent application was directed to patent-eligible subject matter under the Supreme Court’s decision in *Alice Corp. Pty. Ltd. v. CLS Bank Int’l*, 134 S.Ct. 2347 (June 19, 2014).¹²⁸ State judges, however, do not hear patent cases. Federal courts, particularly with review centralized in the U.S. Court of Appeals for the Federal Circuit, typically have more experience with patent law cases and therefore are a better forum for evaluating whether an attorney’s patent litigation or prosecution practices were unreasonable.

Hearings

The House Committee on the Judiciary held a hearing on H.R. 9 on April 14, 2015. Testimony was received from the Honorable Michelle K. Lee, Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office; David M. Simon, Senior Vice President of Intellectual Property, Salesforce.com, Inc.; Hans Sauer, Ph.D., Deputy General Counsel for Intellectual Property, Biotechnology Industry Organiza-

Federal system as a whole,” *Gunn v. Minton*, ___ U.S. ___, 133 S.Ct. 1059, 1066, 185 L.Ed.2d 72 (2013), and the Supreme Court has identified three factors to assist in this inquiry. First, a pure question of law is more likely to be a substantial Federal question. *Empire Healthcare Assur., Inc. v. McVeigh*, 547 U.S. 677, 700–01, 126 S.Ct. 2121, 2137, 165 L.Ed.2d 131 (2006). Second, a question that will control many other cases is more likely to be a substantial Federal question. *Id.* Third, a question that the government has a strong interest in litigating in a Federal forum is more likely to be a substantial Federal question. *Grable*, 545 U.S. at 315–16, 125 S.Ct. at 2368–69. All of these factors establish that the issue of patent infringement here is not a substantial Federal question for the purpose of section 1338.”)

¹²⁶See *id.* at 846.

¹²⁷April 2015 hearing, Statement of Robert A. Armitage, Former General Counsel, Eli Lilly & Co., at *25.

¹²⁸See, e.g., “Antonelli Says *Alice* Kills Protostorm’s \$8M Malpractice Win,” Law360, January 13, 2015; “Dickstein Says *Alice* Shields It in IP Malpractice Case,” Law360, March 30, 2015.

tion; Kevin Kramer, Vice President and Deputy General Counsel for Intellectual Property, Yahoo! Inc.; and Robert A. Armitage, Former General Counsel, Eli Lilly & Co.

The Committee's Subcommittee on Courts, Intellectual Property, and the Internet also conducted two separate but related hearings on February 12, 2015 ("Examining Recent Supreme Court Cases in the Patent Arena," Serial No. 114-2), and March 25, 2015 ("Patent Reform: Protecting American Innovators and Job Creators from Abusive Patent Litigation," Serial No. 114-17).

In the previous Congress, the Committee held a hearing on patent reform: "Innovation Act: Hearing on H.R. 3309" (October 29, 2013, Serial No. 113-58). The Subcommittee also held two hearings: "Abusive Patent Litigation: The Impact on American Innovation & Jobs, and Potential Solutions" (March 14, 2013, Serial No. 113-13); and "Abusive Patent Litigation: The Issues Impacting American Competitiveness and Job Creation at the International Trade Commission and Beyond" (April 16, 2013, Serial No. 113-24).

Committee Consideration

On June 11, 2015, the Committee met in open session and ordered the bill H.R. 9 favorably reported with an amendment, by a rollcall vote of 24 to 8, a quorum being present.

Committee Votes

In compliance with clause 3(b) of rule XIII of the Rules of the House of Representatives, the Committee advises that the following rollcall votes occurred during the Committee's consideration of H.R. 9.

1. Amendment #3 to the Amendment in the Nature of a Substitute, offered by Mr. Conyers. This amendment creates a revolving fund for USPTO fees and extends the USPTO's authority to set its own fees by an additional 10 years. Failed by a rollcall vote of 11 to 16.

ROLLCALL NO. 1

	Ayes	Nays	Present
Mr. Goodlatte (VA), Chairman		X	
Mr. Sensenbrenner, Jr. (WI)		X	
Mr. Smith (TX)		X	
Mr. Chabot (OH)		X	
Mr. Issa (CA)		X	
Mr. Forbes (VA)		X	
Mr. King (IA)		X	
Mr. Franks (AZ)			
Mr. Gohmert (TX)			
Mr. Jordan (OH)			
Mr. Poe (TX)			
Mr. Chaffetz (UT)		X	
Mr. Marino (PA)		X	
Mr. Gowdy (SC)			
Mr. Labrador (ID)			
Mr. Farenthold (TX)		X	

ROLLCALL NO. 1—Continued

	Ayes	Nays	Present
Mr. Collins (GA)		X	
Mr. DeSantis (FL)			
Ms. Walters (CA)		X	
Mr. Buck (CO)		X	
Mr. Ratcliffe (TX)		X	
Mr. Trott (MI)		X	
Mr. Bishop (MI)		X	
Mr. Conyers, Jr. (MI), Ranking Member	X		
Mr. Nadler (NY)	X		
Ms. Lofgren (CA)		X	
Ms. Jackson Lee (TX)	X		
Mr. Cohen (TN)	X		
Mr. Johnson (GA)	X		
Mr. Pierluisi (PR)			
Ms. Chu (CA)	X		
Mr. Deutch (FL)	X		
Mr. Gutierrez (IL)			
Ms. Bass (CA)			
Mr. Richmond (LA)			
Ms. DelBene (WA)	X		
Mr. Jeffries (NY)	X		
Mr. Cicilline (RI)	X		
Mr. Peters (CA)	X		
Total	11	16	

2. Amendment #6 to the Amendment in the Nature of a Substitute, offered by Mr. Issa. This amendment extends the Transitional Program for Covered Business Method Patents by an additional 6 years. Failed by a rollcall vote of 13 to 18.

ROLLCALL NO. 2

	Ayes	Nays	Present
Mr. Goodlatte (VA), Chairman	X		
Mr. Sensenbrenner, Jr. (WI)	X		
Mr. Smith (TX)	X		
Mr. Chabot (OH)		X	
Mr. Issa (CA)	X		
Mr. Forbes (VA)	X		
Mr. King (IA)		X	
Mr. Franks (AZ)		X	
Mr. Gohmert (TX)	X		
Mr. Jordan (OH)			
Mr. Poe (TX)		X	
Mr. Chaffetz (UT)		X	
Mr. Marino (PA)	X		
Mr. Gowdy (SC)			
Mr. Labrador (ID)		X	
Mr. Farenthold (TX)	X		

ROLLCALL NO. 2—Continued

	Ayes	Nays	Present
Mr. Collins (GA)		X	
Mr. DeSantis (FL)		X	
Ms. Walters (CA)	X		
Mr. Buck (CO)		X	
Mr. Ratcliffe (TX)		X	
Mr. Trott (MI)			
Mr. Bishop (MI)		X	
Mr. Conyers, Jr. (MI), Ranking Member		X	
Mr. Nadler (NY)	X		
Ms. Lofgren (CA)		X	
Ms. Jackson Lee (TX)		X	
Mr. Cohen (TN)	X		
Mr. Johnson (GA)		X	
Mr. Pierluisi (PR)			
Ms. Chu (CA)	X		
Mr. Deutch (FL)		X	
Mr. Gutierrez (IL)			
Ms. Bass (CA)			
Mr. Richmond (LA)			
Ms. DelBene (WA)		X	
Mr. Jeffries (NY)		X	
Mr. Cicilline (RI)	X		
Mr. Peters (CA)	X		
Total	13	18	

3. Amendment #5 to the Amendment in the Nature of a Substitute, offered by Mr. Johnson. This amendment requires a prevailing party seeking a fee award to show that the position or conduct of the nonprevailing party was not objectively reasonable, and precludes fee awards for positions or actions that are de minimis or are not material to the outcome of the case. Failed by a rollcall vote of 10 to 22.

ROLLCALL NO. 3

	Ayes	Nays	Present
Mr. Goodlatte (VA), Chairman		X	
Mr. Sensenbrenner, Jr. (WI)			
Mr. Smith (TX)		X	
Mr. Chabot (OH)		X	
Mr. Issa (CA)		X	
Mr. Forbes (VA)			
Mr. King (IA)		X	
Mr. Franks (AZ)		X	
Mr. Gohmert (TX)		X	
Mr. Jordan (OH)		X	
Mr. Poe (TX)		X	
Mr. Chaffetz (UT)		X	
Mr. Marino (PA)		X	

ROLLCALL NO. 3—Continued

	Ayes	Nays	Present
Mr. Gowdy (SC)			
Mr. Labrador (ID)		X	
Mr. Farenthold (TX)		X	
Mr. Collins (GA)		X	
Mr. DeSantis (FL)		X	
Ms. Walters (CA)		X	
Mr. Buck (CO)		X	
Mr. Ratcliffe (TX)		X	
Mr. Trott (MI)		X	
Mr. Bishop (MI)		X	
Mr. Conyers, Jr. (MI), Ranking Member	X		
Mr. Nadler (NY)	X		
Ms. Lofgren (CA)		X	
Ms. Jackson Lee (TX)	X		
Mr. Cohen (TN)	X		
Mr. Johnson (GA)	X		
Mr. Pierluisi (PR)			
Ms. Chu (CA)	X		
Mr. Deutch (FL)	X		
Mr. Gutierrez (IL)			
Ms. Bass (CA)			
Mr. Richmond (LA)			
Ms. DelBene (WA)		X	
Mr. Jeffries (NY)	X		
Mr. Cicilline (RI)	X		
Mr. Peters (CA)	X		
Total	10	22	

4. Reporting H.R. 9 as amended. This bill makes improvements and technical corrections to title 35 and the Leahy-Smith America Invents Act. Reported by a rollcall vote of 24 to 8.

ROLLCALL NO. 4

	Ayes	Nays	Present
Mr. Goodlatte (VA), Chairman	X		
Mr. Sensenbrenner, Jr. (WI)			
Mr. Smith (TX)	X		
Mr. Chabot (OH)	X		
Mr. Issa (CA)	X		
Mr. Forbes (VA)	X		
Mr. King (IA)	X		
Mr. Franks (AZ)	X		
Mr. Gohmert (TX)		X	
Mr. Jordan (OH)			
Mr. Poe (TX)	X		
Mr. Chaffetz (UT)	X		
Mr. Marino (PA)	X		
Mr. Gowdy (SC)			

ROLLCALL NO. 4—Continued

	Ayes	Nays	Present
Mr. Labrador (ID)			
Mr. Farenthold (TX)	X		
Mr. Collins (GA)	X		
Mr. DeSantis (FL)	X		
Ms. Walters (CA)	X		
Mr. Buck (CO)			
Mr. Ratcliffe (TX)	X		
Mr. Trott (MI)	X		
Mr. Bishop (MI)	X		
Mr. Conyers, Jr. (MI), Ranking Member		X	
Mr. Nadler (NY)	X		
Ms. Lofgren (CA)	X		
Ms. Jackson Lee (TX)		X	
Mr. Cohen (TN)	X		
Mr. Johnson (GA)		X	
Mr. Pierluisi (PR)	X		
Ms. Chu (CA)	X		
Mr. Deutch (FL)		X	
Mr. Gutierrez (IL)			
Ms. Bass (CA)		X	
Mr. Richmond (LA)			
Ms. DelBene (WA)	X		
Mr. Jeffries (NY)	X		
Mr. Cicilline (RI)		X	
Mr. Peters (CA)		X	
Total	24	8	

Committee Oversight Findings

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

New Budget Authority and Tax Expenditures

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

Congressional Budget Office Cost Estimate

In compliance with clause 3(c)(3) of rule XIII of the Rules of the House of Representatives, the Committee sets forth, with respect to the bill, H.R. 9, the following estimate and comparison prepared by the Director of the Congressional Budget Office under section 402 of the Congressional Budget Act of 1974:

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, July 10, 2015.

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

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 9, the “Innovation Act.”

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

Sincerely,

KEITH HALL,
DIRECTOR.

Enclosure

cc: Honorable John Conyers, Jr.
Ranking Member

H.R. 9—Innovation Act.

As ordered reported by the House Committee on the Judiciary
on June 11, 2015.

H.R. 9 would change administrative and judicial processes that support the protection of intellectual property rights. The bill also would require reports by the Administrative Office of the United States Courts (AOUSC) and the Government Accountability Office.

Assuming appropriation of the necessary amounts, CBO estimates that implementing H.R. 9 would cost \$3 million over the 2016–2020 period, mainly for reports and administrative costs incurred by the AOUSC associated with new judicial procedures. Additionally, based on information from the Patent and Trademark Office (PTO), CBO estimates that implementing the bill would cost PTO about \$7 million per year to comply with the bill’s requirements. However, PTO is authorized to collect fees sufficient to offset its operating expenses; therefore, CBO estimates that the net budgetary effect of PTO’s activities undertaken to implement H.R. 9 would not be significant, assuming appropriation actions consistent with the agency’s authorities. Pay-as-you-go procedures do not apply to this legislation because it would not affect direct spending or revenues.

The bill would change procedures that PTO has in place to examine patent applications, award patents, and determine the validity of a patent that has already been granted. Among other things, H.R. 9 would specify that the agency use methods similar to those used in district courts to evaluate the validity of a patent. The bill also would require the agency to develop new databases to make information about patent ownership and litigation available on its website. Finally, the bill would require PTO, the Government Accountability Office and the AOUSC to prepare several studies and reports on topics ranging from patent ownership to the behavior of certain patent owners.

H.R. 9 would make several adjustments to judicial procedures for patent infringement cases, including which parties may join a suit and when a court is required to grant a motion to stay an action. Further, the bill would require the courts to award the prevailing party reasonable fees and other expenses incurred in connection with such cases. The bill also would require the AOUSC to develop rules and procedures related to the discovery of evidence in lawsuits for patent infringement. CBO expects that, by requiring inventors to be more specific in pleadings to the court, awarding attorney fees to the prevailing party, and limiting discovery early in an infringement proceeding, the bill would affect the decisions of inventors to initiate lawsuits for patent infringement.

H.R. 9 would impose a mandate as defined in the Unfunded Mandates Reform Act (UMRA) on both public and private entities because PTO would charge fees to offset the costs incurred to collect and make some information related to patent ownership and litigation publically available. Other provisions in the bill that change administrative procedures related to patents also would result in increased patent fees. The requirement to pay those fees would be a mandate because the Federal Government controls the patent and trademark system and no reasonable alternatives to the system exist.

Based on information from PTO, CBO estimates that the average annual cost to comply with the mandate would be about \$7 million, with less than \$150,000 of those costs accruing to public entities and the rest accruing to private entities. Therefore, the cost for public and private entities to comply with the mandate would fall well below the annual thresholds established in UMRA for both intergovernmental and private-sector mandates (\$77 million and \$154 million in 2015, respectively, adjusted annually for inflation).

The CBO contacts for this estimate are Susan Willie and Marin Burnett (for Federal costs), Melissa Merrell (for the impact on state and local governments), and Logan Smith (for the private-sector impact). The estimate was approved by H. Samuel Papenfuss, Deputy Assistant Director for Budget Analysis.

Duplication of Federal Programs

No provision of H.R. 9 establishes or reauthorizes a program of the Federal Government known to be duplicative of another Federal program, a program that was included in any report from the Government Accountability Office to Congress pursuant to section 21 of Public Law 111–139, or a program related to a program identified in the most recent Catalog of Federal Domestic Assistance.

Disclosure of Directed Rule Makings

The Committee estimates that H.R. 9 specifically directs to be completed two specific rule makings within the meaning of 5 U.S.C. 551.

Performance Goals and Objectives

The Committee states that pursuant to clause 3(c)(4) of rule XIII of the Rules of the House of Representatives, H.R. 9 amends title 35, United States Code, and the Leahy-Smith America Invents Act,

to curb abusive patent litigation practices, and to make improvements and technical corrections.

Advisory on Earmarks

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

Section-by-Section Analysis

Section 1. Short title; table of contents.

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

Section 2. Definitions.

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

Section 3. Patent infringement actions.

(a) pleading requirements

New §281A establishes heightened pleading requirements for claims of patent infringement. Subsection (a) requires a party asserting a claim of patent infringement to identify all patents that are alleged to be infringed, each product or process that is alleged to infringe each patent, and provide a detailed and specific explanation of how each limitation of a claim is met by the product or process, per patent.¹²⁹ For claims of indirect infringement, the com-

¹²⁹Section 281A was modified in the Committee’s executive session to address the concerns noted in the background section of this report. The Committee amendment eliminates requirements, for a given patent, to plead additional claims when another claim is pleaded with detailed specificity with respect to the same product or process. It has become clear over the course of the Committee’s consideration of this issue that an “all claims” pleading requirement would result in massively long complaints, would force the pleading of marginally relevant claims, and would inevitably lead to expensive and pointless motions practice. Paragraph (3)’s requirement to identify all accused instrumentalities, and paragraph (5)’s requirement to provide a detailed and specific explanation of how all claim limitations are met, is sufficient to identify which products, features, or components are accused of infringement and thus allow a defendant to determine whether it is already licensed to practice the asserted patents or is entitled to an indemnity from a supplier. Such information will effectively be disclosed because, for a given product or process, the complaint will make the defendant aware of all patents that such product or process allegedly infringes, and will provide a detailed, element-by-element explanation of why the product or process is alleged to infringe each such patent.

Some have suggested that an all-claims pleading requirement is desirable because a defendant would not be able to challenge asserted claims in an IPR if it does not have notice of all potentially asserted claims early in the litigation, given §315(b)’s 1-year bar on seeking an IPR after being sued for infringement. The Innovation Act squarely addresses this concern in targeted and efficient fashion in its §9(d)(3), which amends §315(c) of title 35 to allow a defendant, upon receiving notice of newly-asserted patent claims later in the litigation, to challenge these claims in an IPR through joinder to an earlier petition. In contrast, a requirement to plead all claims in the complaint would incentivize plaintiffs to plead even marginally relevant patent claims, thereby forcing defendants to seek IPR against a long list of patent claims that ultimately will not be pursued in the litigation. Moreover, since some amendments to pleadings must be allowed, the patent owner would still have the opportunity to assert new patent claims outside of §315(b)’s 1-year bar, leaving a defendant with no sure recourse to an IPR. Section 9(c)(3)’s amendments to §315(c) are a better solution to this problem.

Finally, it has become apparent—particularly since the House of Representative’s passage of the Innovation Act in the 113th Congress on December 5, 2013—that a proper application of *Ashcroft v. Iqbal*, 556 U.S. 662 (2009), and *Bell Atlantic Corp. v. Twombly*, 550 U.S. 544 (2007), does not require that all asserted patent claims be identified in a complaint. A patent claim is akin to a legal theory of liability, and the Supreme Court has made clear that the “[f]ederal pleading rules . . . do not countenance dismissal of a complaint for imperfect statement of the legal theory supporting the claim asserted.” *Johnson v. City of Shelby, Mississippi*, 135 S.Ct. 346 (Nov. 10, 2014); see also *Skinner v. Switzer*, 562 U.S. 521, ___, 131 S.Ct. 1289, 1296 (2011) (“under the Federal Rules of Civil Procedure, a complaint need not pin plaintiff’s claim for relief to a precise legal theory”). The Supreme Court has particularly emphasized that

Continued

plaint or claim must also describe the acts of indirect infringement that contribute to or induce the direct infringement. The complaint must also describe the authority of the party to assert the patent (*i.e.*, facts establishing an ownership interest in the patent sufficient to support standing) and the grounds for the court’s jurisdiction.

Subsection (b) allows a party to only generally describe information that is not readily accessible to it after a reasonable inquiry, though it must explain why the information is not accessible and describe what efforts it has made to obtain the information.

Subsection (c) preserves the liberal right to amend pleadings under the Federal Rules of Civil Procedure.¹³⁰

Subsection (d) provides for the filing of confidential information under seal.

(b) attorney’s fees

Subsection (a) of revised §285 provides that fees and expenses shall be awarded to a prevailing party unless the position and conduct of the nonprevailing party was reasonably justified in law and fact or special circumstances (such as economic hardship to the inventor) make a fee award unjust. This standard reflects the Supreme Court’s clarification of the standard employed by the Equal Access to Justice Act (EAJA),¹³¹ which governs the award of fees against the Federal Government. Enacted over 30 years ago, EAJA offers a well-developed body of caselaw to guide application of revised §285, and sets a standard that is predictable and fair.

Under this standard, there is no presumption that the nonprevailing party’s position was not reasonably justified simply because it lost the case.¹³² Even if a plaintiff’s allegations are rejected by the judge or jury, the plaintiff is immune from a fee award so long as its position had a reasonable basis in law and fact.¹³³ Fees cannot be awarded if the nonprevailing party’s case was justified to a degree that could satisfy a reasonable person,¹³⁴ or there was at least a dispute over which reasonable minds could differ.¹³⁵

When a case turns on a legal question, courts have looked to the clarity of the governing law—that is, whether judicial decisions on the issue left the status of the law unsettled, and whether the legal issue was novel or difficult.¹³⁶ On questions of statutory interpretation, for example, courts have asked whether the Federal courts were split on the matter,¹³⁷ or whether the nonprevailing party interpreted a statute in a manner that is contrary to its plain language and unsupported by its legislative history.¹³⁸

“[o]ur decisions in . . . *Twombly* and . . . *Iqbal* are not in point, for they concern the *factual* allegations a complaint must contain to survive a motion to dismiss.” *City of Shelby*, 135 S.Ct. at 347 (emphasis in original). A patent claim, of course, is not a fact—it forms no part of the defendant’s conduct. Rule 8 does not regulate which theories of liability are asserted or limit the parties to their “theory of the pleadings,” see 5 C. Wright & A. Miller, *Federal Practice & Procedure* §1219—and certainly does not require that all such possible theories be stated in a complaint.

¹³⁰ See Wright & Miller, *supra*, at §1219; *City of Shelby*, *supra*, at 347.

¹³¹ 28 U.S.C. §2412(d).

¹³² *Norris v. SEC*, 695 F.3d 1261, 1265 (Fed. Cir. 2012).

¹³³ *Pierce v. Underwood*, 487 U.S. 552, 565 (1988).

¹³⁴ *Id.*

¹³⁵ *Norris v. SEC*, 695 F.3d 1261, 1265 (Fed. Cir. 2012).

¹³⁶ *Id.*

¹³⁷ *DGR Assocs., Inc. v. United States*, 690 F.3d 1335, 1342 (Fed. Cir. 2012).

¹³⁸ *Patrick v. Shinseki*, 668 F.3d 1325, 1330–31 (Fed. Cir. 2011).

Subsection (a) clarifies that the special circumstances that justify the denial of a fee award to a prevailing party may include situations involving severe economic hardship to the inventor.¹³⁹ The courts have discretion in special circumstances to protect from a fee award, for example, the unsophisticated independent inventor who brought a lawsuit to protect what he may have understood to be his claimed invention but whose allegations were ultimately determined not to be reasonably justified.

This analysis is not conducted issue by issue; rather, the nonprevailing party's litigation position is reviewed in the overall context.¹⁴⁰ While the parties' postures on individual matters may be more or less justified, the reasonable-justification test favors treating a case as an inclusive whole, rather than as atomized line-items.¹⁴¹ Also, when determining whether a party is a prevailing party that is entitled to a fee award, courts consider the degree of success obtained by that party. A party whose "success" consists of a damage award that is only a very small fraction of what it originally sought is not entitled to a fee award.¹⁴²

As under the EAJA, a district court's decision to grant or deny a fee award under § 285(a) is reviewed for an abuse of discretion.¹⁴³ This deferential standard, however, "does not mean that a mistake of law is beyond appellate correction. A district court by definition abuses its discretion when it makes an error of law."¹⁴⁴

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

Subsection (c) of § 285 closes a potential loophole that an abusive litigant otherwise might be able to exploit to impose substantial costs on the opposing party with an unjustified complaint while evading accountability under subsection (a). Under the Supreme Court's *Buckhannon* decision, the "prevailing party" that is potentially entitled to a fee award includes only a party that has obtained from the court an "enforceable judgment on the merits" or a "court-ordered consent decree."¹⁴⁵ A defendant's "voluntary change in conduct," even if spurred by the plaintiff's lawsuit, is insufficient to make the plaintiff a prevailing party.¹⁴⁶

Under Federal Circuit precedent,¹⁴⁷ moreover, a patent owner can deprive a court of Article III jurisdiction over an accused infringer's counterclaims for invalidity or noninfringement by giving the accused infringer a covenant not to sue for infringement—and

¹³⁹The term "inventor" is defined at § 100(f) of title 35.

¹⁴⁰*DGR Assocs.*, 690 F.3d at 1343.

¹⁴¹*Id.* (quoting *I.N.S. v. Jean*, 496 U.S. 154, 161–62 (1990)).

¹⁴²*See, e.g., Hubbard v. United States*, 480 F.3d 1327 (Fed. Cir. 2007).

¹⁴³*Pierce v. Underwood*, 487 U.S. at 562–63.

¹⁴⁴*Koon v. U.S.*, 518 U.S. 81, 100 (1996) (citation omitted); *see also Cooter & Gell v. Hartmarx Corp.*, 496 U.S. 384, 402 (1990). Plenary review of the reasonableness of a nonprevailing litigant's position on a legal question is particularly appropriate in the context of patent infringement litigation because of the amounts likely to be at stake, the specialized nature of patent law and the Federal Circuit's familiarity with it, and the need to provide guidance to litigants as to, for example, the types of claim-construction and obviousness arguments that, even if ultimately unsuccessful, are nevertheless objectively reasonable.

¹⁴⁵*Buckhannon Bd. and Care Home, Inc. v. West Virginia Dep't of Health and Human Resources*, 532 U.S. 598, 604 (2001).

¹⁴⁶*Id.* at 605.

¹⁴⁷*Highway Equipment Co., Inc. v. FECO, Ltd.*, 469 F.3d 1027 (Fed. Cir. 2006).

thereby preclude the defendant from becoming a “prevailing party” on the basis of those counterclaims.¹⁴⁸ *Highway Equipment* also held, however, that such a covenant does *not* deprive the court of jurisdiction over the patent owner’s infringement complaint,¹⁴⁹ and that fees may be awarded to the defendant if the covenant results in dismissal of the complaint with prejudice.¹⁵⁰ *Highway Equipment* would thus appear to allow a defendant to obtain prevailing-party status and hold a plaintiff accountable for an unjustified litigation position.

Courts have also held, however, that a defendant is *not* a prevailing party if a complaint is dismissed *without* prejudice¹⁵¹—and district courts have discretion to determine whether a complaint is dismissed with or without prejudice.¹⁵² Moreover, *Highway Equipment* itself notes that the regional courts of appeals are divided as to whether even a dismissal *with* prejudice makes the defendant a prevailing party and potentially eligible for a fee award.¹⁵³ And finally, several regional courts of appeals have held that when a case is dismissed as moot—which a covenant not to sue would appear to require—the defendant is *not* a prevailing party and no fees may be awarded.¹⁵⁴

To avoid subjecting patent litigants to the uncertainty surrounding this still-developing area of the law, subsection (c) provides that an infringement claimant who unilaterally extends a covenant not to sue to the opposing party shall be deemed to be the nonprevailing party for purposes of subsection (a). Subsection (c) applies only if the plaintiff acts unilaterally—it does not apply if, for example, the parties jointly stipulate to dismissal of the case. Subsection (c), by deeming the defendant the prevailing party, preserves only the possibility of a fee award. A plaintiff deemed nonprevailing under subsection (c) would not be subject to a fee award if its position and conduct were reasonably justified or special circumstances would make an award unjust. Subsection (c) protects the rights of a defendant who believes that he has been the target of an abusive complaint, and who would have preferred to continue the litigation in order to hold the plaintiff accountable for his position or conduct under subsection (a).

An exception is made to subsection (c) for a plaintiff who seeks dismissal of his claims early in the litigation, when he would be allowed to do so without a court order under Rule 41. A patentee who timely reconsiders the wisdom of his infringement claims, extends a covenant not to sue to the opposing party, and seeks such early dismissal of his complaint would remain immune from the possi-

¹⁴⁸ *Id.* at 1033 n.1; see also *Cisco Sys., Inc. v. Alberta Telecomms. Research Ctr.*, 538 Fed. App’x 894, 898 (Fed. Cir. Aug. 29, 2013).

¹⁴⁹ *Highway Equip. Co.*, 469 F.3d at 1033 n.1.

¹⁵⁰ *Id.* at 1035–36.

¹⁵¹ See *Jerowski v. Federal Mine Safety and Health Review Comm’n*, 697 F.3d 651 (7th Cir. 2012); *Newport News Holdings Corp. v. Virtual City Vision, Inc.*, 650 F.3d 423, 444 (4th Cir. 2011).

¹⁵² See *Highway Equip. Co.*, 469 F.3d at 1034; Wright & Miller’s Federal Practice and Procedure § 2364.

¹⁵³ See *Highway Equip. Co.*, 469 F.3d at 1032, 1036.

¹⁵⁴ *Doe v. Nixon*, 716 F.3d 1041, 1050–51 (8th Cir. 2013); *Dionne v. Floormasters Enters., Inc.*, 667 F.3d 1199, 1205–06 (11th Cir. 2012); *Demis v. Sniezek*, 558 F.3d 508, 513 (6th Cir. 2009); *Ma v. Chertoff*, 547 F.3d 342, 344 (2nd Cir. 2008); *Biodiversity Conservation Alliance v. Stem*, 519 F.3 1226, 1230 (10th Cir. 2008) (O’Connor, J.). A dismissal on account of the plaintiff’s extension of a covenant not to sue—whether with or without prejudice—also appears to tread closely to mooted the action through a voluntary cessation of conduct—the scenario that *Buckhannon* found to make a party immune from a fee award.

bility of an award of attorney’s fees. The abusive litigant, however, who delays and forces the defendant to incur large costs—and who subsequently dismisses his complaint and unilaterally extends a covenant not to sue in order to moot the defendant’s counter-claims—could be held to account under subsection (a).¹⁵⁵

Section 3(b)(2)(B) of the Innovation Act strikes subsections (f) and (g) of §273 of title 35. Subsection (f) deems particular cases “exceptional” for purposes of §285—a standard that will no longer be employed by §285. Subsection (g) provides that a patent shall not be deemed invalid solely because a defense is established under §273. The subsection ensures that the fact that a patent owner or third party made secret use of an invention that qualifies as a prior commercial use within the meaning of §273 will not necessarily result in a loss of right to patent.¹⁵⁶ Because such uses, however, are not invalidating under current law, subsection (g) no longer serves any purpose and is repealed.¹⁵⁷

Section 3(b)(3) of the Act applies revised §285 to cases filed on or after the date that is 6 months prior to the enactment of the Act. This is in accord with precedents applying new fee-shifting statutes to pending cases,¹⁵⁸ and will preclude an unseemly rush to file cases in the period immediately prior to the enactment of the Act.

(c) joinder of interested parties

New §299(d) of title 35 provides that if a plaintiff is unable to pay fees and expenses awarded pursuant to §285, the court may join in the action and hold liable for fees any interested party of that plaintiff. The provision was modified in the Committee’s executive session to make clear that it applies only to patent assertion entities, and does not apply to start-up companies or to named inventors or coinventors who are asserting their patents.¹⁵⁹ Section 299(d) also does not extend liability to bona fide employees of the plaintiff, law firms compensated in relation to the legal services provided, or passive investors who lack the ability to direct or control the patentee’s litigation. New paragraph (4) provides that the provision is not triggered unless the defendant files an initial statement indicating that the patentee is a patent assertion entity, and

¹⁵⁵ It is clear that a defendant in an infringement action whose success in a copending reexamination or review proceeding results in dismissal of the civil action is regarded as the prevailing party in the civil action. *See, e.g., Inland Steel Co. v. LTV Steel Co.*, 364 F.3d 1318, 1320–21 (Fed. Cir. 2004). This rule is legally well-grounded and is sound policy, given the extent to which such proceedings increasingly serve as an alternative to, and are statutorily intertwined with, district court actions. *See, e.g., 35 U.S.C. §315(b)*. The Committee thus declines to displace or disturb this rule.

¹⁵⁶ *New Idea Farm Equip. Corp. v. Sperry Corp.*, 916 F.2d 1561, 1566 (Fed. Cir. 1990); *Woodland Trust v. Flowertree Nursery, Inc.*, 148 F.3d 1370–71 (Fed. Cir. 1998).

¹⁵⁷ *See Examination Guidelines for Implementing the First Inventor To File Provisions of the Leahy-Smith America*

Invents Act, 78 Fed. Reg. 11059, 11062, 11075 (Feb. 14, 2013). Subsection (g) is preserved with respect to the limited universe of pre-AIA patents to which §273 applies.

¹⁵⁸ *See Bradley v. School Bd. of City of Richmond*, 416 U.S. 696 (1974); *Hutto v. Finney*, 437 U.S. 678, 694 n.23 (1978) (“this court’s general practice” is to apply newly enacted fee-shifting statutes to “all cases pending on the date of enactment”).

¹⁵⁹ Start-up companies and research universities are protected by paragraph (7)(B), which excludes from §299(d)’s reach those who commercially practice, make substantial preparations to commercially practice, or conduct research in “technology in the field of the subject matter.” “Technology” has the same meaning in paragraph (7)(B) as in §18 of the AIA, and does not include mere business methods. *See Leahy-Smith America Invents Act*, PUB. L. NO. 112–29, §18(d)(1) (2011); *Transitional Program for Covered Business Method Patents—Definitions of Covered Business Method Patent and Technological Invention*, 77 Fed. Reg. 48,734, 48,735 (Aug. 14, 2012) (discussing 37 C.F.R. §42.301).

the patentee fails to certify and demonstrate that it is not a patent assertion entity or that it will be able to satisfy a fee award.

(d) stay of discovery pending preliminary motions

New § 281B stays discovery in patent cases during the pendency of certain preliminary motions. Such a stay only applies if the preliminary motion is filed within 90 days of the service of the complaint. The stay expires when all motions are decided, and the motions must be decided before a scheduling order is issued or other substantive motions are decided. An exception to the stay of discovery is allowed for discovery necessary to decide the preliminary motion, when necessary to prevent competitive harm to the patent owner, or when the parties consent to an exception.

(e) sense of congress

Subsection (e) expresses the sense of congress with respect to patent demand letters.

(f) demand letters

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

(g) venue

Paragraph (1) establishes limits on the venue where a patent-infringement action or declaratory-judgment invalidity or non-infringement action may be brought. Amended § 1400(b) limits patent venue to the district where the defendant is headquartered or incorporated, where it has a regular and established physical facility that gives rise to the acts of infringement, where the defendant has agreed or consented to be sued for the action in question, where the named inventor or a co-inventor conducted research and development that led to the patent in suit, or where a party has a regular and established physical facility that it controls and operates, not primarily for purposes of creating venue,¹⁶⁰ and from which such party managed research and development that led to the patent or where it made a tangible product that embodies the patent in suit.¹⁶¹ For foreign defendants that are not headquartered or incorporated in the United States and who lack a regular and estab-

¹⁶⁰In assessing whether activities are undertaken primarily for purposes of establishing venue, courts should consider the nature of the plaintiff and the place where venue is sought. An operating company should be presumed to undertake its activities primarily in pursuit of those operations, and discovery into its motives for establishing its facilities in an area is unnecessary. For an entity that lacks a substantial interest in the patent other than asserting it in litigation, the court should consider the district where venue is sought. If the chosen venue is not one that is disproportionately burdened with patent litigation, and the plaintiff engages in significant research and development or manufacturing, the choice of venue should be presumed bona fide and discovery is unnecessary absent substantial initial evidence to the contrary. When, however, an entity that lacks a substantial non-litigation interest in the patent asserts that venue is present in a district that is disproportionately burdened with patent cases, the plaintiff should bear the burden of demonstrating that it satisfies all of paragraph (5)'s requirements, and some discovery may be appropriate.

¹⁶¹Because such activities must be significant, bona fide, and result in the production of tangible goods, merely replicating software or running a website is not sufficient to satisfy subparagraphs (B) and (C).

lished physical facility in the United States, venue is provided under § 1391(d) of title 28.

Paragraph (2) provides enhanced access to mandamus relief for a party whose motion to transfer on the basis of new § 1400(b) has been improperly denied. Under Federal Circuit precedent, “three conditions must be satisfied before [mandamus relief] may issue.” *In re Procter & Gamble Co.*, 749 F.3d 1376 (Fed. Cir. 2014). “The petitioner must show a clear and indisputable right to relief. The petitioner must lack adequate alternative means to obtain the relief it seeks. And even if the first two prerequisites have been met, the issuing court, in the exercise of its discretion, must be satisfied that the writ is appropriate under the circumstances.”¹⁶²

The *P&G* case involved a request by a patent owner for mandamus to prevent the USPTO from instituting an IPR for a patent. The court denied relief, partly on the basis that “this is not one of the rare situations in which irremediable interim harm can justify mandamus, which is unavailable simply to relieve P&G of the burden of going through the inter partes review.” In support of this proposition, the court cited *In re Roche Molecular Sys., Inc.*,¹⁶³ which it characterized as holding that a mandamus “petitioner’s hardship and inconvenience in going through trial d[oes] not provide a basis for mandamus.”

Paragraph (2) removes a barrier to mandamus review of denials of motions to transfer or dismiss on the basis of new § 1400(b). It does so by stating that being subjected to trial in a district where venue is improper *does* constitute irremediable interim harm. To obtain relief, however, the mandamus petitioner still must show a clear and indisputable right to relief—this requirement is repeated in paragraph (2) in order to make clear that the paragraph does not displace this element of the *P&G* test. The third prong of that test also remains in place: the issuing court must be satisfied that the writ is appropriate under the circumstances.¹⁶⁴ This element of the *P&G* test ensures that the Federal Circuit will retain the ability to control its docket and will not be forced to entertain an overwhelming number of petitions.¹⁶⁵ By placing a proverbial thumb on the scale in favor of mandamus relief, however, paragraph (2) ensures that new § 1400(b)’s writ will run in all judicial districts.¹⁶⁶

Paragraph (3) provides that the retail facilities of a defendant who also manufactures the accused product—and who is thus ineligible for a customer stay under new § 296—cannot serve as the basis for venue under new paragraph (2) of § 1400(b). Amended § 296 reflects a policy judgment that infringement suits against re-

¹⁶² *Id.* (citations omitted).

¹⁶³ 516 F.3d 1003, 1004 (Fed. Cir. 2008).

¹⁶⁴ In assessing whether issuance of the writ is appropriate, the Court may consider, for example, whether relief is sought from a district that is burdened with a disproportionate number of patent infringement actions, and whether the passage of time and the development of caselaw applying amended § 1400(b) has resulted in a proportionate distribution of patent litigation across judicial districts and thus rendered continued enhanced access to mandamus relief unnecessary.

¹⁶⁵ To further conserve Federal appellate resources, the Court may dispose of mandamus petitions by remand for reconsideration in view of intervening authority, or by summary reversal.

¹⁶⁶ The Committee is aware that some industry representatives have recommended that decisions on motions to transfer be made subject to interlocutory appeal. See *May 2015 Senate hearing*, Statement of Mark Chandler, Senior Vice President and General Counsel, Cisco Systems Inc., at *12. The Committee is at the present time persuaded that enhanced access to mandamus relief will be sufficient to ensure that the amended § 1400(b) is consistently and effectively enforced. Should this prove not to be the case, however, the Committee will revisit the question of whether an interlocutory appeal should be authorized.

tailers are disfavored. Consistent with that principle, paragraph (3) provides that a manufacturer’s retail facilities alone cannot serve as a basis for venue. Paragraph (3) also ensures that such retailer-manufacturers are not deterred from establishing retail facilities in locations where they prefer not to be amenable to suit.

Paragraph (4) clarifies that the presence of a defendant’s teleworkers in a district cannot serve as a basis for patent-infringement venue.

(h) effective date

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

Section 4. Transparency of patent ownership.

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

Section 5. Customer-suit exception.

New § 296 codifies and strengthens the common-law customer-suit exception to a patent plaintiff’s presumptive entitlement to her choice of venue. It requires grant of a timely motion to stay the suit against the customer if the manufacturer has joined the suit or filed a related suit and the customer agrees to be bound by the final resolution of common issues in the manufacturer’s suit without the opportunity to separately litigate such issues.¹⁶⁷ In addition, if the manufacturer was made a party to the action on motion by the customer, a stay is mandatory only if the manufacturer and customer agree in writing to the stay.

Section 296 was narrowed in the Committee’s executive session to provide that only a retailer or consumer end user can qualify as the “covered customer” who may seek a mandatory stay. The definition of covered customer at paragraph (1) makes clear that the term does not include a party that has modified the accused product or process in a manner that is alleged to infringe the patent in suit, and the definitions of “retailer” and “end user” at paragraphs (5) and (6) make clear that covered customers do not include those who make or cause the making of the infringing product.¹⁶⁸ Paragraph (2)’s definition of the covered manufacturer does,

¹⁶⁷ Subsection (b)(2) limits the estoppel effect of the manufacturer’s suit to those issues for which the other elements of the doctrine of issue preclusion are met. Issue preclusion bars an action when “(1) the issue is identical to one decided in the first action; (2) the issue was actually litigated in the first action; (3) resolution of the issue was essential to a final judgment in the first action; and (4) the plaintiff had a full and fair opportunity to litigate the issue in the first action.” *Laguna Hermosa Corp. v. United States*, 671 F.3d 1284, 1288 (Fed. Cir. 2012). Thus a customer who obtains a § 296 stay will be bound as to identical and actually litigated issues whose resolution was essential to the final judgment in the manufacturer’s suit.

¹⁶⁸ Because the reported version of § 296 precludes intermediate manufacturers or distributors who supply retailers (rather than sell to the public) from obtaining a stay, it moots concerns that were raised by a witness at a Subcommittee hearing that the statutory customary stay would allow a series of successive stays to be obtained by distributors and manufacturers of the infringing product. See *March 2015 hearing* at 33–35 (Statement of Bryan Pate, Co-Founder and

however, include those who make or supply the covered product or a relevant part thereof. Thus a downstream manufacturer or wholesaler may not seek the stay, but the customer or retailer may obtain a stay based on the participation in the action or a separate action of the upstream supplier of the relevant part.¹⁶⁹

Section 296 eliminates the inconsistencies in current law’s application of the customer-suit exception that are described in the background section of this report. It authorizes a stay, for example, whether the manufacturer is a party to the customer suit or to a separate related action, and it allows the customer and manufacturer to obtain a stay despite the fact that the customer is the only party accused of directly infringing a method claim or the customer has been accused of inducement of infringement.¹⁷⁰

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

Subparagraph (B) allows an exception where a stay unreasonably prejudices or would be manifestly unjust to a party seeking to lift the stay. This would include, for example, a case in which it is clear that the manufacturer would be unable to satisfy a substantial damages judgment and the patent owner’s only true recourse is against infringing customers. A stay may also unreasonably prejudice a party if it is clear that the purported customer provided the infringing specifications, or the stay would be contrary to a negotiated agreement between the parties that is more than a mere contract of adhesion.

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

CEO, ElliptiGO, Inc.). Because only retailers and customers can obtain the stay, the first stay will have been obtained in favor of an action involving a supplier that will not itself be able to seek a stay.

¹⁶⁹ Per subsection (c)(1)(A), however, a stay may not be maintained if the part that was supplied by the manufacturer is not a material part of the claimed invention. A part is “relevant” only if it is what infringes the asserted claim.

¹⁷⁰ “[E]fficiency and judicial economy” have been described as the “guiding principles” for interpreting and applying the common-law customer suit exception. *Lonestar Inventions, L.P. v. Sony Elecs. Inc.*, Civil Action No. 6:10-CV-588-LED-JDL (E.D. Tex. 2011). To ensure that this type of judicial solipsism does not infect the interpretation of § 296, the Committee emphasizes that the guiding principles for interpreting and applying the statutory customer-suit stay—as expressed by witnesses testifying before the Committee

and Subcommittee—is to protect customers against the inherently coercive nature of infringement suits directed at products or processes that the defendant did not develop or design.

Subsection (f) makes clear that § 296 only prescribes the conditions for a *mandatory* stay, and that courts retain discretion to grant a customer stay in other circumstances, including under the authority of § 296 itself. A court exercising its discretionary authority to grant a stay or expand a stay under § 296 should disregard the arbitrary limitations on customer stays described in the background section of this report, such as rules followed by some courts that stays may not be entered in component cases or when the manufacturer only induces infringement. Rather, courts exercising the discretionary stay authority preserved by subsection (f) should be guided by the principles embodied by § 296: that a customer stay is appropriate when it is clear that a manufacturer who is willing to litigate the case is in a better position to understand and defend against the allegations of infringement.¹⁷¹

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

Subsection (a) requires six or more district courts that are currently participating in the patent pilot program to develop rules and procedures to address the asymmetries in discovery burdens and costs in patent cases and address case management procedures in patent cases. Subsection (b) requires the six courts to implement these rules as a pilot program. Subsection (c) authorizes the Judicial Conference to apply all or some of the rules and procedures to all district courts after they have been in effect for 2 years.

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

Subsection (e), by adding 11 U.S.C. § 365(n) to the mandatory provisions that must apply in a Chapter 15 bankruptcy proceeding when relevant, provides certainty to licensees of patents and other intellectual property by guaranteeing that such licenses cannot be terminated in the United States via a foreign bankruptcy proceeding. The amendment also clarifies that trademark licenses are protected against being voided in bankruptcy, effectively codifying the Seventh Circuit's approach in *Sunbeam Prods., Inc. v. Chicago Am. Mfg., LLC*.¹⁷² Because of the importance of providing certainty to manufacturers that they will be allowed to practice licensed technology in the United States, the amendment is made fully retroactive, applying to cases pending at any level of appeal or review.

Subsection (f) requires the Judicial Conference to prepare a report on discovery in patent cases.

¹⁷¹The pre-Innovation Act version of § 296, which was enacted in 1992 and attempted to address the Eleventh Amendment immunity of states, was voided in its entirety in 1999 by the Supreme Court in its decision in *Florida Prepaid Postsecondary Education Expense Board v. College Savings Bank*, 527 U.S. 627 (1999). The Innovation Act reclaims this long-dormant code section. To the extent that states and their subdivisions do not enjoy Eleventh Amendment immunity against patent-infringement actions, that liability is codified and preserved by § 271(h) of title 35, which continues to provide that liability for patent infringement extends to "any State, any instrumentality of a State, and any officer or employee of a State or instrumentality of a State acting in his official capacity."

¹⁷²686 F.3d 372 (7th Cir. 2012) (Easterbrook, J.).

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

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

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

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

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

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

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

Subsection (e) requires the USPTO to conduct a study on patent demand letters.

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

Subsection (g) requires the USPTO to conduct a study on the impact of the Innovation Act on individuals and small businesses owned by women, minorities, and veterans to secure and assert patents.

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

(a) repeal of could-have-raised estoppel for civil litigation following post-grant review

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

(b) reform of PTAB proceedings

Paragraphs (1) and (2) direct the USPTO to follow civil-litigation standards of claim construction, currently authoritatively described in *Phillips v. AWH Corp.*,¹⁷³ when construing claims in AIA trials. The USPTO will be permitted to continue to give claims their broadest reasonable interpretation during examination and in

¹⁷³ 415 F.3d 1303 (Fed. Cir. 2005).

other administrative proceedings.¹⁷⁴ This subsection also requires the PTAB to consider an existing district court claim construction of relevant terms in a patent when the PTAB is construing those terms, but allows the Board to reject a district court interpretation that it finds to be clearly erroneous.

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

Paragraphs (1) and (2) also require a petitioner for an AIA trial to certify that she does not hold a short position in the stock of the patent owner, and has not demanded anything of value from the patent owner in exchange for not filing the petition. The Committee anticipates that the prospect of disciplinary proceedings under § 32 and sanctions under §§ 316(a)(6) and 326(a)(6) will be sufficient to ensure accurate certifications, and thus discovery into such matters under §§ 316(a)(5) and 326(a)(5) will not be warranted.

Paragraph (3) exempts CBM proceedings from the first of the new requirements applied by paragraph (2).

Paragraph (4) requires the USPTO to allow patent owners to present the same type of declaration evidence in their preliminary responses under §§ 313 and 323 that petitioners are permitted to include in a petition for an AIA trial.

Paragraph (5) requires the USPTO to consider the rights of due process of patent owners and petitioners when promulgating and applying regulations implementing AIA trials.

Paragraph (6) makes precedential several PTAB decisions applying §§ 325(d) and 315(e)’s restrictions on serial or redundant petitions. Section 325(d) in particular is an important guarantee of “patent peace”—it applies when the same or substantially the same prior art or arguments have been considered by the Office, and does not depend on an identity between the parties asserting such art or arguments. The more recent PTAB decisions made precedential by this paragraph signal a departure from early Board decisions that inappropriately relied on § 325(d)’s discretionary nature to simply ignore its limitations without explanation,¹⁷⁵ or that suggested that mere inclusion of a declaration or a new but cumulative secondary reference necessarily defeats application of § 325(d)’s

¹⁷⁴ Use of the broadest reasonable interpretation of claims is appropriate during prosecution and reexamination of a patent because, during such proceedings, “a patent applicant has the opportunity and the responsibility to remove any ambiguity in claim term meaning by amending the application.” *In re Bigio*, 381 F.3d 1320, 1324 (Fed. Cir. 2004). “Only in this way can uncertainties of claim scope be removed, as much as possible, during the administrative process.” *In re Zletz*, 893 F.2d 319, 321 (Fed. Cir. 1990). By requiring the patentee or applicant to address at least those ambiguities identified by the examiner during the administrative process, the PTO thus avoids leaving “the public to guess about which language the drafter deems necessary to his claimed invention and which language is merely superfluous, nonlimiting elaboration.” *Bicon, Inc. v. The Straumann Co.*, 441 F.3d 945, 950 (Fed. Cir. 2006).

¹⁷⁵ See, e.g., *Research in Motion Corp. v. Multimedia Ideas LLC*, IPR2013–00036, Paper 15 (PTAB Mar. 18, 2013).

strictures regarding petitions presenting the same or substantially the same prior art.¹⁷⁶

Paragraph (7) authorizes the Director to allow a petitioner’s reply to the patent owner’s preliminary response under § 313, and adjusts other time limits to accommodate such a reply. Such a reply may only be allowed, however, if the preliminary response raises new issues—for example, if the patent owner alleges that the petition is barred by § 315(b) or should be rejected because the petitioner has not disclosed all of its real parties in interest.

(c) *obviousness-type double patenting*

Section 9(c) codifies double patenting principles that heretofore have been almost entirely administered through non-statutory, judicially imposed grounds for invalidating patents.¹⁷⁷ This codification will supersede the entirety of the judge-made double patenting doctrine for first-inventor-to-file patents.

The new statutory provisions will implement a fundamental principle underlying all of U.S. patent law—specifically, that each of the valid claims of any one issued U.S. patent should be “patentably distinct” (*i.e.*, differ in some inventive manner) from each of the valid claims of every other issued U.S. patent. When existing statutory prior art limitations would otherwise fail to ensure this result, the new double patenting prior art provisions for first-inventor-to-file patents will apply to require that any two such patents containing patentably indistinct claims cannot both be valid absent enforcement-related restrictions that operate to prevent the separate enforcement of the two patents.

The new prior art provisions in 35 U.S.C. § 102(e) apply to any pair of first-inventor-to-file patents that are not otherwise prior art to one another by rendering the claims from one (or both) of the respective patents prior art with respect to the claims of the other patent.¹⁷⁸ This prior art effect is subject to two exceptions.

First, under proposed § 102(e)(1), if the issuance of separate patents resulted from a “restriction requirement” imposed by the Office,¹⁷⁹ the prior art relationship under § 102(e) is avoided to the extent that the claims of the two patents are limited in a manner consonant with a requirement for restriction.¹⁸⁰ This “restriction requirement” exception supersedes a corresponding statutory “safe harbor” provision contained in the third sentence in 35 U.S.C.

¹⁷⁶ See, *e.g.*, *Innolux Corp. v. Semiconductor Energy Lab. Co., Ltd.*, IPR2013–00064, Paper 11 (PTAB April 30, 2013).

¹⁷⁷ Under § 9(c)(2)(A), the new statutory double patenting provisions for first-inventor-to-file patents apply to the same extent as though these new provisions had been enacted as part of the America Invents Act. This effect for the amendments to 35 U.S.C. § 102 assures that all first-inventor-to-file patents will be subject to the same prior art provision within the patent statute.

¹⁷⁸ New 35 U.S.C. § 102(e) establishes a claim-by-claim prior art relationship between each pair of claims of the two patents for which neither of the pair of claims was otherwise prior art to the other. It does so by making the claim (the “first claim”) from the earlier-filed patent (the “first patent”) prior art to the claim (the “second claim”) from the later-filed patent (the “second patent”). If the pair of claims from the two patents were both effectively filed on the same day, then each is made prior art to the other (*i.e.*, each claim becomes both a “first claim” from a “first patent” and a “second claim” from a “second patent”).

¹⁷⁹ A “restriction requirement” is an administrative finding by a patent examiner that the claims of a single patent application properly belong in separate patents. It is grounded on the examiner’s determination that division of the claims into separate patents is appropriate because the respective claimed inventions that would issue in separate patents are independent and distinct. See 35 U.S.C. § 121.

¹⁸⁰ See *St. Jude Medical, Inc. v. Access Closure, Inc.*, 729 F. 3d 1369, 1377 (Fed. Cir. 2013).

§ 121.¹⁸¹ Section 9(c)(1)(B) repeals that sentence in § 121 for first-inventor-to-file patents. The repeal eliminates the possibility of any confusion that might otherwise arise as to the possible continued relevance of the repealed text or its possible inconsistency with the exception set forth in new § 102(e)(1).¹⁸²

Second, when the owner of the later-sought of the two patents (or each of the respective owners of the two patents if their patents were effectively filed on the same day) has elected to limit the separate enforcement of its patent, the prior art relationship that would otherwise be imposed under 35 U.S.C. § 102(e) is removed. This election requirement is provided in proposed § 102(e)(2) and has two separate components.

Under the first component, the right to bring an action to enforce a patent for which the § 102(e)(2) election has been made, *i.e.*, an “election patent,”¹⁸³ is disclaimed to the extent that such an enforcement action would have been barred by *res judicata* had the asserted claims of the election patent instead been issued in the other patent involved in the double patenting.¹⁸⁴ This requirement limits the ability to bring a separate enforcement action asserting the election patent where the other patent has already been enforced.

The second component of the election establishes requirements that apply to the owner of the other patent involved in the double patenting. These requirements must be met by the owner of the other patent before the election patent can be enforced, and they apply to the owner of the other patent until it is no longer possible to bring or maintain an action to enforce that patent. This second component requires that the owner of the other patent either must have filed its own election to limit separate enforcement of the other patent under § 102(e)(2), or it must be a party to the action to enforce the election patent.¹⁸⁵

Any election patent is subject to a further limitation with respect to the term of the patent. Patents subject to the 20-year patent term provision of the URAA may qualify for patent term adjustments that can move the expiration date of the patent beyond the end of the 20-year term measured from the priority date.¹⁸⁶ Patent term adjustment can result in situations where the combined protection period for the two patents involved in the double patenting could exceed the 17-year maximum term of protection that the patent term adjustment provisions were intended to secure.¹⁸⁷

¹⁸¹ Under 35 U.S.C. § 121, third sentence, double patenting is made inapplicable to divisional applications where claims are consonant with a restriction requirement. This sentence is unnecessary given the codification contained in 35 U.S.C. § 102(e)(1).

¹⁸² For example, the “divisional application” limitation contained in the 35 U.S.C. § 121 (third sentence) “safe harbor” is not present in the 35 U.S.C. § 102(e)(1) exception, and thus the holding in *Pfizer, Inc. v. Teva Pharmaceuticals USA, Inc.*, 518 F. 3d 1353, 1362 (Fed. Cir. 2008), that is based on this limitation is inapplicable to § 102(e)(1).

¹⁸³ For convenience, a patent in which an election under 35 U.S.C. § 102(e)(2) has been made is referred to as an “election patent” herein. As noted *supra*, it is described in 35 U.S.C. § 102(e) itself as a “second patent.”

¹⁸⁴ See § 102(e)(2)(A).

¹⁸⁵ See § 102(e)(2)(B). The second component of the election requirement is inherently satisfied when the two patents involved in the double patenting are owned by the same person. In double patenting situations, other than those arising under § 102(c), common ownership of both patents involved in the double patenting is typically present.

¹⁸⁶ See 35 U.S.C. § 154(b).

¹⁸⁷ See 35 U.S.C. § 154(b)(1)(B), setting forth a “GUARANTEE OF NO MORE THAN 3-YEAR APPLICATION PENDENCY,” a provision designed to ensure that 17 years of the 20-year patent term would remain once the pending application issued as a patent. Nothing in the patent term adjustment

Section 9(c)(1)(D) provides a limitation on patent term adjustment that voids any adjusted patent term for an election patent to the extent that the combined post-issuance patent term for both patents involved in the double patenting would exceed 17 years.¹⁸⁸ This limitation can eliminate eligibility for patent term adjustment for an elected patent altogether in certain situations.¹⁸⁹ Subparagraph (D) operates to remove the last vestige of the type of pre-URAA extensions of patent rights that justified limiting the patent terms of URAA patents in situations of double patenting.¹⁹⁰

Because the new prior art provisions of § 102(e) will apply to all first-inventor-to-file patents, including patents issued before the date of enactment, a “savings clause” in § 9(c)(2)(B) of the Innovation Act makes new § 102(e) inapplicable to any patent issued before the date of enactment that would not have been invalid absent the enactment of § 102(e).

Section 9(c)(2)(C) reaffirms the Office’s practice of making provisional rejections for double patenting. This provision expressly authorizes the Office to continue to make provisional rejections for double patenting prior to the issuance of patents on applications containing patentably indistinct claims.

Section 9(c)(2)(D) discontinues the Office’s practice of requiring disclaimers of patent term in situations involving double patenting for patents subject to the 20-year URAA patent term.¹⁹¹ In lieu of the current “terminal disclaimer”¹⁹² requirements, the Office is permitted to condition the issuance of a patent subject to the 20-year URAA patent term on the filing of an election under 35 U.S.C. § 102(e)(2).¹⁹³ Additionally, for terminal disclaimers filed in patent applications pending on or after July 1, 2015, the effect of such a disclaimer can be nullified if an election under 35 U.S.C. § 102(e)(2) is made with respect to the application or the patent issuing on the application within 1 year from the date of enactment.¹⁹⁴ Terminal disclaimers currently in effect are otherwise unaffected.¹⁹⁵

Section 9(c)(E) provides further rules of construction.¹⁹⁶ Under clause (i), all non-statutory double patenting grounds for invalidating first-inventor-to-file patents are barred. Under clause (ii), non-statutory double patenting grounds for invalidating first-to-invent patents are barred to the extent a prior art relationship exists between the claims of the respective patents. This limitation is imposed because such a prior art relationship assures that the respec-

provisions of 35 U.S.C. § 154(b) operates to secure more than this 17-year period for any individual patent that might issue.

¹⁸⁸ If the term of the election patent would be longer than 17 years in the absence of any patent term adjustment, *i.e.*, based upon the prompt issuance of the patent after the initial patent filing, § 9(c)(1)(D)’s limitation on patent term adjustment would have no impact on the term of the election patent.

¹⁸⁹ If one of two patents involved in double patenting issues within 3 years from its nonprovisional filing date, patent term adjustment would be unavailable for the election patent. In this situation, the limitation in § 9(c)(1)(D) supersedes any other patent term adjustment for which the election patent might have qualified.

¹⁹⁰ These policy justifications are discussed in the background section of this report.

¹⁹¹ *Gilead Sciences, Inc. v. Natco Pharma Ltd.*, 753 F. 3d 1208 (Fed. Cir. 2014), is legislatively abrogated to the extent that the holding in that appeal was based on a finding that the 20-year URAA term of the invalidated patent constituted an unjustified timewise extension of the patent owner’s exclusive rights.

¹⁹² See 37 C.F.R. § 1.321.

¹⁹³ See § 9(c)(2)(D)(i)(III).

¹⁹⁴ See § 9(c)(2)(D)(ii).

¹⁹⁵ See § 9(c)(2)(D)(iii).

¹⁹⁶ These rules of construction, like those in § 9(C)(2)(D), take effect upon enactment, but do not apply to any invalidity defense raised in a patent infringement action brought before the date of enactment. See § 9(c)(2)(F).

tive claims of the two patents can be valid only if directed to patentably distinct subject matter.¹⁹⁷

(d) *PTO patent reviews*

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

Paragraph (2) authorizes the Director to waive the fee for filing a CBM proceeding.

Paragraph (3) allows a petitioner to employ § 315(c) joinder to join a new petition to a pending inter partes review to which it is already a party. Such same party joinder, which is not subject to the § 315(b) time limitation, may be exercised for good cause shown. Good cause would necessarily include situations where a patent owner has submitted contentions asserting additional claims of a patent in litigation only after the defendant has filed a petition under § 311 challenging the claims that were initially asserted. This will allow an IPR petitioner to limit its petition to those claims asserted against it in litigation, without fear that § 315(b) may preclude it from challenging additional patent claims that are asserted later.

(e) *clarification of jurisdiction*

This subsection abrogates *Gunn v. Minton*,¹⁹⁸ restoring the Federal courts' jurisdiction over patent legal-malpractice cases. It also establishes that actions that necessarily require resolution of a disputed question as to the validity or scope of a patent "arise under" the patent laws. The subsection thus clarifies that it is not necessary to exclusive Federal patent jurisdiction that a case also require interpretation of a Federal statute or affect numerous parties or the Federal Government. The provision effectively codifies the Federal Circuit's recent dicta in *Forrester Environmental Services*,¹⁹⁹ and ensures the continuing vitality of the Federal Circuit and regional circuits' pre-*Gunn* precedents recognizing patents "arising under" jurisdiction over certain state-law business-disparagement and breach-of-contract actions.²⁰⁰

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

¹⁹⁷ *In re Hubbell*, 709 F.3d 1140 (Fed. Cir. 2013), is legislatively abrogated given that the facts of the case indicate that the claims of the respective patents had a prior art relationship under pre-AIA § 102(g).

¹⁹⁸ 133 S.Ct. 1059 (Feb. 20, 2013).

¹⁹⁹ 715 F.3d 1329, 1334 (Fed. Cir. 2013) (noting that "arising under" jurisdiction over particular "state law claims premised on allegedly false statements about patents. . . . may well have survived the Supreme Court's decision in *Gunn*").

²⁰⁰ See, e.g., *Scherbatskoy v. Halliburton Co.*, 125 F.3d 288 (5th Cir. 1997); *U.S. Valves, Inc. v. Dray*, 190 F.3d 811 (7th Cir. 1999); *Additive Controls & Measurement Sys., Inc. v. Flowdata, Inc.*, 986 F.2d 476 (Fed. Cir. 1993); *Hunter Douglas, Inc. v. Harmonic Design, Inc.*, 153 F.3d 1318 (Fed. Cir. 1998), *overruled on other grounds*, *Midwest Indus., Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356 (Fed. Cir. 1999).

courts will not be required to revisit such determinations for those cases, despite the enactment of this provision.

(f) extension of patent pilot program

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

(g) management of the USPTO

This subsection clarifies the authority of the Deputy Director to serve as Acting Director.

(h) technical corrections

(1) § 102

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

(2) inventor’s oath or declaration

This paragraph allows the Director to dispense with the filing of an oath or declaration under § 115 of title 35 as she deems appropriate. This could include, for example, with respect to continuing applications for patent under §§ 120 and 121, where the separate § 115 requirement can be a redundancy. The amendments thus remove unnecessary paperwork from the patent examination process.

(3) assignee filers

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

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

This paragraph also amends the language of § 120 to make a stylistic change similar to that made by paragraph (1), while also reenacting AIA § 3(f)’s conforming amendment for assignee filers and giving the new conforming amendment a proper effective date. The AIA amended § 120 that authorized assignee applicants (rather than just inventor applicants) to claim the benefit of the filing date of a parent application in a continuation application. Unfortunately, however, this conforming change to § 120 was included in § 3(f) of the AIA. Per § 3(n) of the AIA, the changes made by AIA

§ 3(f) apply only to first-inventor-to-file patents. A large number of patents filed after September 16, 2012, however, will continue to be first-to-invent patents. Absent the revision made by this paragraph, there could be a substantial number of first-to-invent patents filed by assignees after September 16, 2012 whose owners would later discover that they are unable to claim the benefit of a parent application's priority date. The revisions made by this paragraph ensure that the conforming change accommodating assignee filers will apply to all patents (including first-to-invent patents) for which § 4(b) of the AIA authorizes assignee filing.

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

(4) *derived patents*

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

(5) *specification*

This paragraph amends the effective date of the AIA's addition of subsections and titles to § 112 so that the new citation format will be used in all proceedings and matters after enactment of the present bill. This will simplify citation to § 112, which currently is understood to be required to be cited by its pre-AIA, undesignated paragraphs for patents issuing from an application filed before September 16, 2012: *Biosig Instruments, Inc. v. Nautilus, Inc.*,²⁰¹ recently held that the AIA's addition of substructure to § 112 applies only with respect to patents issued after September 16, 2012.²⁰² The only rational purpose of adding substructure to § 112, however, is to simplify citation to it—a purpose that is entirely defeated by the current approach. Under *Biosig*, the patent bar would be required, for the next quarter century, to first identify the issue date of a patent before it could determine whether to cite to the subsections of current § 112 or to the undesignated paragraphs of pre-AIA § 112. This paragraph avoids such absurdities by making the AIA's addition of subsections and titles to § 112 immediately applicable in all proceedings and matters, and thereby eliminating the need to ever again cite to the undesignated paragraphs of pre-AIA § 112.

(6) *time limit for commencing misconduct proceedings*

This paragraph addresses several problems that the USPTO's Office of Enrollment and Discipline has encountered under the AIA's new 1-year deadline for commencing misconduct proceedings. These amendments to § 32 ensure that the deadline only runs from when the USPTO receives a written grievance about an attorney's misconduct, rather than from when the USPTO receives any

²⁰¹ 715 F.3d 891 (Fed. Cir. 2013).

²⁰² See *id.* at 897, n.3.

knowledge of the misconduct (such as from a news story). The amendments also toll the deadline while a trial court’s finding of misconduct is appealed, so that the USPTO is not required to commence a misconduct proceeding before an appeals court can review, for example, a trial court’s finding that inequitable conduct has occurred. The amendments also allow the parties to agree to toll the deadline. Finally, these amendments add an additional 6 months to the time by which the Director must commence a misconduct proceeding once a written grievance has been received. These amendments apply to all misconduct proceedings commenced after the enactment of the Innovation Act.

(7) patent owner response

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

(8) international applications

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

[t]he United States Receiving Office is simply not currently capable of conducting the review and processing required by the PCT for PCT applications filed in a language other than English. Creating a procedure under the PCT to provide for the initial filing of a non-English-language PCT application and later filing of an English-language translation for the purpose of subsequent review and processing would, under the provisions of the PCT and PCT Regulations, result in the resetting of the International Filing Date to the later date of submission of the English-language translation of the non-English-language PCT application.²⁰³

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

(9) global worksharing

This paragraph amends § 122 to allow the USPTO to share information about a pending application with a foreign or international intellectual property office if a corresponding application has been filed with such office.

²⁰³ Changes to Implement the Patent Law Treaty, 78 Fed. Reg. 62368, 62390 (Oct. 21, 2013).

(10) jurisdiction for appeals of trademark cases

This paragraph gives the U.S. Court of Appeals for the Federal Circuit exclusive jurisdiction over appeals of trademark registrability decisions under § 21(b) of the Lanham Act. Inter partes trademark cases (*i.e.*, challenges to trademarks brought by private parties) can still be brought in any appropriate district. While Federal Circuit law will govern the registrability determinations in such cases, if infringement or other claims are joined to the § 21(b) claim, regional circuit law will continue to govern those additional claims and any equitable or monetary relief in such cases.²⁰⁴ Centralizing appeals of § 21(b) actions in the Federal Circuit will end current law's practice of subjecting examiner's registrability decisions to the inconsistent and conflicting standards adopted by the regional circuits with regard to issues such as the relevance of evidence of marketplace conditions that may conflict with facts set forth on the application or registration involved, and what set of factors governs the likelihood-of-confusion analysis.

(11) officers and employees

This paragraph's amendment to § 3 of title 35 clarifies that in addition to appointing officers to carry out the functions of the Office, the Director may nominate officers for appointment by the Secretary of Commerce to carry out such functions. By specifying that the Secretary of Commerce has statutory authority to appoint officers nominated by the Director, the amendment provides a clear mechanism for obtaining constitutional appointments for officers whose duties would make them "inferior officers" under the Constitution's Appointments Clause.

(i) extension of fee-setting authority

This subsection extends by an additional 10 years the USPTO's authority to adjust its own fees that was created by § 10(a) of the Leahy-Smith America Invents Act, PUB. L. NO. 112-29 (2011).

Section 10. Effective date.

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

²⁰⁴ See *Payless Shoesource, Inc. v. Reebok Int'l Ltd.*, 998 F.2d 985, 988-89 (Fed. Cir. 1993).

Agency Views

<p style="text-align:center">STATEMENT OF</p> <p style="text-align:center">MICHELLE K. LEE</p> <p style="text-align:center">UNDER SECRETARY OF COMMERCE FOR INTELLECTUAL PROPERTY AND DIRECTOR OF THE UNITED STATES PATENT AND TRADEMARK OFFICE</p> <p style="text-align:center">BEFORE THE</p> <p style="text-align:center">COMMITTEE ON THE JUDICIARY U.S. House of Representatives</p> <p style="text-align:center">Legislative Hearing on H.R. 9, the "Innovation Act"</p> <p style="text-align:center">APRIL 14, 2015</p>

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 Initiative² 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/plab_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 after 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 all consent to the stay. A stay should be entered only if the customer or retailer and 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 before 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>>.

Changes in Existing Law Made by the Bill, as Reported

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

TITLE 35, UNITED STATES CODE

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

* * * * *

CHAPTER

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§ 3. Officers and employees

(a) UNDER SECRETARY AND DIRECTOR.—

(1) IN GENERAL.—The powers and duties of the United States Patent and Trademark Office shall be vested in an Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office (in this title referred to as the “Director”), who shall be a citizen of the United States and who shall be appointed by the President, by and with the advice and consent of the Senate. The Director shall be a person who has a professional background and experience in patent or trademark law.

(2) DUTIES.—

(A) IN GENERAL.—The Director shall be responsible for providing policy direction and management supervision for the Office and for the issuance of patents and the registration of trademarks. The Director shall perform these duties in a fair, impartial, and equitable manner.

(B) CONSULTING WITH THE PUBLIC ADVISORY COMMITTEES.—The Director shall consult with the Patent Public Advisory Committee established in section 5 on a regular basis on matters relating to the patent operations of the Office, shall consult with the Trademark Public Advisory Committee established in section 5 on a regular basis on matters relating to the trademark operations of the Office, and shall consult with the respective Public Advisory Committee before submitting budgetary proposals to the Office of Management and Budget or changing or proposing to change patent or trademark user fees or patent or trademark regulations which are subject to the requirement to provide notice and opportunity for public comment under section 553 of title 5, as the case may be.

(3) OATH.—The Director shall, before taking office, take an oath to discharge faithfully the duties of the Office.

(4) REMOVAL.—The Director may be removed from office by the President. The President shall provide notification of any such removal to both Houses of Congress.

(b) OFFICERS AND EMPLOYEES OF THE OFFICE.—

(1) DEPUTY UNDER SECRETARY AND DEPUTY DIRECTOR.—The Secretary of Commerce, upon nomination by the Director, shall appoint a Deputy Under Secretary of Commerce for Intellectual Property and Deputy Director of the United States Patent and Trademark Office who shall [be vested with the authority to act in the capacity of the] *serve as Acting*, Director in the event of the absence or incapacity of the Director *or in the event of a vacancy in the office of the Director*. The Deputy Director shall be a citizen of the United States who has a professional background and experience in patent or trademark law.

(2) COMMISSIONERS.—

(A) APPOINTMENT AND DUTIES.—The Secretary of Commerce shall appoint a Commissioner for Patents and a Commissioner for Trademarks, without regard to chapter 33, 51, or 53 of title 5. The Commissioner for Patents shall be a citizen of the United States with demonstrated management ability and professional background and experience in patent law and serve for a term of 5 years. The Commissioner for Trademarks shall be a citizen of the United States with demonstrated management ability and professional background and experience in trademark law and serve for a term of 5 years. The Commissioner for Patents and the Commissioner for Trademarks shall serve as the chief operating officers for the operations of the Office relating to patents and trademarks, respectively, and shall be responsible for the management and direction of all aspects of the activities of the Office that affect the administration of patent and trademark operations, respectively. The Secretary may reappoint a Commissioner to subsequent terms of 5 years as long as the performance of the Commissioner as set forth in the performance agreement in subparagraph (B) is satisfactory.

(B) SALARY AND PERFORMANCE AGREEMENT.—The Commissioners shall be paid an annual rate of basic pay not to exceed the maximum rate of basic pay for the Senior Executive Service established under section 5382 of title 5, including any applicable locality-based comparability payment that may be authorized under section 5304(h)(2)(C) of title 5. The compensation of the Commissioners shall be considered, for purposes of section 207(c)(2)(A) of title 18, to be the equivalent of that described under clause (ii) of section 207(c)(2)(A) of title 18. In addition, the Commissioners may receive a bonus in an amount of up to, but not in excess of, 50 percent of the Commissioners' annual rate of basic pay, based upon an evaluation by the Secretary of Commerce, acting through the Director, of the Commissioners' performance as defined in an annual performance agreement between the Commissioners and the Secretary. The annual performance agreements shall incorporate

measurable organization and individual goals in key operational areas as delineated in an annual performance plan agreed to by the Commissioners and the Secretary. Payment of a bonus under this subparagraph may be made to the Commissioners only to the extent that such payment does not cause the Commissioners' total aggregate compensation in a calendar year to equal or exceed the amount of the salary of the Vice President under section 104 of title 3.

(C) REMOVAL.—The Commissioners may be removed from office by the Secretary for misconduct or nonsatisfactory performance under the performance agreement described in subparagraph (B), without regard to the provisions of title 5. The Secretary shall provide notification of any such removal to both Houses of Congress.

(3) OTHER OFFICERS AND EMPLOYEES.—The Director shall—

(A) [appoint] *appoint, or nominate for appointment by the Secretary of Commerce*, such officers, employees (including attorneys), and agents of the Office as the Director considers necessary to carry out the functions of the Office; and

(B) define the title, authority, and duties of such officers and employees and delegate to them such of the powers vested in the Office as the Director may determine. The Office shall not be subject to any administratively or statutorily imposed limitation on positions or personnel, and no positions or personnel of the Office shall be taken into account for purposes of applying any such limitation.

(4) TRAINING OF EXAMINERS.—The Office shall submit to the Congress a proposal to provide an incentive program to retain as employees patent and trademark examiners of the primary examiner grade or higher who are eligible for retirement, for the sole purpose of training patent and trademark examiners.

(5) NATIONAL SECURITY POSITIONS.—The Director, in consultation with the Director of the Office of Personnel Management, shall maintain a program for identifying national security positions and providing for appropriate security clearances, in order to maintain the secrecy of certain inventions, as described in section 181, and to prevent disclosure of sensitive and strategic information in the interest of national security.

(6) ADMINISTRATIVE PATENT JUDGES AND ADMINISTRATIVE TRADEMARK JUDGES.—The Director may fix the rate of basic pay for the administrative patent judges appointed pursuant to section 6 and the administrative trademark judges appointed pursuant to section 17 of the Trademark Act of 1946 (15 U.S.C. 1067) at not greater than the rate of basic pay payable for level III of the Executive Schedule under section 5314 of title 5. The payment of a rate of basic pay under this paragraph shall not be subject to the pay limitation under section 5306(e) or 5373 of title 5.

(c) CONTINUED APPLICABILITY OF TITLE 5.—Officers and employees of the Office shall be subject to the provisions of title 5, relating to Federal employees.

(d) ADOPTION OF EXISTING LABOR AGREEMENTS.—The Office shall adopt all labor agreements which are in effect, as of the day before the effective date of the Patent and Trademark Office Efficiency Act, with respect to such Office (as then in effect).

(e) CARRYOVER OF PERSONNEL.—

(1) FROM PTO.—Effective as of the effective date of the Patent and Trademark Office Efficiency Act, all officers and employees of the Patent and Trademark Office on the day before such effective date shall become officers and employees of the Office, without a break in service.

(2) OTHER PERSONNEL.—Any individual who, on the day before the effective date of the Patent and Trademark Office Efficiency Act, is an officer or employee of the Department of Commerce (other than an officer or employee under paragraph (1)) shall be transferred to the Office, as necessary to carry out the purposes of that Act, if—

(A) such individual serves in a position for which a major function is the performance of work reimbursed by the Patent and Trademark Office, as determined by the Secretary of Commerce;

(B) such individual serves in a position that performed work in support of the Patent and Trademark Office during at least half of the incumbent's work time, as determined by the Secretary of Commerce; or

(C) such transfer would be in the interest of the Office, as determined by the Secretary of Commerce in consultation with the Director.

Any transfer under this paragraph shall be effective as of the same effective date as referred to in paragraph (1), and shall be made without a break in service.

(f) TRANSITION PROVISIONS.—

(1) INTERIM APPOINTMENT OF DIRECTOR.—On or after the effective date of the Patent and Trademark Office Efficiency Act, the President shall appoint an individual to serve as the Director until the date on which a Director qualifies under subsection (a). The President shall not make more than one such appointment under this subsection.

(2) CONTINUATION IN OFFICE OF CERTAIN OFFICERS.—(A) The individual serving as the Assistant Commissioner for Patents on the day before the effective date of the Patent and Trademark Office Efficiency Act may serve as the Commissioner for Patents until the date on which a Commissioner for Patents is appointed under subsection (b).

(B) The individual serving as the Assistant Commissioner for Trademarks on the day before the effective date of the Patent and Trademark Office Efficiency Act may serve as the Commissioner for Trademarks until the date on which a Commissioner for Trademarks is appointed under subsection (b).

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CHAPTER 3—PRACTICE BEFORE PATENT AND TRADEMARK OFFICE

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§ 32. Suspension or exclusion from practice

The Director may, after notice and opportunity for a hearing, suspend or exclude, either generally or in any particular case, from further practice before the Patent and Trademark Office, any person, agent, or attorney shown to be incompetent or disreputable, or guilty of gross misconduct, or who does not comply with the regulations established under section 2(b)(2)(D), or who shall, by word, circular, letter, or advertising, with intent to defraud in any manner, deceive, mislead, or threaten any applicant or prospective applicant, or other person having immediate or prospective business before the Office. The reasons for any such suspension or exclusion shall be duly recorded. The Director shall have the discretion to designate any attorney who is an officer or employee of the United States Patent and Trademark Office to conduct the hearing required by this section. **[A proceeding under this section shall be commenced not later than the earlier of either the date that is 10 years after the date on which the misconduct forming the basis for the proceeding occurred, or 1 year 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).]** *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 18 months after the date on which the Director of the Office of Enrollment and Discipline received a written grievance (as prescribed in the regulations established under section 2(b)(2)(D)) about a specified individual that describes the misconduct forming the basis for the proceeding. If the misconduct that forms the basis for the proceeding under this section is at issue in a court or administrative-agency proceeding, the 18-month period for commencing the proceeding under this section shall be tolled until the court or agency's decision regarding the misconduct becomes final and non-appealable. The 18-month period for commencing a proceeding under this section also may be tolled by agreement between the parties.* The United States District Court for the Eastern District of Virginia, under such conditions and upon such proceedings as it by its rules determines, may review the action of the Director upon the petition of the person so refused recognition or so suspended or excluded.

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

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CHAPTER 10—PATENTABILITY OF INVENTIONS

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§ 102. Conditions for patentability; novelty

(a) NOVELTY; PRIOR ART.—A person shall be entitled to a patent unless—

(1) the claimed invention was patented, described in a printed publication, or in public use, on sale, or otherwise available to the public before the effective filing date of the claimed invention; or

(2) the claimed invention was described in a patent issued under section 151, or in an application for patent published or deemed published under section 122(b), in which the patent or application, as the case may be, names another inventor and was effectively filed before the effective filing date of the claimed invention.

(b) EXCEPTIONS.—

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

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

(B) the subject matter disclosed had, before such disclosure, been publicly disclosed by the inventor or a joint inventor or another who obtained the subject matter disclosed directly or indirectly from the inventor or a joint inventor.

(2) DISCLOSURES APPEARING IN APPLICATIONS AND PATENTS.—A disclosure shall not be prior art to a claimed invention under subsection (a)(2) if—

(A) the subject matter disclosed was obtained directly or indirectly from the inventor or a joint inventor;

(B) the subject matter disclosed had, before such subject matter was effectively filed under subsection (a)(2), been publicly disclosed by the inventor or a joint inventor or another who obtained the subject matter disclosed directly or indirectly from the inventor or a joint inventor; or

(C) the subject matter disclosed and the claimed invention, not later than the effective filing date of the claimed invention, were owned by the same person or subject to an obligation of assignment to the same person.

(c) COMMON OWNERSHIP UNDER JOINT RESEARCH AGREEMENTS.—Subject matter disclosed and a claimed invention shall be deemed to have been owned by the same person or subject to an obligation of assignment to the same person in applying the provisions of subsection (b)(2)(C) if—

(1) the subject matter disclosed was developed and the claimed invention was made by, or on behalf of, 1 or more parties to a joint research agreement that was in effect on or before the effective filing date of the claimed invention;

(2) the claimed invention was made as a result of activities undertaken within the scope of the joint research agreement; and

(3) the application for patent for the claimed invention discloses or is amended to disclose the names of the parties to the joint research agreement.

(d) PATENTS AND PUBLISHED APPLICATIONS EFFECTIVE AS PRIOR ART.—For purposes of determining whether a patent or application for patent is prior art to a claimed invention under subsection (a)(2), such patent or application shall be considered to have been effectively filed, with respect to any subject matter described in the patent or application—

(1) if paragraph (2) does not apply, as of the actual filing date of the patent or the application for patent; or

(2) if the patent or application for patent is entitled to claim a right of priority under section 119, 365(a), or 365(b), or to claim the benefit of an earlier filing date under section 120, 121, or 365(c), based upon 1 or more prior filed applications for patent, as of the filing date of the earliest such application that describes the subject matter.

(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 in the application on which the second patent 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 subsection unless—*

(1) the second claimed invention is consonant 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 the second patent issues disclaiming the right to bring or maintain a civil action under section 281 to enforce the second patent, except that such disclaimer shall not apply if—

(A) the relief being sought in the civil 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 the first patent issues has recorded an election limiting the enforcement of the first patent relative to the second patent in the manner described in this paragraph, the owner of the first patent is a party to the civil action, or a separate action under section 281 to enforce the first patent can no longer be brought or maintained.

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CHAPTER 11—APPLICATION FOR PATENT

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§ 115. Inventor’s oath or declaration

(a) NAMING THE INVENTOR; INVENTOR’S OATH OR DECLARATION.—An application for patent that is filed under section 111(a) or commences the national stage under section 371 shall include, or be amended to include, the name of the inventor for any invention claimed in the application. Except as otherwise provided in this section, each individual who is the inventor or a joint inventor of a claimed invention in an application for patent [shall execute]

may be required to execute an oath or declaration in connection with the application.

(b) **REQUIRED STATEMENTS.**—An oath or declaration under subsection (a) shall contain statements that—

(1) the application was made or was authorized to be made by the affiant or declarant; and

(2) such individual believes himself or herself to be the original inventor or an original joint inventor of a claimed invention in the application.

(c) **ADDITIONAL REQUIREMENTS.**—The Director may specify additional information relating to the inventor and the invention that is required to be included in an oath or declaration under subsection (a).

(d) **SUBSTITUTE STATEMENT.**—

(1) **IN GENERAL.**—In lieu of executing an oath or declaration under subsection (a), the applicant for patent may provide a substitute statement under the circumstances described in paragraph (2) and such additional circumstances that the Director may specify by regulation.

(2) **PERMITTED CIRCUMSTANCES.**—A substitute statement under paragraph (1) is permitted with respect to any individual who—

(A) is unable to file the oath or declaration under subsection (a) because the individual—

(i) is deceased;

(ii) is under legal incapacity; or

(iii) cannot be found or reached after diligent effort; or

(B) is under an obligation to assign the invention but has refused to make the oath or declaration required under subsection (a).

(3) **CONTENTS.**—A substitute statement under this subsection shall—

(A) identify the individual with respect to whom the statement applies;

(B) set forth the circumstances representing the permitted basis for the filing of the substitute statement in lieu of the oath or declaration under subsection (a); and

(C) contain any additional information, including any showing, required by the Director.

(e) **MAKING REQUIRED STATEMENTS IN ASSIGNMENT OF RECORD.**—An individual who is under an obligation of assignment of an application for patent may include the required statements under subsections (b) and (c) in the assignment executed by the individual, in lieu of filing such statements separately.

(f) **TIME FOR FILING.**—The applicant for patent shall provide each required oath or declaration under subsection (a), substitute statement under subsection (d), or recorded assignment meeting the requirements of subsection (e) no later than the date on which the issue fee for the patent is paid.

(g) **EARLIER-FILED APPLICATION CONTAINING REQUIRED STATEMENTS OR SUBSTITUTE STATEMENT.**—

(1) **EXCEPTION.**—The requirements under this section shall not apply to an individual with respect to an application for patent in which the individual is named as the inventor or a

joint inventor and that claims the benefit under section 120, 121, or 365(c) of the filing of an earlier-filed application, if—

(A) 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;

(B) a substitute statement meeting the requirements of subsection (d) was filed in connection with the earlier filed application with respect to the individual; or

(C) an assignment meeting the requirements of subsection (e) was executed with respect to the earlier-filed application by the individual and was recorded in connection with the earlier-filed application.

(2) COPIES OF OATHS, DECLARATIONS, STATEMENTS, OR ASSIGNMENTS.—Notwithstanding paragraph (1), the Director may require that a copy of the executed oath or declaration, the substitute statement, or the assignment filed in connection with the earlier-filed application be included in the later-filed application.

(h) SUPPLEMENTAL AND CORRECTED STATEMENTS; FILING ADDITIONAL STATEMENTS.—

(1) IN GENERAL.—Any person making a statement required under this section may withdraw, replace, or otherwise correct the statement at any time. If a change is made in the naming of the inventor requiring the filing of 1 or more additional statements under this section, the Director shall establish regulations under which such additional statements may be filed.

(2) SUPPLEMENTAL STATEMENTS NOT REQUIRED.—If an individual has executed an oath or declaration meeting the requirements of subsection (a) or an assignment meeting the requirements of subsection (e) with respect to an application for patent, the Director may not thereafter require that individual to make any additional oath, declaration, or other statement equivalent to those required by this section in connection with the application for patent or any patent issuing thereon.

(3) SAVINGS CLAUSE.—A patent shall not be invalid or unenforceable based upon the failure to comply with a requirement under this section if the failure is remedied as provided under paragraph (1).

(i) ACKNOWLEDGMENT OF PENALTIES.—Any declaration or statement filed pursuant to this section shall contain an acknowledgment that any willful false statement made in such declaration or statement is punishable under section 1001 of title 18 by fine or imprisonment of not more than 5 years, or both.

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

(a) An application for patent for an invention filed in this country by any person who has, or whose legal representatives or assigns have, previously regularly filed an application for a patent for the same invention in a foreign country which affords similar privileges in the case of applications filed in the United States or to citizens of the United States, or in a WTO member country, shall have the same effect as the same application would have if filed in this country on the date on which the application for patent for the same invention was first filed in such foreign country, if the appli-

cation in this country is filed within 12 months from the earliest date on which such foreign application was filed. The Director may prescribe regulations, including the requirement for payment of the fee specified in section 41(a)(7), pursuant to which the 12-month period set forth in this subsection may be extended by an additional 2 months if the delay in filing the application in this country within the 12-month period was unintentional.

(b)(1) No application for patent shall be entitled to this right of priority unless a claim is filed in the Patent and Trademark Office, identifying the foreign application by specifying the application number on that foreign application, the intellectual property authority or country in or for which the application was filed, and the date of filing the application, at such time during the pendency of the application as required by the Director.

(2) The Director may consider the failure of the applicant to file a timely claim for priority as a waiver of any such claim. The Director may establish procedures, including the payment of a surcharge, to accept an unintentionally delayed claim under this section.

(3) The Director may require a certified copy of the original foreign application, specification, and drawings upon which it is based, a translation if not in the English language, and such other information as the Director considers necessary. Any such certification shall be made by the foreign intellectual property authority in which the foreign application was filed and show the date of the application and of the filing of the specification and other papers.

(c) In like manner and subject to the same conditions and requirements, the right provided in this section may be based upon a subsequent regularly filed application in the same foreign country instead of the first filed foreign application, provided that any foreign application filed prior to such subsequent application has been withdrawn, abandoned, or otherwise disposed of, without having been laid open to public inspection and without leaving any rights outstanding, and has not served, nor thereafter shall serve, as a basis for claiming a right of priority.

(d) Applications for inventors' certificates filed in a foreign country in which applicants have a right to apply, at their discretion, either for a patent or for an inventor's certificate shall be treated in this country in the same manner and have the same effect for purpose of the right of priority under this section as applications for patents, subject to the same conditions and requirements of this section as apply to applications for patents, provided such applicants are entitled to the benefits of the Stockholm Revision of the Paris Convention at the time of such filing.

(e)(1) An application for patent filed under section 111(a) or section 363 for an invention disclosed in the manner provided by section 112(a) (other than the requirement to disclose the best mode) in a provisional application filed under section 111(b), [by an inventor or inventors named] *that names the inventor or a joint inventor* in the provisional application, shall have the same effect, as to such invention, as though filed on the date of the provisional application filed under section 111(b), if the application for patent filed under section 111(a) or section 363 is filed not later than 12 months after the date on which the provisional application was filed and if it contains or is amended to contain a specific reference

to the provisional application. The Director may prescribe regulations, including the requirement for payment of the fee specified in section 41(a)(7), pursuant to which the 12-month period set forth in this subsection may be extended by an additional 2 months if the delay in filing the application under section 111(a) or section 363 within the 12-month period was unintentional. No application shall be entitled to the benefit of an earlier filed provisional application under this subsection unless an amendment containing the specific reference to the earlier filed provisional application is submitted at such time during the pendency of the application as required by the Director. The Director may consider the failure to submit such an amendment within that time period as a waiver of any benefit under this subsection. The Director may establish procedures, including the payment of the fee specified in section 41(a)(7), to accept an unintentionally delayed submission of an amendment under this subsection.

(2) A provisional application filed under section 111(b) may not be relied upon in any proceeding in the Patent and Trademark Office unless the fee set forth in subparagraph (A) or (C) of section 41(a)(1) has been paid.

(3) If the day that is 12 months after the filing date of a provisional application falls on a Saturday, Sunday, or Federal holiday within the District of Columbia, the period of pendency of the provisional application shall be extended to the next succeeding secular or business day. For an application for patent filed under section 363 in a Receiving Office other than the Patent and Trademark Office, the 12-month and additional 2-month period set forth in this subsection shall be extended as provided under the treaty and Regulations as defined in section 351.

(f) Applications for plant breeder's rights filed in a WTO member country (or in a foreign UPOV Contracting Party) shall have the same effect for the purpose of the right of priority under subsections (a) through (c) of this section as applications for patents, subject to the same conditions and requirements of this section as apply to applications for patents.

(g) As used in this section—

(1) the term "WTO member country" has the same meaning as the term is defined in section 104(b)(2); and

(2) the term "UPOV Contracting Party" means a member of the International Convention for the Protection of New Varieties of Plants.

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

An application for patent for an invention disclosed in the manner provided by section 112(a) (other than the requirement to disclose the best mode) in an application previously filed in the United States, or as provided by section 363, which [names an inventor or joint inventor] *names the inventor or a joint inventor* in the previously filed application shall have the same effect, as to such invention, as though filed on the date of the prior application, if filed before the patenting or abandonment of or termination of proceedings on the first application or on an application similarly entitled to the benefit of the filing date of the first application and if it contains or is amended to contain a specific reference to the

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

§ 121. Divisional applications

If two or more independent and distinct inventions are claimed in one application, the Director may require the application to be restricted to one of the inventions. If the other invention is made the subject of a divisional application which complies with the requirements of section 120 it shall be entitled to the benefit of the filing date of the original application. [A patent issuing on an application with respect to which a requirement for restriction under this section has been made, or on an application filed as a result of such a requirement, shall not be used as a reference either in the Patent and Trademark Office or in the courts against a divisional application or against the original application or any patent issued on either of them, if the divisional application is filed before the issuance of the patent on the other application.] The validity of a patent shall not be questioned for failure of the Director to require the application to be restricted to one invention.

§ 122. Confidential status of applications; publication of patent applications

(a) CONFIDENTIALITY.—Except as provided in [subsection (b)] *subsections (b) and (f)*, applications for patents shall be kept in confidence by the Patent and Trademark Office and no information concerning the same given without authority of the applicant or owner unless necessary to carry out the provisions of an Act of Congress or in such special circumstances as may be determined by the Director.

(b) PUBLICATION.—

(1) IN GENERAL.—(A) Subject to paragraph (2), each application for a patent shall be published, in accordance with procedures determined by the Director, promptly after the expiration of a period of 18 months from the earliest filing date for which a benefit is sought under this title. At the request of the applicant, an application may be published earlier than the end of such 18-month period.

(B) No information concerning published patent applications shall be made available to the public except as the Director determines.

(C) Notwithstanding any other provision of law, a determination by the Director to release or not to release information concerning a published patent application shall be final and nonreviewable.

(2) EXCEPTIONS.—(A) An application shall not be published if that application is—

(i) no longer pending;

- (ii) subject to a secrecy order under section 181;
- (iii) a provisional application filed under section 111(b); or
- (iv) an application for a design patent filed under chapter 16.

(B)(i) If an applicant makes a request upon filing, certifying that the invention disclosed in the application has not and will not be the subject of an application filed in another country, or under a multilateral international agreement, that requires publication of applications 18 months after filing, the application shall not be published as provided in paragraph (1).

(ii) An applicant may rescind a request made under clause (i) at any time.

(iii) An applicant who has made a request under clause (i) but who subsequently files, in a foreign country or under a multilateral international agreement specified in clause (i), an application directed to the invention disclosed in the application filed in the Patent and Trademark Office, shall notify the Director of such filing not later than 45 days after the date of the filing of such foreign or international application. A failure of the applicant to provide such notice within the prescribed period shall result in the application being regarded as abandoned, unless it is shown to the satisfaction of the Director that the delay in submitting the notice was unintentional.

(iv) If an applicant rescinds a request made under clause (i) or notifies the Director that an application was filed in a foreign country or under a multilateral international agreement specified in clause (i), the application shall be published in accordance with the provisions of paragraph (1) on or as soon as is practical after the date that is specified in clause (i).

(v) If an applicant has filed applications in one or more foreign countries, directly or through a multilateral international agreement, and such foreign filed applications corresponding to an application filed in the Patent and Trademark Office or the description of the invention in such foreign filed applications is less extensive than the application or description of the invention in the application filed in the Patent and Trademark Office, the applicant may submit a redacted copy of the application filed in the Patent and Trademark Office eliminating any part or description of the invention in such application that is not also contained in any of the corresponding applications filed in a foreign country. The Director may only publish the redacted copy of the application unless the redacted copy of the application is not received within 16 months after the earliest effective filing date for which a benefit is sought under this title. The provisions of section 154(d) shall not apply to a claim if the description of the invention published in the redacted application filed under this clause with respect to the claim does not enable a person skilled in the art to make and use the subject matter of the claim.

(c) PROTEST AND PRE-ISSUANCE OPPOSITION.—The Director shall establish appropriate procedures to ensure that no protest or other form of pre-issuance opposition to the grant of a patent on an application may be initiated after publication of the application without the express written consent of the applicant.

(d) NATIONAL SECURITY.—No application for patent shall be published under subsection (b)(1) if the publication or disclosure of such invention would be detrimental to the national security. The Director shall establish appropriate procedures to ensure that such applications are promptly identified and the secrecy of such inventions is maintained in accordance with chapter 17.

(e) PREISSUANCE SUBMISSIONS BY THIRD PARTIES.—

(1) IN GENERAL.—Any third party may submit for consideration and inclusion in the record of a patent application, any patent, published patent application, or other printed publication of potential relevance to the examination of the application, if such submission is made in writing before the earlier of—

(A) the date a notice of allowance under section 151 is given or mailed in the application for patent; or

(B) the later of—

(i) 6 months after the date on which the application for patent is first published under section 122 by the Office, or

(ii) the date of the first rejection under section 132 of any claim by the examiner during the examination of the application for patent.

(2) OTHER REQUIREMENTS.—Any submission under paragraph (1) shall—

(A) set forth a concise description of the asserted relevance of each submitted document;

(B) be accompanied by such fee as the Director may prescribe; and

(C) include a statement by the person making such submission affirming that the submission was made in compliance with this section.

(f) FOREIGN OR INTERNATIONAL FILING.—

(1) PROVISION OF INFORMATION.—*The Director may provide information concerning an application for patent to a foreign or international intellectual property office if a corresponding application is filed with such foreign or international intellectual property office. If the corresponding application is an international application, such information may also be provided to an International Searching Authority, an International Preliminary Examining Authority, or the International Bureau.*

(2) DEFINITIONS.—*For purposes of this subsection, the terms “international application”, “International Searching Authority”, “International Preliminary Examining Authority”, and “International Bureau” have the same meaning given those terms under section 351.*

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CHAPTER 14—ISSUE OF PATENT

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§ 154. Contents and term of patent; provisional rights

(a) IN GENERAL.—

(1) CONTENTS.—Every patent shall contain a short title of the invention and a grant to the patentee, his heirs or assigns,

of the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States, and, if the invention is a process, of the right to exclude others from using, offering for sale or selling throughout the United States, or importing into the United States, products made by that process, referring to the specification for the particulars thereof.

(2) TERM.—Subject to the payment of fees under this title, such grant shall be for a term beginning on the date on which the patent issues and ending 20 years from the date on which the application for the patent was filed in the United States or, if the application contains a specific reference to an earlier filed application or applications under section 120, 121, or 365(c), from the date on which the earliest such application was filed.

(3) PRIORITY.—Priority under section 119, 365(a), or 365(b) shall not be taken into account in determining the term of a patent.

(4) SPECIFICATION AND DRAWING.—A copy of the specification and drawing shall be annexed to the patent and be a part of such patent.

(b) ADJUSTMENT OF PATENT TERM.—

(1) PATENT TERM GUARANTEES.—

(A) GUARANTEE OF PROMPT PATENT AND TRADEMARK OFFICE RESPONSES.—Subject to the limitations under paragraph (2), if the issue of an original patent is delayed due to the failure of the Patent and Trademark Office to—

(i) provide at least one of the notifications under section 132 or a notice of allowance under section 151 not later than 14 months after—

(I) the date on which an application was filed under section 111(a); or

(II) the date of commencement of the national stage under section 371 in an international application;

(ii) respond to a reply under section 132, or to an appeal taken under section 134, within 4 months after the date on which the reply was filed or the appeal was taken;

(iii) act on an application within 4 months after the date of a decision by the Patent Trial and Appeal Board under section 134 or 135 or a decision by a Federal court under section 141, 145, or 146 in a case in which allowable claims remain in the application; or

(iv) issue a patent within 4 months after the date on which the issue fee was paid under section 151 and all outstanding requirements were satisfied,

the term of the patent shall be extended 1 day for each day after the end of the period specified in clause (i), (ii), (iii), or (iv), as the case may be, until the action described in such clause is taken.

(B) GUARANTEE OF NO MORE THAN 3-YEAR APPLICATION PENDENCY.—Subject to the limitations under paragraph (2), if the issue of an original patent is delayed due to the failure of the United States Patent and Trademark Office

to issue a patent within 3 years after the actual filing date of the application under section 111(a) in the United States or, in the case of an international application, the date of commencement of the national stage under section 371 in the international application, not including—

(i) any time consumed by continued examination of the application requested by the applicant under section 132(b);

(ii) any time consumed by a proceeding under section 135(a), any time consumed by the imposition of an order under section 181, or any time consumed by appellate review by the Patent Trial and Appeal Board or by a Federal court; or

(iii) any delay in the processing of the application by the United States Patent and Trademark Office requested by the applicant except as permitted by paragraph (3)(C),

the term of the patent shall be extended 1 day for each day after the end of that 3-year period until the patent is issued.

(C) GUARANTEE OF ADJUSTMENTS FOR DELAYS DUE TO DERIVATION PROCEEDINGS, SECRECY ORDERS, AND APPEALS.—Subject to the limitations under paragraph (2), if the issue of an original patent is delayed due to—

(i) a proceeding under section 135(a);

(ii) the imposition of an order under section 181;

or

(iii) appellate review by the Patent Trial and Appeal Board or by a Federal court in a case in which the patent was issued under a decision in the review reversing an adverse determination of patentability,

the term of the patent shall be extended 1 day for each day of the pendency of the proceeding, order, or review, as the case may be.

(2) LIMITATIONS.—

(A) IN GENERAL.—To the extent that periods of delay attributable to grounds specified in paragraph (1) overlap, the period of any adjustment granted under this subsection shall not exceed the actual number of days the issuance of the patent was delayed.

(B) DISCLAIMED TERM.—No patent the term of which has been disclaimed beyond a specified date may be adjusted under this section beyond the expiration date specified in the disclaimer.

(C) REDUCTION OF PERIOD OF ADJUSTMENT.—

(i) The period of adjustment of the term of a patent under paragraph (1) shall be reduced by a period equal to the period of time during which the applicant failed to engage in reasonable efforts to conclude prosecution of the application.

(ii) With respect to adjustments to patent term made under the authority of paragraph (1)(B), an applicant shall be deemed to have failed to engage in reasonable efforts to conclude processing or examination of an application for the cumulative total of any

periods of time in excess of 3 months that are taken to respond to a notice from the Office making any rejection, objection, argument, or other request, measuring such 3-month period from the date the notice was given or mailed to the applicant.

(iii) The Director shall prescribe regulations establishing the circumstances that constitute a failure of an applicant to engage in reasonable efforts to conclude processing or examination of an application.

(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 that extends beyond the expiration of such 17-year period years shall be void.

(3) PROCEDURES FOR PATENT TERM ADJUSTMENT DETERMINATION.—

(A) The Director shall prescribe regulations establishing procedures for the application for and determination of patent term adjustments under this subsection.

(B) Under the procedures established under subparagraph (A), the Director shall—

(i) make a determination of the period of any patent term adjustment under this subsection, and shall transmit a notice of that determination no later than the date of issuance of the patent; and

(ii) provide the applicant one opportunity to request reconsideration of any patent term adjustment determination made by the Director.

(C) The Director shall reinstate all or part of the cumulative period of time of an adjustment under paragraph (2)(C) if the applicant, prior to the issuance of the patent, makes a showing that, in spite of all due care, the applicant was unable to respond within the 3-month period, but in no case shall more than three additional months for each such response beyond the original 3-month period be reinstated.

(D) The Director shall proceed to grant the patent after completion of the Director's determination of a patent term adjustment under the procedures established under this subsection, notwithstanding any appeal taken by the applicant of such determination.

(4) APPEAL OF PATENT TERM ADJUSTMENT DETERMINATION.—

(A) An applicant dissatisfied with the Director's decision on the applicant's request for reconsideration under paragraph (3)(B)(ii) shall have exclusive remedy by a civil action against the Director filed in the United States District Court for the Eastern District of Virginia within 180 days after the date of the Director's decision on the applicant's request for reconsideration. Chapter 7 of title 5 shall apply to such action. Any final judgment resulting in a change to the period of adjustment of the patent term shall

be served on the Director, and the Director shall thereafter alter the term of the patent to reflect such change.

(B) The determination of a patent term adjustment under this subsection shall not be subject to appeal or challenge by a third party prior to the grant of the patent.

(c) CONTINUATION.—

(1) DETERMINATION.—The term of a patent that is in force on or that results from an application filed before the date that is 6 months after the date of the enactment of the Uruguay Round Agreements Act shall be the greater of the 20-year term as provided in subsection (a), or 17 years from grant, subject to any terminal disclaimers.

(2) REMEDIES.—The remedies of sections 283, 284, and 285 shall not apply to acts which—

(A) were commenced or for which substantial investment was made before the date that is 6 months after the date of the enactment of the Uruguay Round Agreements Act; and

(B) became infringing by reason of paragraph (1).

(3) REMUNERATION.—The acts referred to in paragraph (2) may be continued only upon the payment of an equitable remuneration to the patentee that is determined in an action brought under chapter 28 and chapter 29 (other than those provisions excluded by paragraph (2)).

(d) PROVISIONAL RIGHTS.—

(1) IN GENERAL.—In addition to other rights provided by this section, a patent shall include the right to obtain a reasonable royalty from any person who, during the period beginning on the date of publication of the application for such patent under section 122(b), or in the case of an international application filed under the treaty defined in section 351(a) designating the United States under Article 21(2)(a) of such treaty, the date of publication of the application, and ending on the date the patent is issued—

(A)(i) makes, uses, offers for sale, or sells in the United States the invention as claimed in the published patent application or imports such an invention into the United States; or

(ii) if the invention as claimed in the published patent application is a process, uses, offers for sale, or sells in the United States or imports into the United States products made by that process as claimed in the published patent application; and

(B) had actual notice of the published patent application and, in a case in which the right arising under this paragraph is based upon an international application designating the United States that is published in a language other than English, had a translation of the international application into the English language.

(2) RIGHT BASED ON SUBSTANTIALLY IDENTICAL INVENTIONS.—The right under paragraph (1) to obtain a reasonable royalty shall not be available under this subsection unless the invention as claimed in the patent is substantially identical to the invention as claimed in the published patent application.

(3) TIME LIMITATION ON OBTAINING A REASONABLE ROYALTY.—The right under paragraph (1) to obtain a reasonable royalty shall be available only in an action brought not later than 6 years after the patent is issued. The right under paragraph (1) to obtain a reasonable royalty shall not be affected by the duration of the period described in paragraph (1).

(4) REQUIREMENTS FOR INTERNATIONAL APPLICATIONS.—

(A) EFFECTIVE DATE.—The right under paragraph (1) to obtain a reasonable royalty based upon the publication under the treaty defined in section 351(a) of an international application designating the United States shall commence on the date of publication under the treaty of the international application, or, if the publication under the treaty of the international application is in a language other than English, on the date on which the Patent and Trademark Office receives a translation of the publication in the English language.

(B) COPIES.—The Director may require the applicant to provide a copy of the international application and a translation thereof.

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PART III—PATENTS AND PROTECTION OF PATENT RIGHTS

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CHAPTER 28—INFRINGEMENT OF PATENTS

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§ 273. Defense to infringement based on prior commercial use

(a) IN GENERAL.—A person shall be entitled to a defense under section 282(b) with respect to subject matter consisting of a process, or consisting of a machine, manufacture, or composition of matter used in a manufacturing or other commercial process, that would otherwise infringe a claimed invention being asserted against the person if—

(1) such person, acting in good faith, commercially used the subject matter in the United States, either in connection with an internal commercial use or an actual arm's length sale or other arm's length commercial transfer of a useful end result of such commercial use; and

(2) such commercial use occurred at least 1 year before the earlier of either—

(A) the effective filing date of the claimed invention; or

(B) the date on which the claimed invention was disclosed to the public in a manner that qualified for the exception from prior art under section 102(b).

(b) BURDEN OF PROOF.—A person asserting a defense under this section shall have the burden of establishing the defense by clear and convincing evidence.

(c) ADDITIONAL COMMERCIAL USES.—

(1) **PREMARKETING REGULATORY REVIEW.**—Subject matter for which commercial marketing or use is subject to a premarketing regulatory review period during which the safety or efficacy of the subject matter is established, including any period specified in section 156(g), shall be deemed to be commercially used for purposes of subsection (a)(1) during such regulatory review period.

(2) **NONPROFIT LABORATORY USE.**—A use of subject matter by a nonprofit research laboratory or other nonprofit entity, such as a university or hospital, for which the public is the intended beneficiary, shall be deemed to be a commercial use for purposes of subsection (a)(1), except that a defense under this section may be asserted pursuant to this paragraph only for continued and noncommercial use by and in the laboratory or other nonprofit entity.

(d) **EXHAUSTION OF RIGHTS.**—Notwithstanding subsection (e)(1), the sale or other disposition of a useful end result by a person entitled to assert a defense under this section in connection with a patent with respect to that useful end result shall exhaust the patent owner's rights under the patent to the extent that such rights would have been exhausted had such sale or other disposition been made by the patent owner.

(e) **LIMITATIONS AND EXCEPTIONS.**—

(1) **PERSONAL DEFENSE.**—

(A) **IN GENERAL.**—A defense under this section may be asserted only by the person who performed or directed the performance of the commercial use described in subsection (a), or by an entity that controls, is controlled by, or is under common control with such person.

(B) **TRANSFER OF RIGHT.**—Except for any transfer to the patent owner, the right to assert a defense under this section shall not be licensed or assigned or transferred to another person except as an ancillary and subordinate part of a good-faith assignment or transfer for other reasons of the entire enterprise or line of business to which the defense relates.

(C) **RESTRICTION ON SITES.**—A defense under this section, when acquired by a person as part of an assignment or transfer described in subparagraph (B), may only be asserted for uses at sites where the subject matter that would otherwise infringe a claimed invention is in use before the later of the effective filing date of the claimed invention or the date of the assignment or transfer of such enterprise or line of business.

(2) **DERIVATION.**—A person may not assert a defense under this section if the subject matter on which the defense is based was derived from the patentee or persons in privity with the patentee.

(3) **NOT A GENERAL LICENSE.**—The defense asserted by a person under this section is not a general license under all claims of the patent at issue, but extends only to the specific subject matter for which it has been established that a commercial use that qualifies under this section occurred, except that the defense shall also extend to variations in the quantity or volume of use of the claimed subject matter, and to improve-

ments in the claimed subject matter that do not infringe additional specifically claimed subject matter of the patent.

(4) ABANDONMENT OF USE.—A person who has abandoned commercial use (that qualifies under this section) of subject matter may not rely on activities performed before the date of such abandonment in establishing a defense under this section with respect to actions taken on or after the date of such abandonment.

(5) UNIVERSITY EXCEPTION.—

(A) IN GENERAL.—A person commercially using subject matter to which subsection (a) applies may not assert a defense under this section if the claimed invention with respect to which the defense is asserted was, at the time the invention was made, owned or subject to an obligation of assignment to either an institution of higher education (as defined in section 101(a) of the Higher Education Act of 1965 (20 U.S.C. 1001(a)), or a technology transfer organization whose primary purpose is to facilitate the commercialization of technologies developed by one or more such institutions of higher education.

(B) EXCEPTION.—Subparagraph (A) shall not apply if any of the activities required to reduce to practice the subject matter of the claimed invention could not have been undertaken using funds provided by the Federal Government.

[(f) UNREASONABLE ASSERTION OF DEFENSE.—If the defense under this section is pleaded by a person who is found to infringe the patent and who subsequently fails to demonstrate a reasonable basis for asserting the defense, the court shall find the case exceptional for the purpose of awarding attorney fees under section 285.

[(g) INVALIDITY.—A patent shall not be deemed to be invalid under section 102 or 103 solely because a defense is raised or established under this section.]

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CHAPTER 29—REMEDIES FOR INFRINGEMENT OF PATENT, AND OTHER ACTIONS

Sec.

281. Remedy for infringement of patent.

281A. *Pleading requirements for patent infringement actions.*

281B. *Stay of discovery pending a preliminary motion.*

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[285. Attorney fees.]

285. *Fees and other expenses.*

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[290. Notice of patent suits.]

290. *Notice of patent suits; disclosure of interests.*

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[296. Liability of States, instrumentalities of States, and State officials for infringement of patents.]

296. *Stay of action against customer.*

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§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 all claims necessary to produce the identification (under paragraph (3)) of each process, machine, manufacture, or composition of matter (referred to in this section as an ‘accused instrumentality’) that is alleged to infringe any claim of each patent that is identified under paragraph (1).
- (3) For each claim identified under paragraph (2), an identification of each 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 (or a representative 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.

(b) *INFORMATION NOT READILY ACCESSIBLE.*—If information required to be disclosed under subsection (a) is not readily accessible to a party after an inquiry reasonable under the circumstances, as required by Rule 11 of the Federal Rules of Civil Procedure, 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) *AMENDMENT OF PLEADINGS.*—Nothing in this section shall be construed to affect a party’s ability to amend pleadings as specified in the Federal Rules of Civil Procedure. Amendments permitted by the court are subject to the pleading requirements set forth in this section.

(d) *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.

(e) *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).

§281B. Stay of discovery pending a preliminary motion.

(a) *IN GENERAL.*—Except as provided in subsection (d), in an action for patent infringement under section 271 or an action for a declaratory judgment that a patent is invalid or not infringed, discovery shall be stayed if—

(1) the defendant moves to—

(A) sever a claim or drop a party for misjoinder under Rule 21 of the Federal Rules of Civil Procedure;

(B) transfer the action under section 1404(a) of title 28;

(C) transfer or dismiss the action under section 1406(a) of title 28; or

(D) dismiss the action pursuant to Federal Rule of Civil Procedure 12(b); and

(2) such motion is filed within 90 days after service of the complaint and includes a declaration or other evidence in support of the motion.

(b) *EXPIRATION OF STAY.*—A stay entered under subsection (a) shall expire when all motions that are the basis for the stay are decided by the court.

(c) *PRIORITY OF DECISION.*—In an action described in subsection (a), the court shall decide a motion to sever a claim or drop a party for misjoinder under Rule 21 of the Federal Rules of Civil Procedure, to transfer under section 1404(a) to title 28, to transfer or dismiss under 1406(a) of title 28, or to dismiss the action pursuant to Federal Rule of Civil Procedure 12(b) before the earlier of the date on which the court—

(1) decides any other substantive motion, provided however that the court may decide a question of its own jurisdiction at any time; or

(2) issues a scheduling order under Rule 16(b) of the Federal Rules of Civil Procedure.

(d) *EXCEPTION.*—

(1) *DISCOVERY NECESSARY TO DECIDE MOTION.*—Notwithstanding subsection (a), the court may allow such discovery as the court determines to be necessary to decide a motion to sever, drop a party, dismiss, or transfer.

(2) *COMPETITIVE HARM.*—Subsections (a) and (c) shall not apply to an action in which the patentee is granted a preliminary injunction to prevent harm arising from the manufacture, use, sale, offer for sale, or importation of an allegedly infringing product or process that competes with a product or process made, sold, or offered for sale by the patentee.

(3) *CONSENT OF THE PARTIES.*—The patentee and an opposing party shall be excluded, in whole or in part, from the limitations of subsections (a) and (c) upon such parties' filing with the court a signed stipulation agreeing to such exclusion.

(4) *FDA AND BIOLOGICAL PRODUCT APPLICATION.*—Subsections (a) and (c) shall not apply to an action that includes a cause of action described under section 271(e)(2).

* * * * *

§ 284. Damages

【Upon finding】 (a) *IN GENERAL.*—Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.

【When the damages】 (b) *ASSESSMENT BY COURT; TREBLE DAMAGES.*—When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed. Increased damages under this paragraph shall not apply to provisional rights under section 154(d).

(c) *WILLFUL INFRINGEMENT.*—A claimant seeking to establish willful infringement may not rely on evidence of pre-suit notification of infringement unless that notification identifies with particularity the asserted patent, identifies the product or process accused, 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.

【The court】 (d) *EXPERT TESTIMONY.*—The court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances.

【§ 285. Attorney fees

【The court in exceptional cases may award reasonable attorney fees to the prevailing party.】

§ 285. Fees and other expenses

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

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

(c) *COVENANT NOT TO SUE.*—A party to a civil action who asserts a claim for relief arising under any Act of Congress relating to patents against another party, and who subsequently unilaterally (i) seeks dismissal of the action without consent of the other party and (ii) extends to such other party a covenant not to sue for infringement with respect to the patent or patents at issue, may be the subject of a motion for attorneys fees under subsection (a) as if it were a non-prevailing party, unless the party asserting such claim would have been entitled, at the time that such covenant was extended, to dismiss voluntarily the action without a court order

under Rule 41 of the Federal Rules of Civil Procedure, or the interests of justice require otherwise.

* * * * *

§ 290. Notice of patent [suits] suits; disclosure of interests

[The clerks] (a) *NOTICE OF PATENT SUITS.*—*The clerks of the courts of the United States, within one month after the filing of an action under this title shall give notice thereof in writing to the Director, setting forth so far as known the names and addresses of the parties, name of the inventor, and the designating number of the patent upon which the action has been brought. If any other patent is subsequently included in the action he shall give like notice thereof. Within one month after the decision is rendered or a judgment issued the clerk of the court shall give notice thereof to the Director. The Director shall, on receipt of such notices, enter the same in the file of such patent.*

(b) *INITIAL DISCLOSURE.*—

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

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

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

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

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

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

(F) *A list of each complaint filed, of which the party alleging infringement has knowledge, that asserts or asserted any of the patents identified under subparagraph (A).*

(G) *For each patent identified under subparagraph (A), 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.*

(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 trad-*

ed 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 TRADE-MARK OFFICE.**—

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

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

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

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

(e) **DEFINITIONS.**—In this section:

(1) **FINANCIAL INTEREST.**—The term “financial interest”—

(A) means—

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

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

(B) does not mean—

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

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

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

(3) *ULTIMATE PARENT ENTITY.*—

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

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

§ 291. Derived Patents

(a) *IN GENERAL.*—The owner of a patent may have relief by civil action against the owner of another patent that claims the same invention and has an earlier effective filing date, if the invention claimed in such other patent was derived from the inventor of the invention claimed in the patent owned by the person seeking relief under this section.

(b) *FILING LIMITATION.*—An action under this section may be filed only before the end of the 1-year period beginning on the date of the issuance of the first patent containing a claim to the allegedly derived invention and naming an individual alleged to have derived such invention as the inventor [or joint inventor] or a joint inventor.

* * * * *

§ 296. Liability of States, instrumentalities of States, and State officials for infringement of patents

[(a) *IN GENERAL.*—Any State, any instrumentality of a State, and any officer or employee of a State or instrumentality of a State acting in his official capacity, shall not be immune, under the eleventh amendment of the Constitution of the United States or under any other doctrine of sovereign immunity, from suit in Federal court by any person, including any governmental or nongovernmental entity, for infringement of a patent under section 271, or for any other violation under this title.

[(b) *REMEDIES.*—In a suit described in subsection (a) for a violation described in that subsection, remedies (including remedies both at law and in equity) are available for the violation to the same extent as such remedies are available for such a violation in a suit against any private entity. Such remedies include damages, interest, costs, and treble damages under section 284, attorney fees under section 285, and the additional remedy for infringement of design patents under section 289.]

§ 296. Stay of action against customer

(a) *DEFINITIONS.*—In this section:

(1) *COVERED CUSTOMER.*—The term “covered customer” means a retailer or end user that is accused of infringing a patent or patents in dispute based on—

(A) the sale, or offer for sale, of a covered product or covered process without material modification of the prod-

uct or process in a manner that is alleged to infringe a patent or patents in dispute; or

(B) the use by such retailer, the retailer's end user customer, or an end user of a covered product or covered process without material modification of the product or process in a manner that is alleged to infringe a patent or patents in dispute.

(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 covered process, or a relevant part thereof.

(3) *COVERED PROCESS*.—The term “covered process” means a process, method, or a relevant part thereof, that is alleged to infringe a patent or patents in dispute where such process, method, or relevant part thereof is implemented by an apparatus, material, system, software, or other instrumentality that is provided by the covered manufacturer.

(4) *COVERED PRODUCT*.—The term “covered product” means a product, system, service, component, material, or apparatus, or relevant part thereof, that—

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

or

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

(5) *END USER*.—The term “end user” includes an affiliate of an end user, but does not include an entity that manufactures or causes the manufacture of a covered product or covered process, or a relevant part thereof.

(6) *RETAILER*.—The term “retailer” means an entity that generates revenues predominately through the sale to the public of consumer goods or services, or an affiliate of such entity, but does not include an entity that manufactures or causes the manufacture of a covered product or covered process, or a relevant part thereof.

(b) *STAY OF ACTION AGAINST CUSTOMER*.—Except as provided in subsection (d), in any civil action in which a party asserts a claim for relief 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 covered process if the following requirements are met:

(1) *PARTY TO THE ACTION*.—The covered manufacturer is a party to the action or to a separate action (in which a party asserts a claim for relief arising under any Act of Congress relating to patents) involving the same patent or patents related to the same covered product or covered process.

(2) *AGREEMENT TO BE BOUND BY ISSUES DETERMINED*.—The covered customer agrees to be bound as to issues determined in an action described in paragraph (1) without a full and fair opportunity to separately litigate any such issue, but only as to those issues for which all other elements of the common law doctrine of issue preclusion are met.

(3) *DEADLINE TO FILE MOTION*.—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 or paper in the action is served that specifically identifies the covered product or covered process as a basis for the covered customer's alleged infringement of the patent and that specifically identifies how the covered product or covered process is alleged to infringe the patent; or

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

(4) **MANUFACTURER CONSENT IN CERTAIN CASES.**—In a case in which the covered manufacturer has been made a party to the action on motion by the covered customer, the covered manufacturer and the covered customer consent in writing to the stay.

(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 the suit against the covered customer (such as a covered product or covered process identified in the motion to lift the stay is not a material part of the claimed invention or inventions in the patent or patents in dispute); or

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

(2) **SEPARATE MANUFACTURER ACTION INVOLVED.**—In the case of a stay entered under this section based on the participation of the covered manufacturer in a separate action described in subsection (b)(1), a motion under paragraph (1) may only be granted if the court in such separate action determines that the showing required under paragraph (1) has been made.

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

(e) **WAIVER OF ESTOPPEL EFFECT.**—The court may, upon motion, determine that a consent judgment or an unappealed final order shall not be binding on the covered customer with respect to one or more of the issues that gave rise to the stay based on a showing that such consent judgment or unappealed final order would unreasonably prejudice or be manifestly unjust to the covered customer in light of the circumstances of the case if, following the grant of a motion to stay under this section, the covered manufacturer described in subsection (b)(1)—

(1) obtains or consents to entry of a consent judgment relating to such issue that gave rise to the stay; or

(2) fails to prosecute to a final, non-appealable judgment such issue that gave rise to the stay.

(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.

* * * * *

§ 299. Joinder of parties

(a) **JOINDER OF ACCUSED INFRINGERS.**—With respect to any civil action arising under any Act of Congress relating to patents, other than an action or trial in which an act of infringement under

section 271(e)(2) has been pled, parties that are accused infringers may be joined in one action as defendants or counterclaim defendants, or have their actions consolidated for trial, only if—

(1) any right to relief is asserted against the parties jointly, severally, or in the alternative with respect to or arising out of the same transaction, occurrence, or series of transactions or occurrences relating to the making, using, importing into the United States, offering for sale, or selling of the same accused product or process; and

(2) questions of fact common to all defendants or counterclaim defendants will arise in the action.

(b) ALLEGATIONS INSUFFICIENT FOR JOINDER.—For purposes of this subsection, accused infringers may not be joined in one action as defendants or counterclaim defendants, or have their actions consolidated for trial, based solely on allegations that they each have infringed the patent or patents in suit.

(c) WAIVER.—A party that is an accused infringer may waive the limitations set forth in this section with respect to that party.

(d) JOINDER OF INTERESTED PARTIES.—

(1) JOINDER.—*Except as otherwise provided under this subsection, 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 expiration of the time period during which a certification under paragraph (4)(B) is required*

to be filed, that the interested party has been identified in the initial disclosure under section 290(b) 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) **ADDITIONAL REQUIREMENTS FOR JOINDER.**—

(A) **INITIAL STATEMENT.**—This subsection shall not apply to an action unless a party defending against an allegation of infringement of a patent claim files, not later than 14 days before the date on which a scheduling conference is held or the date on which a scheduling order is due under Rule 16(b) of the Federal Rules of Civil Procedure, a statement that such party holds a good faith belief, based on publicly available information and any other information known to such party, that the party alleging infringement has no substantial interest in the subject matter at issue other than asserting the patent in litigation.

(B) **CERTIFICATION.**—This subsection shall not apply to an action if the party alleging infringement files, not later than 45 days after the date on which such party is served with the initial statement described under subparagraph (A), a certification that—

(i) establishes and certifies to the court, under oath, that such party will have sufficient funds available to satisfy any award of reasonable attorney's fees and expenses under section 285 if an award is assessed;

(ii) demonstrates that such party has a substantial interest in the subject matter at issue other than asserting the patent in litigation; or

(iii) is made under oath that there are no other interested parties.

(5) *EXCEPTION FOR UNIVERSITY TECHNOLOGY TRANSFER ORGANIZATIONS.*—This subsection shall not apply to a technology transfer organization whose primary purpose is to facilitate the commercialization of technologies developed by one or more institutions of higher education (as defined in section 101(a) of the Higher Education Act of 1965 (20 U.S.C. 1001(a))) if such technology transfer organization is alleging infringement on behalf of an entity that would not be subject to this subsection.

(6) *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 employee of the party alleging infringement—

(I) whose principal source of income or employment is employment with the party alleging infringement; or

(II) whose sole financial interest in the patent or patents at issue is a salary or hourly wage paid by the party alleging infringement;

(ii) 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

(iii) a person whose sole financial interest in the patent or patents at issue is ownership of an equity or security interest in the party alleging infringement, unless such person also has the right or ability to direct or control (membership on the board of directors alone is not sufficient to demonstrate such right or ability) the civil action.

(7) *SUBSTANTIAL INTEREST.*—In this subsection, the term “substantial interest” includes an interest in the subject matter of a patent at issue if the party—

(A) invented the subject matter; or

(B) commercially practices or implements, made substantial preparations directed particularly to commercially practicing or implementing, or is engaged in research and development in, technology in the field of the subject matter.

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CHAPTER 31—INTER PARTES REVIEW

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§ 313. Preliminary response to petition

If an inter partes review petition is filed under section 311, the patent owner shall have the right to file a preliminary response to the petition, within a time period set by the Director, that sets forth reasons why no inter partes review should be instituted based upon the failure of the petition to meet any requirement of this chapter[.], *including affidavits or declarations of supporting evidence and opinions. The Director may accept a reply by the petitioner to new issues raised in the preliminary response, upon request by the petitioner to file such reply, within a time period set by the Director.*

§ 314. Institution of inter partes review

(a) THRESHOLD.—The Director may not authorize an inter partes review to be instituted unless the Director determines that the information presented in the petition filed under section 311 and [any response] *any response or reply* filed under section 313 shows that there is a reasonable likelihood that the petitioner would prevail with respect to at least 1 of the claims challenged in the petition.

(b) TIMING.—The Director shall determine whether to institute an inter partes review under this chapter pursuant to a petition filed under section 311 within 3 months after—

(1) [receiving a preliminary response to the petition] *receiving the later of a preliminary response to the petition or a reply to such preliminary response* under section 313; or

[(2) if no such preliminary response is filed, the last date on which such response may be filed.]

(2) if—

(A) *no such preliminary response is filed, the last date on which such response may be filed; and*

(B) *such preliminary response is filed and no such reply is requested, the last day on which such reply may be requested.*

(c) NOTICE.—The Director shall notify the petitioner and patent owner, in writing, of the Director's determination under subsection (a), and shall make such notice available to the public as soon as is practicable. Such notice shall include the date on which the review shall commence.

(d) NO APPEAL.—The determination by the Director whether to institute an inter partes review under this section shall be final and nonappealable.

§ 315. Relation to other proceedings or actions

(a) INFRINGER'S CIVIL ACTION.—

(1) INTER PARTES REVIEW BARRED BY CIVIL ACTION.—An inter partes review may not be instituted if, before the date on which the petition for such a review is filed, the petitioner or real party in interest filed a civil action challenging the validity of a claim of the patent.

(2) STAY OF CIVIL ACTION.—If the petitioner or real party in interest files a civil action challenging the validity of a claim of the patent on or after the date on which the petitioner files a petition for inter partes review of the patent, that civil action shall be automatically stayed until either—

- (A) the patent owner moves the court to lift the stay;
- (B) the patent owner files a civil action or counterclaim alleging that the petitioner or real party in interest has infringed the patent; or
- (C) the petitioner or real party in interest moves the court to dismiss the civil action.

(3) TREATMENT OF COUNTERCLAIM.—A counterclaim challenging the validity of a claim of a patent does not constitute a civil action challenging the validity of a claim of a patent for purposes of this subsection.

(b) PATENT OWNER'S ACTION.—An inter partes review may not be instituted if the petition requesting the proceeding is filed more than 1 year after the date on which the petitioner, real party in interest, or privy of the petitioner is served with a complaint alleging infringement of the patent. The time limitation set forth in the preceding sentence shall not apply to a request for joinder under subsection (c).

[(c) JOINDER.—If the Director institutes an inter partes review, the Director, in his or her discretion, may join as a party to that inter partes review any person who properly files a petition under section 311 that the Director, after receiving a preliminary response under section 313 or the expiration of the time for filing such a response, determines warrants the institution of an inter partes review under section 314.]

(c) JOINDER

(1) JOINDER OF PARTY *If the Director institutes an inter partes review, the Director, in his or her discretion, may join as a party to that inter partes review any person who meets the requirement of properly filing a petition under section 311 that the Director, after receiving a preliminary response under section 313 or the expiration of the time for filing such a response, determines warrants the institution of an inter partes review under section 314.*

(2) JOINDER OF LATER FILED PETITION *For good cause shown, the Director may allow a party who files a petition that meets the requirement described in paragraph (1) and concerns the patent of a pending inter partes review to join the petition to the pending review.*

(d) MULTIPLE PROCEEDINGS.—Notwithstanding sections 135(a), 251, and 252, and chapter 30, during the pendency of an inter partes review, if another proceeding or matter involving the patent is before the Office, the Director may determine the manner in which the inter partes review or other proceeding or matter may proceed, including providing for stay, transfer, consolidation, or termination of any such matter or proceeding.

(e) ESTOPPEL.—

(1) PROCEEDINGS BEFORE THE OFFICE.—The petitioner in an inter partes review of a claim in a patent under this chapter that results in a final written decision under section 318(a), or the real party in interest or privy of the petitioner, may not request or maintain a proceeding before the Office with respect to that claim on any ground that the petitioner raised or reasonably could have raised during that inter partes review.

(2) CIVIL ACTIONS AND OTHER PROCEEDINGS.—The petitioner in an inter partes review of a claim in a patent under

this chapter that results in a final written decision under section 318(a), or the real party in interest or privy of the petitioner, may not assert either in a civil action arising in whole or in part under section 1338 of title 28 or in a proceeding before the International Trade Commission under section 337 of the Tariff Act of 1930 that the claim is invalid on any ground that the petitioner raised or reasonably could have raised during that inter partes review.

§ 316. Conduct of inter partes review

(a) REGULATIONS.—The Director shall prescribe regulations—

(1) providing that the file of any proceeding under this chapter shall be made available to the public, except that any petition or document filed with the intent that it be sealed shall, if accompanied by a motion to seal, be treated as sealed pending the outcome of the ruling on the motion;

(2) setting forth the standards for the showing of sufficient grounds to institute a review under section 314(a);

(3) establishing procedures for the submission of supplemental information after the petition is filed;

(4) establishing and governing inter partes review under this chapter and the relationship of such review to other proceedings under this title;

(5) setting forth standards and procedures for discovery of relevant evidence, including that such discovery shall be limited to—

(A) the deposition of witnesses submitting affidavits or declarations; and

(B) what is otherwise necessary in the interest of justice;

(6) prescribing sanctions for abuse of discovery, abuse of process, or any other improper use of the proceeding, such as to harass or to cause unnecessary delay or an unnecessary increase in the cost of the proceeding;

(7) providing for protective orders governing the exchange and submission of confidential information;

(8) providing for the filing by the patent owner of a response to [the petition under section 313] *the petition under section 311* after an inter partes review has been instituted, and requiring that the patent owner file with such response, through affidavits or declarations, any additional factual evidence and expert opinions on which the patent owner relies in support of the response;

(9) setting forth standards and procedures for allowing the patent owner to move to amend the patent under subsection (d) to cancel a challenged claim or propose a reasonable number of substitute claims, and ensuring that any information submitted by the patent owner in support of any amendment entered under subsection (d) is made available to the public as part of the prosecution history of the patent;

(10) providing either party with the right to an oral hearing as part of the proceeding;

(11) requiring that the final determination in an inter partes review be issued not later than 1 year after the date on which the Director notices the institution of a review under

this chapter, except that the Director may, for good cause shown, extend the 1-year period by not more than 6 months, and may adjust the time periods in this paragraph in the case of joinder under section 315(c);

(12) setting a time period for requesting joinder under section 315(c) [; and];

(13) providing the petitioner with at least 1 opportunity to file written comments within a time period established by the Director [;];

(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; and

(15) providing that a review may not be instituted unless the petitioner certifies that the petitioner and the real parties in interest of the petitioner—

(A) do not own and will not acquire a financial instrument (including a prepaid variable forward contract, equity swap, collar, or exchange fund) that is designed to hedge or offset any decrease in the market value of an equity security of the patent owner or an affiliate of the patent owner, during a period following the filing of the petition to be determined by the Director; and

(B) have not demanded payment, monetary or otherwise, from the patent owner or an affiliate of the patent owner in exchange for a commitment not to file a petition under section 311 with respect to the patent that is the subject of the petition, unless the petitioner or the real party in interest of the petitioner has been sued for or charged with infringement of the patent, during a period to be determined by the Director.

(b) CONSIDERATIONS.—In prescribing regulations under this section, the Director shall consider the effect of any such regulation on the economy, the integrity of the patent system, the efficient administration of the Office, [and the ability] *the rights to due process of the patent owner and the petitioner, and the ability of the Office to timely complete proceedings instituted under this chapter.*

(c) PATENT TRIAL AND APPEAL BOARD.—The Patent Trial and Appeal Board shall, in accordance with section 6, conduct each inter partes review instituted under this chapter.

(d) AMENDMENT OF THE PATENT.—

(1) IN GENERAL.—During an inter partes review instituted under this chapter, the patent owner may file 1 motion to amend the patent in 1 or more of the following ways:

(A) Cancel any challenged patent claim.

(B) For each challenged claim, propose a reasonable number of substitute claims.

(2) **ADDITIONAL MOTIONS.**—Additional motions to amend may be permitted upon the joint request of the petitioner and the patent owner to materially advance the settlement of a proceeding under section 317, or as permitted by regulations prescribed by the Director.

(3) **SCOPE OF CLAIMS.**—An amendment under this subsection may not enlarge the scope of the claims of the patent or introduce new matter.

(e) **EVIDENTIARY STANDARDS.**—In an inter partes review instituted under this chapter, the petitioner shall have the burden of proving a proposition of unpatentability by a preponderance of the evidence.

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CHAPTER 32—POST-GRANT REVIEW

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§ 323. Preliminary response to petition

If a post-grant review petition is filed under section 321, the patent owner shall have the right to file a preliminary response to the petition, within a time period set by the Director, that sets forth reasons why no post-grant review should be instituted based upon the failure of the petition to meet any requirement of this chapter~~[.]~~, *including affidavits or declarations of supporting evidence and opinions.*

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§ 325. Relation to other proceedings or actions

(a) **INFRINGEMENT’S CIVIL ACTION.**—

(1) **POST-GRANT REVIEW BARRED BY CIVIL ACTION.**—A post-grant review may not be instituted under this chapter if, before the date on which the petition for such a review is filed, the petitioner or real party in interest filed a civil action challenging the validity of a claim of the patent.

(2) **STAY OF CIVIL ACTION.**—If the petitioner or real party in interest files a civil action challenging the validity of a claim of the patent on or after the date on which the petitioner files a petition for post-grant review of the patent, that civil action shall be automatically stayed until either—

- (A) the patent owner moves the court to lift the stay;
- (B) the patent owner files a civil action or counterclaim alleging that the petitioner or real party in interest has infringed the patent; or
- (C) the petitioner or real party in interest moves the court to dismiss the civil action.

(3) **TREATMENT OF COUNTERCLAIM.**—A counterclaim challenging the validity of a claim of a patent does not constitute a civil action challenging the validity of a claim of a patent for purposes of this subsection.

(b) **PRELIMINARY INJUNCTIONS.**—If a civil action alleging infringement of a patent is filed within 3 months after the date on which the patent is granted, the court may not stay its consideration of the patent owner’s motion for a preliminary injunction against infringement of the patent on the basis that a petition for

post-grant review has been filed under this chapter or that such a post-grant review has been instituted under this chapter.

(c) JOINDER.—If more than 1 petition for a post-grant review under this chapter is properly filed against the same patent and the Director determines that more than 1 of these petitions warrants the institution of a post-grant review under section 324, the Director may consolidate such reviews into a single post-grant review.

(d) MULTIPLE PROCEEDINGS.—Notwithstanding sections 135(a), 251, and 252, and chapter 30, during the pendency of any post-grant review under this chapter, if another proceeding or matter involving the patent is before the Office, the Director may determine the manner in which the post-grant review or other proceeding or matter may proceed, including providing for the stay, transfer, consolidation, or termination of any such matter or proceeding. In determining whether to institute or order a proceeding under this chapter, chapter 30, or chapter 31, the Director may take into account whether, and reject the petition or request because, the same or substantially the same prior art or arguments previously were presented to the Office.

(e) ESTOPPEL.—

(1) PROCEEDINGS BEFORE THE OFFICE.—The petitioner in a post-grant review of a claim in a patent under this chapter that results in a final written decision under section 328(a), or the real party in interest or privy of the petitioner, may not request or maintain a proceeding before the Office with respect to that claim on any ground that the petitioner raised or reasonably could have raised during that post-grant review.

(2) CIVIL ACTIONS AND OTHER PROCEEDINGS.—The petitioner in a post-grant review of a claim in a patent under this chapter that results in a final written decision under section 328(a), or the real party in interest or privy of the petitioner, may not assert either in a civil action arising in whole or in part under section 1338 of title 28 or in a proceeding before the International Trade Commission under section 337 of the Tariff Act of 1930 that the claim is invalid on any ground that the petitioner raised [or reasonably could have raised] during that post-grant review.

(f) REISSUE PATENTS.—A post-grant review may not be instituted under this chapter if the petition requests cancellation of a claim in a reissue patent that is identical to or narrower than a claim in the original patent from which the reissue patent was issued, and the time limitations in section 321(c) would bar filing a petition for a post-grant review for such original patent.

§ 326. Conduct of post-grant review

(a) REGULATIONS.—The Director shall prescribe regulations—

(1) providing that the file of any proceeding under this chapter shall be made available to the public, except that any petition or document filed with the intent that it be sealed shall, if accompanied by a motion to seal, be treated as sealed pending the outcome of the ruling on the motion;

(2) setting forth the standards for the showing of sufficient grounds to institute a review under subsections (a) and (b) of section 324;

(3) establishing procedures for the submission of supplemental information after the petition is filed;

(4) establishing and governing a post-grant review under this chapter and the relationship of such review to other proceedings under this title;

(5) setting forth standards and procedures for discovery of relevant evidence, including that such discovery shall be limited to evidence directly related to factual assertions advanced by either party in the proceeding;

(6) prescribing sanctions for abuse of discovery, abuse of process, or any other improper use of the proceeding, such as to harass or to cause unnecessary delay or an unnecessary increase in the cost of the proceeding;

(7) providing for protective orders governing the exchange and submission of confidential information;

(8) providing for the filing by the patent owner of a response to **the petition under section 323** *the petition under section 321* after a post-grant review has been instituted, and requiring that the patent owner file with such response, through affidavits or declarations, any additional factual evidence and expert opinions on which the patent owner relies in support of the response;

(9) setting forth standards and procedures for allowing the patent owner to move to amend the patent under subsection (d) to cancel a challenged claim or propose a reasonable number of substitute claims, and ensuring that any information submitted by the patent owner in support of any amendment entered under subsection (d) is made available to the public as part of the prosecution history of the patent;

(10) providing either party with the right to an oral hearing as part of the proceeding;

(11) requiring that the final determination in any post-grant review be issued not later than 1 year after the date on which the Director notices the institution of a proceeding under this chapter, except that the Director may, for good cause shown, extend the 1-year period by not more than 6 months, and may adjust the time periods in this paragraph in the case of joinder under section 325(c)**;** and**;**

(12) providing the petitioner with at least 1 opportunity to file written comments within a time period established by the Director**;**

(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; and

(14) providing that a review may not be instituted unless the petitioner certifies that the petitioner and the real parties in interest of the petitioner—

(A) do not own and will not acquire a financial instrument (including a prepaid variable forward contract, equity swap, collar, or exchange fund) that is designed to hedge or offset any decrease in the market value of an equity security of the patent owner or an affiliate of the patent owner, during a period following the filing of the petition to be determined by the Director; and

(B) have not demanded payment, monetary or otherwise, from the patent owner or an affiliate of the patent owner in exchange for a commitment not to file a petition under section 311 with respect to the patent that is the subject of the petition, unless the petitioner or the real party in interest of the petitioner has been sued for or charged with infringement of the patent, during a period to be determined by the Director.

(b) CONSIDERATIONS.—In prescribing regulations under this section, the Director shall consider the effect of any such regulation on the economy, the integrity of the patent system, the efficient administration of the Office, [and the ability] *the rights to due process of the patent owner and the petitioner, and the ability of the Office to timely complete proceedings instituted under this chapter.*

(c) PATENT TRIAL AND APPEAL BOARD.—The Patent Trial and Appeal Board shall, in accordance with section 6, conduct each post-grant review instituted under this chapter.

(d) AMENDMENT OF THE PATENT.—

(1) IN GENERAL.—During a post-grant review instituted under this chapter, the patent owner may file 1 motion to amend the patent in 1 or more of the following ways:

(A) Cancel any challenged patent claim.

(B) For each challenged claim, propose a reasonable number of substitute claims.

(2) ADDITIONAL MOTIONS.—Additional motions to amend may be permitted upon the joint request of the petitioner and the patent owner to materially advance the settlement of a proceeding under section 327, or upon the request of the patent owner for good cause shown.

(3) SCOPE OF CLAIMS.—An amendment under this subsection may not enlarge the scope of the claims of the patent or introduce new matter.

(e) EVIDENTIARY STANDARDS.—In a post-grant review instituted under this chapter, the petitioner shall have the burden of proving a proposition of unpatentability by a preponderance of the evidence.

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TITLE 28, UNITED STATES CODE

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PART IV—JURISDICTION AND VENUE

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CHAPTER 83—COURTS OF APPEALS

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§ 1295. Jurisdiction of the United States Court of Appeals for the Federal Circuit

(a) The United States Court of Appeals for the Federal Circuit shall have exclusive jurisdiction—

(1) of an appeal from a final decision of a district court of the United States, the District Court of Guam, the District Court of the Virgin Islands, or the District Court of the Northern Mariana Islands, in any civil action arising under, or in any civil action in which a party has asserted a compulsory counterclaim arising under, any Act of Congress relating to patents or plant variety protection;

(2) of an appeal from a final decision of a district court of the United States, the United States District Court for the District of the Canal Zone, the District Court of Guam, the District Court of the Virgin Islands, or the District Court for the Northern Mariana Islands, if the jurisdiction of that court was based, in whole or in part, on section 1346 of this title, except that jurisdiction of an appeal in a case brought in a district court under section 1346(a)(1), 1346(b), 1346(e), or 1346(f) of this title or under section 1346(a)(2) when the claim is founded upon an Act of Congress or a regulation of an executive department providing for internal revenue shall be governed by sections 1291, 1292, and 1294 of this title;

(3) of an appeal from a final decision of the United States Court of Federal Claims;

(4) of an appeal from a decision of—

(A) the Patent Trial and Appeal Board of the United States Patent and Trademark Office with respect to a patent application, derivation proceeding, reexamination, post-grant review, or inter partes review under title 35, at the instance of a party who exercised that party's right to participate in the applicable proceeding before or appeal to the Board, except that an applicant or a party to a derivation proceeding may also have remedy by civil action pursuant to section 145 or 146 of title 35; an appeal under this subparagraph of a decision of the Board with respect to an application or derivation proceeding shall waive the right of such applicant or party to proceed under section 145 or 146 of title 35;

(B) the Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office or the Trademark Trial and Appeal Board with respect to applications for registration of marks and other proceedings as provided in section 21 of the Trademark Act of 1946 (15 U.S.C. 1071); or

(C) a district court to which a case was directed pursuant to section 145, 146, or 154(b) of [title 35] *title 35* or

section 21(b) of the Act of July 5, 1946 (commonly referred to as the "Trademark Act of 1946") (15 U.S.C. 1071(b));

(5) of an appeal from a final decision of the United States Court of International Trade;

(6) to review the final determinations of the United States International Trade Commission relating to unfair practices in import trade, made under section 337 of the Tariff Act of 1930 (19 U.S.C. 1337);

(7) to review, by appeal on questions of law only, findings of the Secretary of Commerce under U.S. note 6 to subchapter X of chapter 98 of the Harmonized Tariff Schedule of the United States (relating to importation of instruments or apparatus);

(8) of an appeal under section 71 of the Plant Variety Protection Act (7 U.S.C. 2461);

(9) of an appeal from a final order or final decision of the Merit Systems Protection Board, pursuant to sections 7703(b)(1) and 7703(d) of title 5;

(10) of an appeal from a final decision of an agency board of contract appeals pursuant to section 7107(a)(1) of title 41;

(11) of an appeal under section 211 of the Economic Stabilization Act of 1970;

(12) of an appeal under section 5 of the Emergency Petroleum Allocation Act of 1973;

(13) of an appeal under section 506(c) of the Natural Gas Policy Act of 1978; and

(14) of an appeal under section 523 of the Energy Policy and Conservation Act.

(b) The head of any executive department or agency may, with the approval of the Attorney General, refer to the Court of Appeals for the Federal Circuit for judicial review any final decision rendered by a board of contract appeals pursuant to the terms of any contract with the United States awarded by that department or agency which the head of such department or agency has concluded is not entitled to finality pursuant to the review standards specified in section 7107(b) of title 41. The head of each executive department or agency shall make any referral under this section within one hundred and twenty days after the receipt of a copy of the final appeal decision.

(c) The Court of Appeals for the Federal Circuit shall review the matter referred in accordance with the standards specified in section 7107(b) of title 41. The court shall proceed with judicial review on the administrative record made before the board of contract appeals on matters so referred as in other cases pending in such court, shall determine the issue of finality of the appeal decision, and shall, if appropriate, render judgment thereon, or remand the matter to any administrative or executive body or official with such direction as it may deem proper and just.

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CHAPTER 87—DISTRICT COURTS; VENUE

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§ 1400. Patents and copyrights, mask works, and designs

(a) Civil actions, suits, or proceedings arising under any Act of Congress relating to copyrights or exclusive rights in mask works or designs may be instituted in the district in which the defendant or his agent resides or may be found.

[(b) 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.]

(b) *VENUE FOR ACTION RELATING TO PATENTS.*—*Notwithstanding subsections (b) and (c) of section 1391 of this title, any civil action for patent infringement or any action for a declaratory judgment that a patent is invalid or not infringed 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 an act of infringement of a patent in suit and has a regular and established physical facility that gives rise to the act of infringement;

(3) where the defendant has agreed or consented to be sued in the instant action;

(4) where an inventor named on the patent in suit conducted research or development that led to the application for the patent in suit;

(5) where a party has a regular and established physical facility that such party controls and operates, not primarily for the purpose of creating venue, and has—

(A) engaged in management of significant research and development of an invention claimed in a patent in suit prior to the effective filing date of the patent;

(B) manufactured a tangible product that is alleged to embody an invention claimed in a patent in suit; or

(C) implemented a manufacturing process for a tangible good in which the process is alleged to embody an invention claimed in a patent in suit; or

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

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TITLE 11, UNITED STATES CODE

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CHAPTER 1—GENERAL PROVISIONS

§ 101. Definitions

In this title the following definitions shall apply:

(1) The term “accountant” means accountant authorized under applicable law to practice public accounting, and includes professional accounting association, corporation, or partnership, if so authorized.

(2) The term “affiliate” means—

(A) entity that directly or indirectly owns, controls, or holds with power to vote, 20 percent or more of the outstanding voting securities of the debtor, other than an entity that holds such securities—

(i) in a fiduciary or agency capacity without sole discretionary power to vote such securities; or

(ii) solely to secure a debt, if such entity has not in fact exercised such power to vote;

(B) corporation 20 percent or more of whose outstanding voting securities are directly or indirectly owned, controlled, or held with power to vote, by the debtor, or by an entity that directly or indirectly owns, controls, or holds with power to vote, 20 percent or more of the outstanding voting securities of the debtor, other than an entity that holds such securities—

(i) in a fiduciary or agency capacity without sole discretionary power to vote such securities; or

(ii) solely to secure a debt, if such entity has not in fact exercised such power to vote;

(C) person whose business is operated under a lease or operating agreement by a debtor, or person substantially all of whose property is operated under an operating agreement with the debtor; or

(D) entity that operates the business or substantially all of the property of the debtor under a lease or operating agreement.

(3) The term “assisted person” means any person whose debts consist primarily of consumer debts and the value of whose nonexempt property is less than \$150,000.

(4) The term “attorney” means attorney, professional law association, corporation, or partnership, authorized under applicable law to practice law.

(4A) The term “bankruptcy assistance” means any goods or services sold or otherwise provided to an assisted person with the express or implied purpose of providing information, advice, counsel, document preparation, or filing, or attendance at a creditors’ meeting or appearing in a case or proceeding on behalf of another or providing legal representation with respect to a case or proceeding under this title.

(5) The term “claim” means—

(A) right to payment, whether or not such right is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, or unsecured; or

(B) right to an equitable remedy for breach of performance if such breach gives rise to a right to payment, whether or not such right to an equitable remedy is reduced to judgment, fixed, contingent, matured, unmatured, disputed, undisputed, secured, or unsecured.

(6) The term “commodity broker” means futures commission merchant, foreign futures commission merchant, clearing organization, leverage transaction merchant, or commodity options dealer, as defined in section 761 of this title, with respect to which there is a customer, as defined in section 761 of this title.

(7) The term “community claim” means claim that arose before the commencement of the case concerning the debtor for which property of the kind specified in section 541(a)(2) of this title is liable, whether or not there is any such property at the time of the commencement of the case.

(7A) The term “commercial fishing operation” means—

(A) the catching or harvesting of fish, shrimp, lobsters, urchins, seaweed, shellfish, or other aquatic species or products of such species; or

(B) for purposes of section 109 and chapter 12, aquaculture activities consisting of raising for market any species or product described in subparagraph (A).

(7B) The term “commercial fishing vessel” means a vessel used by a family fisherman to carry out a commercial fishing operation.

(8) The term “consumer debt” means debt incurred by an individual primarily for a personal, family, or household purpose.

(9) The term “corporation”—

(A) includes—

(i) association having a power or privilege that a private corporation, but not an individual or a partnership, possesses;

(ii) partnership association organized under a law that makes only the capital subscribed responsible for the debts of such association;

(iii) joint-stock company;

(iv) unincorporated company or association; or

(v) business trust; but

(B) does not include limited partnership.

(10) The term “creditor” means—

(A) entity that has a claim against the debtor that arose at the time of or before the order for relief concerning the debtor;

(B) entity that has a claim against the estate of a kind specified in section 348(d), 502(f), 502(g), 502(h) or 502(i) of this title; or

(C) entity that has a community claim.

(10A) The term “current monthly income”—

(A) means the average monthly income from all sources that the debtor receives (or in a joint case the debtor and the debtor’s spouse receive) without regard to whether such income is taxable income, derived during the 6-month period ending on—

(i) the last day of the calendar month immediately preceding the date of the commencement of the case if the debtor files the schedule of current income required by section 521(a)(1)(B)(ii); or

(ii) the date on which current income is determined by the court for purposes of this title if the debtor does not file the schedule of current income required by section 521(a)(1)(B)(ii); and

(B) includes any amount paid by any entity other than the debtor (or in a joint case the debtor and the debtor’s spouse), on a regular basis for the household expenses of

the debtor or the debtor's dependents (and in a joint case the debtor's spouse if not otherwise a dependent), but excludes benefits received under the Social Security Act, payments to victims of war crimes or crimes against humanity on account of their status as victims of such crimes, and payments to victims of international terrorism (as defined in section 2331 of title 18) or domestic terrorism (as defined in section 2331 of title 18) on account of their status as victims of such terrorism.

(11) The term "custodian" means—

(A) receiver or trustee of any of the property of the debtor, appointed in a case or proceeding not under this title;

(B) assignee under a general assignment for the benefit of the debtor's creditors; or

(C) trustee, receiver, or agent under applicable law, or under a contract, that is appointed or authorized to take charge of property of the debtor for the purpose of enforcing a lien against such property, or for the purpose of general administration of such property for the benefit of the debtor's creditors.

(12) The term "debt" means liability on a claim.

(12A) The term "debt relief agency" means any person who provides any bankruptcy assistance to an assisted person in return for the payment of money or other valuable consideration, or who is a bankruptcy petition preparer under section 110, but does not include—

(A) any person who is an officer, director, employee, or agent of a person who provides such assistance or of the bankruptcy petition preparer;

(B) a nonprofit organization that is exempt from taxation under section 501(c)(3) of the Internal Revenue Code of 1986;

(C) a creditor of such assisted person, to the extent that the creditor is assisting such assisted person to restructure any debt owed by such assisted person to the creditor;

(D) a depository institution (as defined in section 3 of the Federal Deposit Insurance Act) or any Federal credit union or State credit union (as those terms are defined in section 101 of the Federal Credit Union Act), or any affiliate or subsidiary of such depository institution or credit union; or

(E) an author, publisher, distributor, or seller of works subject to copyright protection under title 17, when acting in such capacity.

(13) The term "debtor" means person or municipality concerning which a case under this title has been commenced.

(13A) The term "debtor's principal residence"—

(A) means a residential structure if used as the principal residence by the debtor, including incidental property, without regard to whether that structure is attached to real property; and

(B) includes an individual condominium or cooperative unit, a mobile or manufactured home, or trailer if used as the principal residence by the debtor.

(14) The term “disinterested person” means a person that—

(A) is not a creditor, an equity security holder, or an insider;

(B) is not and was not, within 2 years before the date of the filing of the petition, a director, officer, or employee of the debtor; and

(C) does not have an interest materially adverse to the interest of the estate or of any class of creditors or equity security holders, by reason of any direct or indirect relationship to, connection with, or interest in, the debtor, or for any other reason.

(14A) The term “domestic support obligation” means a debt that accrues before, on, or after the date of the order for relief in a case under this title, including interest that accrues on that debt as provided under applicable nonbankruptcy law notwithstanding any other provision of this title, that is—

(A) owed to or recoverable by—

(i) a spouse, former spouse, or child of the debtor or such child’s parent, legal guardian, or responsible relative; or

(ii) a governmental unit;

(B) in the nature of alimony, maintenance, or support (including assistance provided by a governmental unit) of such spouse, former spouse, or child of the debtor or such child’s parent, without regard to whether such debt is expressly so designated;

(C) established or subject to establishment before, on, or after the date of the order for relief in a case under this title, by reason of applicable provisions of—

(i) a separation agreement, divorce decree, or property settlement agreement;

(ii) an order of a court of record; or

(iii) a determination made in accordance with applicable nonbankruptcy law by a governmental unit; and

(D) not assigned to a nongovernmental entity, unless that obligation is assigned voluntarily by the spouse, former spouse, child of the debtor, or such child’s parent, legal guardian, or responsible relative for the purpose of collecting the debt.

(15) The term “entity” includes person, estate, trust, governmental unit, and United States trustee.

(16) The term “equity security” means—

(A) share in a corporation, whether or not transferable or denominated “stock”, or similar security;

(B) interest of a limited partner in a limited partnership; or

(C) warrant or right, other than a right to convert, to purchase, sell, or subscribe to a share, security, or interest of a kind specified in subparagraph (A) or (B) of this paragraph.

(17) The term “equity security holder” means holder of an equity security of the debtor.

(18) The term “family farmer” means—

(A) individual or individual and spouse engaged in a farming operation whose aggregate debts do not exceed \$3,237,000 and not less than 50 percent of whose aggregate noncontingent, liquidated debts (excluding a debt for the principal residence of such individual or such individual and spouse unless such debt arises out of a farming operation), on the date the case is filed, arise out of a farming operation owned or operated by such individual or such individual and spouse, and such individual or such individual and spouse receive from such farming operation more than 50 percent of such individual’s or such individual and spouse’s gross income for—

(i) the taxable year preceding; or

(ii) each of the 2d and 3d taxable years preceding; the taxable year in which the case concerning such individual or such individual and spouse was filed; or

(B) corporation or partnership in which more than 50 percent of the outstanding stock or equity is held by one family, or by one family and the relatives of the members of such family, and such family or such relatives conduct the farming operation, and

(i) more than 80 percent of the value of its assets consists of assets related to the farming operation;

(ii) its aggregate debts do not exceed \$3,237,000 and not less than 50 percent of its aggregate noncontingent, liquidated debts (excluding a debt for one dwelling which is owned by such corporation or partnership and which a shareholder or partner maintains as a principal residence, unless such debt arises out of a farming operation), on the date the case is filed, arise out of the farming operation owned or operated by such corporation or such partnership; and

(iii) if such corporation issues stock, such stock is not publicly traded.

(19) The term “family farmer with regular annual income” means family farmer whose annual income is sufficiently stable and regular to enable such family farmer to make payments under a plan under chapter 12 of this title.

(19A) The term “family fisherman” means—

(A) an individual or individual and spouse engaged in a commercial fishing operation—

(i) whose aggregate debts do not exceed \$1,500,000 and not less than 80 percent of whose aggregate noncontingent, liquidated debts (excluding a debt for the principal residence of such individual or such individual and spouse, unless such debt arises out of a commercial fishing operation), on the date the case is filed, arise out of a commercial fishing operation owned or operated by such individual or such individual and spouse; and

(ii) who receive from such commercial fishing operation more than 50 percent of such individual’s or

such individual's and spouse's gross income for the taxable year preceding the taxable year in which the case concerning such individual or such individual and spouse was filed; or

(B) a corporation or partnership—

(i) in which more than 50 percent of the outstanding stock or equity is held by—

(I) 1 family that conducts the commercial fishing operation; or

(II) 1 family and the relatives of the members of such family, and such family or such relatives conduct the commercial fishing operation; and

(ii)(I) more than 80 percent of the value of its assets consists of assets related to the commercial fishing operation;

(II) its aggregate debts do not exceed \$1,500,000 and not less than 80 percent of its aggregate non-contingent, liquidated debts (excluding a debt for 1 dwelling which is owned by such corporation or partnership and which a shareholder or partner maintains as a principal residence, unless such debt arises out of a commercial fishing operation), on the date the case is filed, arise out of a commercial fishing operation owned or operated by such corporation or such partnership; and

(III) if such corporation issues stock, such stock is not publicly traded.

(19B) The term “family fisherman with regular annual income” means a family fisherman whose annual income is sufficiently stable and regular to enable such family fisherman to make payments under a plan under chapter 12 of this title.

(20) The term “farmer” means (except when such term appears in the term “family farmer”) person that received more than 80 percent of such person's gross income during the taxable year of such person immediately preceding the taxable year of such person during which the case under this title concerning such person was commenced from a farming operation owned or operated by such person.

(21) The term “farming operation” includes farming, tillage of the soil, dairy farming, ranching, production or raising of crops, poultry, or livestock, and production of poultry or livestock products in an unmanufactured state.

(21A) The term “farmout agreement” means a written agreement in which—

(A) the owner of a right to drill, produce, or operate liquid or gaseous hydrocarbons on property agrees or has agreed to transfer or assign all or a part of such right to another entity; and

(B) such other entity (either directly or through its agents or its assigns), as consideration, agrees to perform drilling, reworking, recompleting, testing, or similar or related operations, to develop or produce liquid or gaseous hydrocarbons on the property.

(21B) The term “Federal depository institutions regulatory agency” means—

(A) with respect to an insured depository institution (as defined in section 3(c)(2) of the Federal Deposit Insurance Act) for which no conservator or receiver has been appointed, the appropriate Federal banking agency (as defined in section 3(q) of such Act);

(B) with respect to an insured credit union (including an insured credit union for which the National Credit Union Administration has been appointed conservator or liquidating agent), the National Credit Union Administration;

(C) with respect to any insured depository institution for which the Resolution Trust Corporation has been appointed conservator or receiver, the Resolution Trust Corporation; and

(D) with respect to any insured depository institution for which the Federal Deposit Insurance Corporation has been appointed conservator or receiver, the Federal Deposit Insurance Corporation.

(22) The term “financial institution” means—

(A) a Federal reserve bank, or an entity that is a commercial or savings bank, industrial savings bank, savings and loan association, trust company, federally-insured credit union, or receiver, liquidating agent, or conservator for such entity and, when any such Federal reserve bank, receiver, liquidating agent, conservator or entity is acting as agent or custodian for a customer (whether or not a “customer”, as defined in section 741) in connection with a securities contract (as defined in section 741) such customer; or

(B) in connection with a securities contract (as defined in section 741) an investment company registered under the Investment Company Act of 1940.

(22A) The term “financial participant” means—

(A) an entity that, at the time it enters into a securities contract, commodity contract, swap agreement, repurchase agreement, or forward contract, or at the time of the date of the filing of the petition, has one or more agreements or transactions described in paragraph (1), (2), (3), (4), (5), or (6) of section 561(a) with the debtor or any other entity (other than an affiliate) of a total gross dollar value of not less than \$1,000,000,000 in notional or actual principal amount outstanding (aggregated across counterparties) at such time or on any day during the 15-month period preceding the date of the filing of the petition, or has gross mark-to-market positions of not less than \$100,000,000 (aggregated across counterparties) in one or more such agreements or transactions with the debtor or any other entity (other than an affiliate) at such time or on any day during the 15-month period preceding the date of the filing of the petition; or

(B) a clearing organization (as defined in section 402 of the Federal Deposit Insurance Corporation Improvement Act of 1991).

(23) The term “foreign proceeding” means a collective judicial or administrative proceeding in a foreign country, includ-

ing an interim proceeding, under a law relating to insolvency or adjustment of debt in which proceeding the assets and affairs of the debtor are subject to control or supervision by a foreign court, for the purpose of reorganization or liquidation.

(24) The term “foreign representative” means a person or body, including a person or body appointed on an interim basis, authorized in a foreign proceeding to administer the reorganization or the liquidation of the debtor’s assets or affairs or to act as a representative of such foreign proceeding.

(25) The term “forward contract” means—

(A) a contract (other than a commodity contract, as defined in section 761) for the purchase, sale, or transfer of a commodity, as defined in section 761(8) of this title, or any similar good, article, service, right, or interest which is presently or in the future becomes the subject of dealing in the forward contract trade, or product or byproduct thereof, with a maturity date more than two days after the date the contract is entered into, including, but not limited to, a repurchase or reverse repurchase transaction (whether or not such repurchase or reverse repurchase transaction is a “repurchase agreement”, as defined in this section) consignment, lease, swap, hedge transaction, deposit, loan, option, allocated transaction, unallocated transaction, or any other similar agreement;

(B) any combination of agreements or transactions referred to in subparagraphs (A) and (C);

(C) any option to enter into an agreement or transaction referred to in subparagraph (A) or (B);

(D) a master agreement that provides for an agreement or transaction referred to in subparagraph (A), (B), or (C), together with all supplements to any such master agreement, without regard to whether such master agreement provides for an agreement or transaction that is not a forward contract under this paragraph, except that such master agreement shall be considered to be a forward contract under this paragraph only with respect to each agreement or transaction under such master agreement that is referred to in subparagraph (A), (B), or (C); or

(E) any security agreement or arrangement, or other credit enhancement related to any agreement or transaction referred to in subparagraph (A), (B), (C), or (D), including any guarantee or reimbursement obligation by or to a forward contract merchant or financial participant in connection with any agreement or transaction referred to in any such subparagraph, but not to exceed the damages in connection with any such agreement or transaction, measured in accordance with section 562.

(26) The term “forward contract merchant” means a Federal reserve bank, or an entity the business of which consists in whole or in part of entering into forward contracts as or with merchants in a commodity (as defined in section 761) or any similar good, article, service, right, or interest which is presently or in the future becomes the subject of dealing in the forward contract trade.

(27) The term “governmental unit” means United States; State; Commonwealth; District; Territory; municipality; foreign state; department, agency, or instrumentality of the United States (but not a United States trustee while serving as a trustee in a case under this title), a State, a Commonwealth, a District, a Territory, a municipality, or a foreign state; or other foreign or domestic government.

(27A) The term “health care business”—

(A) means any public or private entity (without regard to whether that entity is organized for profit or not for profit) that is primarily engaged in offering to the general public facilities and services for—

(i) the diagnosis or treatment of injury, deformity, or disease; and

(ii) surgical, drug treatment, psychiatric, or obstetric care; and

(B) includes—

(i) any—

(I) general or specialized hospital;

(II) ancillary ambulatory, emergency, or surgical treatment facility;

(III) hospice;

(IV) home health agency; and

(V) other health care institution that is similar to an entity referred to in subclause (I), (II), (III), or (IV); and

(ii) any long-term care facility, including any—

(I) skilled nursing facility;

(II) intermediate care facility;

(III) assisted living facility;

(IV) home for the aged;

(V) domiciliary care facility; and

(VI) health care institution that is related to a facility referred to in subclause (I), (II), (III), (IV), or (V), if that institution is primarily engaged in offering room, board, laundry, or personal assistance with activities of daily living and incidentals to activities of daily living.

(27B) The term “incidental property” means, with respect to a debtor’s principal residence—

(A) property commonly conveyed with a principal residence in the area where the real property is located;

(B) all easements, rights, appurtenances, fixtures, rents, royalties, mineral rights, oil or gas rights or profits, water rights, escrow funds, or insurance proceeds; and

(C) all replacements or additions.

(28) The term “indenture” means mortgage, deed of trust, or indenture, under which there is outstanding a security, other than a voting-trust certificate, constituting a claim against the debtor, a claim secured by a lien on any of the debtor’s property, or an equity security of the debtor.

(29) The term “indenture trustee” means trustee under an indenture.

(30) The term “individual with regular income” means individual whose income is sufficiently stable and regular to en-

able such individual to make payments under a plan under chapter 13 of this title, other than a stockbroker or a commodity broker.

- (31) The term “insider” includes—
- (A) if the debtor is an individual—
 - (i) relative of the debtor or of a general partner of the debtor;
 - (ii) partnership in which the debtor is a general partner;
 - (iii) general partner of the debtor; or
 - (iv) corporation of which the debtor is a director, officer, or person in control;
 - (B) if the debtor is a corporation—
 - (i) director of the debtor;
 - (ii) officer of the debtor;
 - (iii) person in control of the debtor;
 - (iv) partnership in which the debtor is a general partner;
 - (v) general partner of the debtor; or
 - (vi) relative of a general partner, director, officer, or person in control of the debtor;
 - (C) if the debtor is a partnership—
 - (i) general partner in the debtor;
 - (ii) relative of a general partner in, general partner of, or person in control of the debtor;
 - (iii) partnership in which the debtor is a general partner;
 - (iv) general partner of the debtor; or
 - (v) person in control of the debtor;
 - (D) if the debtor is a municipality, elected official of the debtor or relative of an elected official of the debtor;
 - (E) affiliate, or insider of an affiliate as if such affiliate were the debtor; and
 - (F) managing agent of the debtor.
- (32) The term “insolvent” means—
- (A) with reference to an entity other than a partnership and a municipality, financial condition such that the sum of such entity’s debts is greater than all of such entity’s property, at a fair valuation, exclusive of—
 - (i) property transferred, concealed, or removed with intent to hinder, delay, or defraud such entity’s creditors; and
 - (ii) property that may be exempted from property of the estate under section 522 of this title;
 - (B) with reference to a partnership, financial condition such that the sum of such partnership’s debts is greater than the aggregate of, at a fair valuation—
 - (i) all of such partnership’s property, exclusive of property of the kind specified in subparagraph (A)(i) of this paragraph; and
 - (ii) the sum of the excess of the value of each general partner’s nonpartnership property, exclusive of property of the kind specified in subparagraph (A) of this paragraph, over such partner’s nonpartnership debts; and

(C) with reference to a municipality, financial condition such that the municipality is—

(i) generally not paying its debts as they become due unless such debts are the subject of a bona fide dispute; or

(ii) unable to pay its debts as they become due.

(33) The term “institution-affiliated party”—

(A) with respect to an insured depository institution (as defined in section 3(c)(2) of the Federal Deposit Insurance Act), has the meaning given it in section 3(u) of the Federal Deposit Insurance Act; and

(B) with respect to an insured credit union, has the meaning given it in section 206(r) of the Federal Credit Union Act.

(34) The term “insured credit union” has the meaning given it in section 101(7) of the Federal Credit Union Act.

(35) The term “insured depository institution”—

(A) has the meaning given it in section 3(c)(2) of the Federal Deposit Insurance Act; and

(B) includes an insured credit union (except in the case of paragraphs (21B) and (33)(A) of this subsection).

(35A) The term “intellectual property” means—

(A) trade secret;

(B) invention, process, design, or plant protected under title 35;

(C) patent application;

(D) plant variety;

(E) work of authorship protected under title 17; [or]

(F) mask work protected under chapter 9 of [title 17;]

title 17; or

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

to the extent protected by applicable nonbankruptcy law.

(36) The term “judicial lien” means lien obtained by judgment, levy, sequestration, or other legal or equitable process or proceeding.

(37) The term “lien” means charge against or interest in property to secure payment of a debt or performance of an obligation.

(38) The term “margin payment” means, for purposes of the forward contract provisions of this title, payment or deposit of cash, a security or other property, that is commonly known in the forward contract trade as original margin, initial margin, maintenance margin, or variation margin, including market-to-market payments, or variation payments.

(38A) The term “master netting agreement”—

(A) means an agreement providing for the exercise of rights, including rights of netting, setoff, liquidation, termination, acceleration, or close out, under or in connection with one or more contracts that are described in any one or more of paragraphs (1) through (5) of section 561(a), or any security agreement or arrangement or other credit enhancement related to one or more of the foregoing, includ-

ing any guarantee or reimbursement obligation related to 1 or more of the foregoing; and

(B) if the agreement contains provisions relating to agreements or transactions that are not contracts described in paragraphs (1) through (5) of section 561(a), shall be deemed to be a master netting agreement only with respect to those agreements or transactions that are described in any one or more of paragraphs (1) through (5) of section 561(a).

(38B) The term “master netting agreement participant” means an entity that, at any time before the date of the filing of the petition, is a party to an outstanding master netting agreement with the debtor.

(39) The term “mask work” has the meaning given it in section 901(a)(2) of title 17.

(39A) The term “median family income” means for any year—

(A) the median family income both calculated and reported by the Bureau of the Census in the then most recent year; and

(B) if not so calculated and reported in the then current year, adjusted annually after such most recent year until the next year in which median family income is both calculated and reported by the Bureau of the Census, to reflect the percentage change in the Consumer Price Index for All Urban Consumers during the period of years occurring after such most recent year and before such current year.

(40) The term “municipality” means political subdivision or public agency or instrumentality of a State.

(40A) The term “patient” means any individual who obtains or receives services from a health care business.

(40B) The term “patient records” means any record relating to a patient, including a written document or a record recorded in a magnetic, optical, or other form of electronic medium.

(41) The term “person” includes individual, partnership, and corporation, but does not include governmental unit, except that a governmental unit that—

(A) acquires an asset from a person—

(i) as a result of the operation of a loan guarantee agreement; or

(ii) as receiver or liquidating agent of a person;

(B) is a guarantor of a pension benefit payable by or on behalf of the debtor or an affiliate of the debtor; or

(C) is the legal or beneficial owner of an asset of—

(i) an employee pension benefit plan that is a governmental plan, as defined in section 414(d) of the Internal Revenue Code of 1986; or

(ii) an eligible deferred compensation plan, as defined in section 457(b) of the Internal Revenue Code of 1986;

shall be considered, for purposes of section 1102 of this title, to be a person with respect to such asset or such benefit.

(41A) The term “personally identifiable information” means—

(A) if provided by an individual to the debtor in connection with obtaining a product or a service from the debtor primarily for personal, family, or household purposes—

(i) the first name (or initial) and last name of such individual, whether given at birth or time of adoption, or resulting from a lawful change of name;

(ii) the geographical address of a physical place of residence of such individual;

(iii) an electronic address (including an e-mail address) of such individual;

(iv) a telephone number dedicated to contacting such individual at such physical place of residence;

(v) a social security account number issued to such individual; or

(vi) the account number of a credit card issued to such individual; or

(B) if identified in connection with 1 or more of the items of information specified in subparagraph (A)—

(i) a birth date, the number of a certificate of birth or adoption, or a place of birth; or

(ii) any other information concerning an identified individual that, if disclosed, will result in contacting or identifying such individual physically or electronically.

(42) The term “petition” means petition filed under section 301, 302, 303 and 1504 of this title, as the case may be, commencing a case under this title.

(42A) The term “production payment” means a term overriding royalty satisfiable in cash or in kind—

(A) contingent on the production of a liquid or gaseous hydrocarbon from particular real property; and

(B) from a specified volume, or a specified value, from the liquid or gaseous hydrocarbon produced from such property, and determined without regard to production costs.

(43) The term “purchaser” means transferee of a voluntary transfer, and includes immediate or mediate transferee of such a transferee.

(44) The term “railroad” means common carrier by railroad engaged in the transportation of individuals or property or owner of trackage facilities leased by such a common carrier.

(45) The term “relative” means individual related by affinity or consanguinity within the third degree as determined by the common law, or individual in a step or adoptive relationship within such third degree.

(46) The term “repo participant” means an entity that, at any time before the filing of the petition, has an outstanding repurchase agreement with the debtor.

(47) The term “repurchase agreement” (which definition also applies to a reverse repurchase agreement)—

(A) means—

(i) an agreement, including related terms, which provides for the transfer of one or more certificates of

deposit, mortgage related securities (as defined in section 3 of the Securities Exchange Act of 1934), mortgage loans, interests in mortgage related securities or mortgage loans, eligible bankers' acceptances, qualified foreign government securities (defined as a security that is a direct obligation of, or that is fully guaranteed by, the central government of a member of the Organization for Economic Cooperation and Development), or securities that are direct obligations of, or that are fully guaranteed by, the United States or any agency of the United States against the transfer of funds by the transferee of such certificates of deposit, eligible bankers' acceptances, securities, mortgage loans, or interests, with a simultaneous agreement by such transferee to transfer to the transferor thereof certificates of deposit, eligible bankers' acceptance, securities, mortgage loans, or interests of the kind described in this clause, at a date certain not later than 1 year after such transfer or on demand, against the transfer of funds;

(ii) any combination of agreements or transactions referred to in clauses (i) and (iii);

(iii) an option to enter into an agreement or transaction referred to in clause (i) or (ii);

(iv) a master agreement that provides for an agreement or transaction referred to in clause (i), (ii), or (iii), together with all supplements to any such master agreement, without regard to whether such master agreement provides for an agreement or transaction that is not a repurchase agreement under this paragraph, except that such master agreement shall be considered to be a repurchase agreement under this paragraph only with respect to each agreement or transaction under the master agreement that is referred to in clause (i), (ii), or (iii); or

(v) any security agreement or arrangement or other credit enhancement related to any agreement or transaction referred to in clause (i), (ii), (iii), or (iv), including any guarantee or reimbursement obligation by or to a repo participant or financial participant in connection with any agreement or transaction referred to in any such clause, but not to exceed the damages in connection with any such agreement or transaction, measured in accordance with section 562 of this title; and

(B) does not include a repurchase obligation under a participation in a commercial mortgage loan.

(48) The term "securities clearing agency" means person that is registered as a clearing agency under section 17A of the Securities Exchange Act of 1934, or exempt from such registration under such section pursuant to an order of the Securities and Exchange Commission, or whose business is confined to the performance of functions of a clearing agency with respect to exempted securities, as defined in section 3(a)(12) of such Act for the purposes of such section 17A.

(48A) The term “securities self regulatory organization” means either a securities association registered with the Securities and Exchange Commission under section 15A of the Securities Exchange Act of 1934 or a national securities exchange registered with the Securities and Exchange Commission under section 6 of the Securities Exchange Act of 1934.

(49) The term “security”—

(A) includes—

- (i) note;
- (ii) stock;
- (iii) treasury stock;
- (iv) bond;
- (v) debenture;
- (vi) collateral trust certificate;
- (vii) pre-organization certificate or subscription;
- (viii) transferable share;
- (ix) voting-trust certificate;
- (x) certificate of deposit;
- (xi) certificate of deposit for security;
- (xii) investment contract or certificate of interest or participation in a profit-sharing agreement or in an oil, gas, or mineral royalty or lease, if such contract or interest is required to be the subject of a registration statement filed with the Securities and Exchange Commission under the provisions of the Securities Act of 1933, or is exempt under section 3(b) of such Act from the requirement to file such a statement;
- (xiii) interest of a limited partner in a limited partnership;
- (xiv) other claim or interest commonly known as “security”; and
- (xv) certificate of interest or participation in, temporary or interim certificate for, receipt for, or warrant or right to subscribe to or purchase or sell, a security; but

(B) does not include—

- (i) currency, check, draft, bill of exchange, or bank letter of credit;
- (ii) leverage transaction, as defined in section 761 of this title;
- (iii) commodity futures contract or forward contract;
- (iv) option, warrant, or right to subscribe to or purchase or sell a commodity futures contract;
- (v) option to purchase or sell a commodity;
- (vi) contract or certificate of a kind specified in subparagraph (A)(xii) of this paragraph that is not required to be the subject of a registration statement filed with the Securities and Exchange Commission and is not exempt under section 3(b) of the Securities Act of 1933 from the requirement to file such a statement; or
- (vii) debt or evidence of indebtedness for goods sold and delivered or services rendered.

(50) The term “security agreement” means agreement that creates or provides for a security interest.

(51) The term “security interest” means lien created by an agreement.

(51A) The term “settlement payment” means, for purposes of the forward contract provisions of this title, a preliminary settlement payment, a partial settlement payment, an interim settlement payment, a settlement payment on account, a final settlement payment, a net settlement payment, or any other similar payment commonly used in the forward contract trade.

(51B) The term “single asset real estate” means real property constituting a single property or project, other than residential real property with fewer than 4 residential units, which generates substantially all of the gross income of a debtor who is not a family farmer and on which no substantial business is being conducted by a debtor other than the business of operating the real property and activities incidental thereto.

(51C) The term “small business case” means a case filed under chapter 11 of this title in which the debtor is a small business debtor.

(51D) The term “small business debtor”—

(A) subject to subparagraph (B), means a person engaged in commercial or business activities (including any affiliate of such person that is also a debtor under this title and excluding a person whose primary activity is the business of owning or operating real property or activities incidental thereto) that has aggregate noncontingent liquidated secured and unsecured debts as of the date of the filing of the petition or the date of the order for relief in an amount not more than \$2,000,000 (excluding debts owed to 1 or more affiliates or insiders) for a case in which the United States trustee has not appointed under section 1102(a)(1) a committee of unsecured creditors or where the court has determined that the committee of unsecured creditors is not sufficiently active and representative to provide effective oversight of the debtor; and

(B) does not include any member of a group of affiliated debtors that has aggregate noncontingent liquidated secured and unsecured debts in an amount greater than \$2,000,000 (excluding debt owed to 1 or more affiliates or insiders).

(52) The term “State” includes the District of Columbia and Puerto Rico, except for the purpose of defining who may be a debtor under chapter 9 of this title.

(53) The term “statutory lien” means lien arising solely by force of a statute on specified circumstances or conditions, or lien of distress for rent, whether or not statutory, but does not include security interest or judicial lien, whether or not such interest or lien is provided by or is dependent on a statute and whether or not such interest or lien is made fully effective by statute.

(53A) The term “stockbroker” means person—

(A) with respect to which there is a customer, as defined in section 741 of this title; and

(B) that is engaged in the business of effecting transactions in securities—

(i) for the account of others; or

(ii) with members of the general public, from or for such person's own account.

(53B) The term "swap agreement"—

(A) means—

(i) any agreement, including the terms and conditions incorporated by reference in such agreement, which is—

(I) an interest rate swap, option, future, or forward agreement, including a rate floor, rate cap, rate collar, cross-currency rate swap, and basis swap;

(II) a spot, same day-tomorrow, tomorrow-next, forward, or other foreign exchange, precious metals, or other commodity agreement;

(III) a currency swap, option, future, or forward agreement;

(IV) an equity index or equity swap, option, future, or forward agreement;

(V) a debt index or debt swap, option, future, or forward agreement;

(VI) a total return, credit spread or credit swap, option, future, or forward agreement;

(VII) a commodity index or a commodity swap, option, future, or forward agreement;

(VIII) a weather swap, option, future, or forward agreement;

(IX) an emissions swap, option, future, or forward agreement; or

(X) an inflation swap, option, future, or forward agreement;

(ii) any agreement or transaction that is similar to any other agreement or transaction referred to in this paragraph and that—

(I) is of a type that has been, is presently, or in the future becomes, the subject of recurrent dealings in the swap or other derivatives markets (including terms and conditions incorporated by reference therein); and

(II) is a forward, swap, future, option, or spot transaction on one or more rates, currencies, commodities, equity securities, or other equity instruments, debt securities or other debt instruments, quantitative measures associated with an occurrence, extent of an occurrence, or contingency associated with a financial, commercial, or economic consequence, or economic or financial indices or measures of economic or financial risk or value;

(iii) any combination of agreements or transactions referred to in this subparagraph;

(iv) any option to enter into an agreement or transaction referred to in this subparagraph;

(v) a master agreement that provides for an agreement or transaction referred to in clause (i), (ii), (iii), or (iv), together with all supplements to any such master agreement, and without regard to whether the master agreement contains an agreement or transaction that is not a swap agreement under this paragraph, except that the master agreement shall be considered to be a swap agreement under this paragraph only with respect to each agreement or transaction under the master agreement that is referred to in clause (i), (ii), (iii), or (iv); or

(vi) any security agreement or arrangement or other credit enhancement related to any agreements or transactions referred to in clause (i) through (v), including any guarantee or reimbursement obligation by or to a swap participant or financial participant in connection with any agreement or transaction referred to in any such clause, but not to exceed the damages in connection with any such agreement or transaction, measured in accordance with section 562; and

(B) is applicable for purposes of this title only, and shall not be construed or applied so as to challenge or affect the characterization, definition, or treatment of any swap agreement under any other statute, regulation, or rule, including the Gramm-Leach-Bliley Act, the Legal Certainty for Bank Products Act of 2000, the securities laws (as such term is defined in section 3(a)(47) of the Securities Exchange Act of 1934) and the Commodity Exchange Act.

(53C) The term “swap participant” means an entity that, at any time before the filing of the petition, has an outstanding swap agreement with the debtor.

(56A) The term “term overriding royalty” means an interest in liquid or gaseous hydrocarbons in place or to be produced from particular real property that entitles the owner thereof to a share of production, or the value thereof, for a term limited by time, quantity, or value realized.

(53D) The term “timeshare plan” means and shall include that interest purchased in any arrangement, plan, scheme, or similar device, but not including exchange programs, whether by membership, agreement, tenancy in common, sale, lease, deed, rental agreement, license, right to use agreement, or by any other means, whereby a purchaser, in exchange for consideration, receives a right to use accommodations, facilities, or recreational sites, whether improved or unimproved, for a specific period of time less than a full year during any given year, but not necessarily for consecutive years, and which extends for a period of more than three years. A “timeshare interest” is that interest purchased in a timeshare plan which grants the purchaser the right to use and occupy accommodations, facilities, or recreational sites, whether improved or unimproved, pursuant to a timeshare plan.

(54) The term “transfer” means—

- (A) the creation of a lien;
- (B) the retention of title as a security interest;

- (C) the foreclosure of a debtor’s equity of redemption;
- or
- (D) each mode, direct or indirect, absolute or conditional, voluntary or involuntary, of disposing of or parting with—

- (i) property; or
- (ii) an interest in property.

(54A) The term “uninsured State member bank” means a State member bank (as defined in section 3 of the Federal Deposit Insurance Act) the deposits of which are not insured by the Federal Deposit Insurance Corporation.

(55) The term “United States”, when used in a geographical sense, includes all locations where the judicial jurisdiction of the United States extends, including territories and possessions of the United States.

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CHAPTER 3—CASE ADMINISTRATION

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Subchapter IV—ADMINISTRATIVE POWERS

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§ 365. Executory contracts and unexpired leases

(a) Except as provided in sections 765 and 766 of this title and in subsections (b), (c), and (d) of this section, the trustee, subject to the court’s approval, may assume or reject any executory contract or unexpired lease of the debtor.

(b)(1) If there has been a default in an executory contract or unexpired lease of the debtor, the trustee may not assume such contract or lease unless, at the time of assumption of such contract or lease, the trustee—

(A) cures, or provides adequate assurance that the trustee will promptly cure, such default other than a default that is a breach of a provision relating to the satisfaction of any provision (other than a penalty rate or penalty provision) relating to a default arising from any failure to perform nonmonetary obligations under an unexpired lease of real property, if it is impossible for the trustee to cure such default by performing nonmonetary acts at and after the time of assumption, except that if such default arises from a failure to operate in accordance with a nonresidential real property lease, then such default shall be cured by performance at and after the time of assumption in accordance with such lease, and pecuniary losses resulting from such default shall be compensated in accordance with the provisions of this paragraph;

(B) compensates, or provides adequate assurance that the trustee will promptly compensate, a party other than the debtor to such contract or lease, for any actual pecuniary loss to such party resulting from such default; and

(C) provides adequate assurance of future performance under such contract or lease.

(2) Paragraph (1) of this subsection does not apply to a default that is a breach of a provision relating to—

(A) the insolvency or financial condition of the debtor at any time before the closing of the case;

(B) the commencement of a case under this title;

(C) the appointment of or taking possession by a trustee in a case under this title or a custodian before such commencement; or

(D) the satisfaction of any penalty rate or penalty provision relating to a default arising from any failure by the debtor to perform nonmonetary obligations under the executory contract or unexpired lease.

(3) For the purposes of paragraph (1) of this subsection and paragraph (2)(B) of subsection (f), adequate assurance of future performance of a lease of real property in a shopping center includes adequate assurance—

(A) of the source of rent and other consideration due under such lease, and in the case of an assignment, that the financial condition and operating performance of the proposed assignee and its guarantors, if any, shall be similar to the financial condition and operating performance of the debtor and its guarantors, if any, as of the time the debtor became the lessee under the lease;

(B) that any percentage rent due under such lease will not decline substantially;

(C) that assumption or assignment of such lease is subject to all the provisions thereof, including (but not limited to) provisions such as a radius, location, use, or exclusivity provision, and will not breach any such provision contained in any other lease, financing agreement, or master agreement relating to such shopping center; and

(D) that assumption or assignment of such lease will not disrupt any tenant mix or balance in such shopping center.

(4) Notwithstanding any other provision of this section, if there has been a default in an unexpired lease of the debtor, other than a default of a kind specified in paragraph (2) of this subsection, the trustee may not require a lessor to provide services or supplies incidental to such lease before assumption of such lease unless the lessor is compensated under the terms of such lease for any services and supplies provided under such lease before assumption of such lease.

(c) The trustee may not assume or assign any executory contract or unexpired lease of the debtor, whether or not such contract or lease prohibits or restricts assignment of rights or delegation of duties, if—

(1)(A) applicable law excuses a party, other than the debtor, to such contract or lease from accepting performance from or rendering performance to an entity other than the debtor or the debtor in possession, whether or not such contract or lease prohibits or restricts assignment of rights or delegation of duties; and

(B) such party does not consent to such assumption or assignment; or

(2) such contract is a contract to make a loan, or extend other debt financing or financial accommodations, to or for the benefit of the debtor, or to issue a security of the debtor; or

(3) such lease is of nonresidential real property and has been terminated under applicable nonbankruptcy law prior to the order for relief.

(d)(1) In a case under chapter 7 of this title, if the trustee does not assume or reject an executory contract or unexpired lease of residential real property or of personal property of the debtor within 60 days after the order for relief, or within such additional time as the court, for cause, within such 60-day period, fixes, then such contract or lease is deemed rejected.

(2) In a case under chapter 9, 11, 12, or 13 of this title, the trustee may assume or reject an executory contract or unexpired lease of residential real property or of personal property of the debtor at any time before the confirmation of a plan but the court, on the request of any party to such contract or lease, may order the trustee to determine within a specified period of time whether to assume or reject such contract or lease.

(3) The trustee shall timely perform all the obligations of the debtor, except those specified in section 365(b)(2), arising from and after the order for relief under any unexpired lease of nonresidential real property, until such lease is assumed or rejected, notwithstanding section 503(b)(1) of this title. The court may extend, for cause, the time for performance of any such obligation that arises within 60 days after the date of the order for relief, but the time for performance shall not be extended beyond such 60-day period. This subsection shall not be deemed to affect the trustee's obligations under the provisions of subsection (b) or (f) of this section. Acceptance of any such performance does not constitute waiver or relinquishment of the lessor's rights under such lease or under this title.

(4)(A) Subject to subparagraph (B), an unexpired lease of nonresidential real property under which the debtor is the lessee shall be deemed rejected, and the trustee shall immediately surrender that nonresidential real property to the lessor, if the trustee does not assume or reject the unexpired lease by the earlier of—

(i) the date that is 120 days after the date of the order for relief; or

(ii) the date of the entry of an order confirming a plan.

(B)(i) The court may extend the period determined under subparagraph (A), prior to the expiration of the 120-day period, for 90 days on the motion of the trustee or lessor for cause.

(ii) If the court grants an extension under clause (i), the court may grant a subsequent extension only upon prior written consent of the lessor in each instance.

(5) The trustee shall timely perform all of the obligations of the debtor, except those specified in section 365(b)(2), first arising from or after 60 days after the order for relief in a case under chapter 11 of this title under an unexpired lease of personal property (other than personal property leased to an individual primarily for personal, family, or household purposes), until such lease is assumed or rejected notwithstanding section 503(b)(1) of this title, unless the court, after notice and a hearing and based on the equities of the case, orders otherwise with respect to the obligations or timely per-

formance thereof. This subsection shall not be deemed to affect the trustee's obligations under the provisions of subsection (b) or (f). Acceptance of any such performance does not constitute waiver or relinquishment of the lessor's rights under such lease or under this title.

(e)(1) Notwithstanding a provision in an executory contract or unexpired lease, or in applicable law, an executory contract or unexpired lease of the debtor may not be terminated or modified, and any right or obligation under such contract or lease may not be terminated or modified, at any time after the commencement of the case solely because of a provision in such contract or lease that is conditioned on—

(A) the insolvency or financial condition of the debtor at any time before the closing of the case;

(B) the commencement of a case under this title; or

(C) the appointment of or taking possession by a trustee in a case under this title or a custodian before such commencement.

(2) Paragraph (1) of this subsection does not apply to an executory contract or unexpired lease of the debtor, whether or not such contract or lease prohibits or restricts assignment of rights or delegation of duties, if—

(A)(i) applicable law excuses a party, other than the debtor, to such contract or lease from accepting performance from or rendering performance to the trustee or to an assignee of such contract or lease, whether or not such contract or lease prohibits or restricts assignment of rights or delegation of duties; and

(ii) such party does not consent to such assumption or assignment; or

(B) such contract is a contract to make a loan, or extend other debt financing or financial accommodations, to or for the benefit of the debtor, or to issue a security of the debtor.

(f)(1) Except as provided in subsections (b) and (c) of this section, notwithstanding a provision in an executory contract or unexpired lease of the debtor, or in applicable law, that prohibits, restricts, or conditions the assignment of such contract or lease, the trustee may assign such contract or lease under paragraph (2) of this subsection.

(2) The trustee may assign an executory contract or unexpired lease of the debtor only if—

(A) the trustee assumes such contract or lease in accordance with the provisions of this section; and

(B) adequate assurance of future performance by the assignee of such contract or lease is provided, whether or not there has been a default in such contract or lease.

(3) Notwithstanding a provision in an executory contract or unexpired lease of the debtor, or in applicable law that terminates or modifies, or permits a party other than the debtor to terminate or modify, such contract or lease or a right or obligation under such contract or lease on account of an assignment of such contract or lease, such contract, lease, right, or obligation may not be terminated or modified under such provision because of the assumption or assignment of such contract or lease by the trustee.

(g) Except as provided in subsections (h)(2) and (i)(2) of this section, the rejection of an executory contract or unexpired lease of the debtor constitutes a breach of such contract or lease—

(1) if such contract or lease has not been assumed under this section or under a plan confirmed under chapter 9, 11, 12, or 13 of this title, immediately before the date of the filing of the petition; or

(2) if such contract or lease has been assumed under this section or under a plan confirmed under chapter 9, 11, 12, or 13 of this title—

(A) if before such rejection the case has not been converted under section 1112, 1208, or 1307 of this title, at the time of such rejection; or

(B) if before such rejection the case has been converted under section 1112, 1208, or 1307 of this title—

(i) immediately before the date of such conversion, if such contract or lease was assumed before such conversion; or

(ii) at the time of such rejection, if such contract or lease was assumed after such conversion.

(h)(1)(A) If the trustee rejects an unexpired lease of real property under which the debtor is the lessor and—

(i) if the rejection by the trustee amounts to such a breach as would entitle the lessee to treat such lease as terminated by virtue of its terms, applicable nonbankruptcy law, or any agreement made by the lessee, then the lessee under such lease may treat such lease as terminated by the rejection; or

(ii) if the term of such lease has commenced, the lessee may retain its rights under such lease (including rights such as those relating to the amount and timing of payment of rent and other amounts payable by the lessee and any right of use, possession, quiet enjoyment, subletting, assignment, or hypothecation) that are in or appurtenant to the real property for the balance of the term of such lease and for any renewal or extension of such rights to the extent that such rights are enforceable under applicable nonbankruptcy law.

(B) If the lessee retains its rights under subparagraph (A)(ii), the lessee may offset against the rent reserved under such lease for the balance of the term after the date of the rejection of such lease and for the term of any renewal or extension of such lease, the value of any damage caused by the nonperformance after the date of such rejection, of any obligation of the debtor under such lease, but the lessee shall not have any other right against the estate or the debtor on account of any damage occurring after such date caused by such nonperformance.

(C) The rejection of a lease of real property in a shopping center with respect to which the lessee elects to retain its rights under subparagraph (A)(ii) does not affect the enforceability under applicable nonbankruptcy law of any provision in the lease pertaining to radius, location, use, exclusivity, or tenant mix or balance.

(D) In this paragraph, “lessee” includes any successor, assign, or mortgagee permitted under the terms of such lease.

(2)(A) If the trustee rejects a timeshare interest under a timeshare plan under which the debtor is the timeshare interest seller and—

(i) if the rejection amounts to such a breach as would entitle the timeshare interest purchaser to treat the timeshare plan as terminated under its terms, applicable nonbankruptcy law, or any agreement made by timeshare interest purchaser, the timeshare interest purchaser under the timeshare plan may treat the timeshare plan as terminated by such rejection; or

(ii) if the term of such timeshare interest has commenced, then the timeshare interest purchaser may retain its rights in such timeshare interest for the balance of such term and for any term of renewal or extension of such timeshare interest to the extent that such rights are enforceable under applicable nonbankruptcy law.

(B) If the timeshare interest purchaser retains its rights under subparagraph (A), such timeshare interest purchaser may offset against the moneys due for such timeshare interest for the balance of the term after the date of the rejection of such timeshare interest, and the term of any renewal or extension of such timeshare interest, the value of any damage caused by the nonperformance after the date of such rejection, of any obligation of the debtor under such timeshare plan, but the timeshare interest purchaser shall not have any right against the estate or the debtor on account of any damage occurring after such date caused by such nonperformance.

(i)(1) If the trustee rejects an executory contract of the debtor for the sale of real property or for the sale of a timeshare interest under a timeshare plan, under which the purchaser is in possession, such purchaser may treat such contract as terminated, or, in the alternative, may remain in possession of such real property or timeshare interest.

(2) If such purchaser remains in possession—

(A) such purchaser shall continue to make all payments due under such contract, but may, offset against such payments any damages occurring after the date of the rejection of such contract caused by the nonperformance of any obligation of the debtor after such date, but such purchaser does not have any rights against the estate on account of any damages arising after such date from such rejection, other than such offset; and

(B) the trustee shall deliver title to such purchaser in accordance with the provisions of such contract, but is relieved of all other obligations to perform under such contract.

(j) A purchaser that treats an executory contract as terminated under subsection (i) of this section, or a party whose executory contract to purchase real property from the debtor is rejected and under which such party is not in possession, has a lien on the interest of the debtor in such property for the recovery of any portion of the purchase price that such purchaser or party has paid.

(k) Assignment by the trustee to an entity of a contract or lease assumed under this section relieves the trustee and the estate from any liability for any breach of such contract or lease occurring after such assignment.

(l) If an unexpired lease under which the debtor is the lessee is assigned pursuant to this section, the lessor of the property may require a deposit or other security for the performance of the debt-

or's obligations under the lease substantially the same as would have been required by the landlord upon the initial leasing to a similar tenant.

(m) For purposes of this section 365 and sections 541(b)(2) and 362(b)(10), leases of real property shall include any rental agreement to use real property.

(n)(1) If the trustee rejects an executory contract under which the debtor is a licensor of a right to intellectual property, the licensee under such contract may elect—

(A) to treat such contract as terminated by such rejection if such rejection by the trustee amounts to such a breach as would entitle the licensee to treat such contract as terminated by virtue of its own terms, applicable nonbankruptcy law, or an agreement made by the licensee with another entity; or

(B) to retain its rights (including a right to enforce any exclusivity provision of such contract, but excluding any other right under applicable nonbankruptcy law to specific performance of such contract) under such contract and under any agreement supplementary to such contract, to such intellectual property (including any embodiment of such intellectual property to the extent protected by applicable nonbankruptcy law), as such rights existed immediately before the case commenced, for—

(i) the duration of such contract; and

(ii) any period for which such contract may be extended by the licensee as of right under applicable nonbankruptcy law.

(2) If the licensee elects to retain its rights, as described in paragraph (1)(B) of this subsection, under such contract—

(A) the trustee shall allow the licensee to exercise such rights;

(B) the licensee shall make all **[royalty payments]** *royalty or other payments* due under such contract for the duration of such contract and for any period described in paragraph (1)(B) of this subsection for which the licensee extends such contract; **[and]**

(C) the licensee shall be deemed to waive—

(i) any right of setoff it may have with respect to such contract under this title or applicable nonbankruptcy law; and

(ii) any claim allowable under section 503(b) of this title arising from the performance of such contract**[.]; and**

(D) in the case of a trademark, service mark, or trade name, the licensee shall not be relieved of any of its obligations to maintain the quality of the products and services offered under or in connection with the licensed trademark, service mark, or trade name, and the trustee shall retain the right to oversee and enforce quality control for such products or services, or both.

(3) If the licensee elects to retain its rights, as described in paragraph (1)(B) of this subsection, then on the written request of the licensee the trustee shall—

(A) to the extent provided in such contract, or any agreement supplementary to such contract, provide to the licensee

any intellectual property (including such embodiment) held by the trustee; and

(B) not interfere with the rights of the licensee as provided in such contract, or any agreement supplementary to such contract, to such intellectual property (including such embodiment) including any right to obtain such intellectual property (or such embodiment) from another entity.

(4) Unless and until the trustee rejects such contract, on the written request of the licensee the trustee shall—

(A) to the extent provided in such contract or any agreement supplementary to such contract—

(i) perform such contract; or

(ii) provide to the licensee such intellectual property (including any embodiment of such intellectual property to the extent protected by applicable nonbankruptcy law) held by the trustee; and

(B) not interfere with the rights of the licensee as provided in such contract, or any agreement supplementary to such contract, to such intellectual property (including such embodiment), including any right to obtain such intellectual property (or such embodiment) from another entity.

(o) In a case under chapter 11 of this title, the trustee shall be deemed to have assumed (consistent with the debtor's other obligations under section 507), and shall immediately cure any deficit under, any commitment by the debtor to a Federal depository institutions regulatory agency (or predecessor to such agency) to maintain the capital of an insured depository institution, and any claim for a subsequent breach of the obligations thereunder shall be entitled to priority under section 507. This subsection shall not extend any commitment that would otherwise be terminated by any act of such an agency.

(p)(1) If a lease of personal property is rejected or not timely assumed by the trustee under subsection (d), the leased property is no longer property of the estate and the stay under section 362(a) is automatically terminated.

(2)(A) If the debtor in a case under chapter 7 is an individual, the debtor may notify the creditor in writing that the debtor desires to assume the lease. Upon being so notified, the creditor may, at its option, notify the debtor that it is willing to have the lease assumed by the debtor and may condition such assumption on cure of any outstanding default on terms set by the contract.

(B) If, not later than 30 days after notice is provided under subparagraph (A), the debtor notifies the lessor in writing that the lease is assumed, the liability under the lease will be assumed by the debtor and not by the estate.

(C) The stay under section 362 and the injunction under section 524(a)(2) shall not be violated by notification of the debtor and negotiation of cure under this subsection.

(3) In a case under chapter 11 in which the debtor is an individual and in a case under chapter 13, if the debtor is the lessee with respect to personal property and the lease is not assumed in the plan confirmed by the court, the lease is deemed rejected as of the conclusion of the hearing on confirmation. If the lease is rejected, the stay under section 362 and any stay under section 1301

is automatically terminated with respect to the property subject to the lease.

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CHAPTER 15—ANCILLARY AND OTHER CROSS-BORDER CASES

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Subchapter III—RECOGNITION OF A FOREIGN PROCEEDING AND RELIEF

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§ 1522. Protection of creditors and other interested persons

(a) The court may grant relief under section 1519 or 1521, or may modify or terminate relief under subsection (c), only if the interests of the creditors and other interested entities, including the debtor, are sufficiently protected.

(b) The court may subject relief granted under section 1519 or 1521, or the operation of the debtor’s business under section 1520(a)(3), to conditions it considers appropriate, including the giving of security or the filing of a bond.

(c) The court may, at the request of the foreign representative or an entity affected by relief granted under section 1519 or 1521, or at its own motion, modify or terminate such relief.

(d) Section 1104(d) shall apply to the appointment of an examiner under this chapter. Any examiner shall comply with the qualification requirements imposed on a trustee by section 322.

(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).*

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LEAHY-SMITH AMERICA INVENTS ACT

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SEC. 10. FEE SETTING AUTHORITY.

(a) **FEE SETTING.**—

(1) **IN GENERAL.**—The Director may set or adjust by rule any fee established, authorized, or charged under title 35, United States Code, or the Trademark Act of 1946 (15 U.S.C. 1051 et seq.), for any services performed by or materials furnished by, the Office, subject to paragraph (2).

(2) **FEES TO RECOVER COSTS.**—Fees may be set or adjusted under paragraph (1) only to recover the aggregate estimated costs to the Office for processing, activities, services, and materials relating to patents (in the case of patent fees) and trademarks (in the case of trademark fees), including administrative costs of the Office with respect to such patent or trademark fees (as the case may be).

(b) **SMALL AND MICRO ENTITIES.**—The fees set or adjusted under subsection (a) for filing, searching, examining, issuing, appealing, and maintaining patent applications and patents shall be reduced by 50 percent with respect to the application of such fees to any small entity that qualifies for reduced fees under section 41(h)(1) of title 35, United States Code, and shall be reduced by 75 percent with respect to the application of such fees to any micro entity as defined in section 123 of that title (as added by subsection (g) of this section).

(c) **REDUCTION OF FEES IN CERTAIN FISCAL YEARS.**—In each fiscal year, the Director—

(1) shall consult with the Patent Public Advisory Committee and the Trademark Public Advisory Committee on the advisability of reducing any fees described in subsection (a); and

(2) after the consultation required under paragraph (1), may reduce such fees.

(d) **ROLE OF THE PUBLIC ADVISORY COMMITTEE.**—The Director shall—

(1) not less than 45 days before publishing any proposed fee under subsection (a) in the Federal Register, submit the proposed fee to the Patent Public Advisory Committee or the Trademark Public Advisory Committee, or both, as appropriate;

(2)(A) provide the relevant advisory committee described in paragraph (1) a 30-day period following the submission of any proposed fee, in which to deliberate, consider, and comment on such proposal;

(B) require that, during that 30-day period, the relevant advisory committee hold a public hearing relating to such proposal; and

(C) assist the relevant advisory committee in carrying out that public hearing, including by offering the use of the resources of the Office to notify and promote the hearing to the public and interested stakeholders;

(3) require the relevant advisory committee to make available to the public a written report setting forth in detail the comments, advice, and recommendations of the committee regarding the proposed fee; and

(4) consider and analyze any comments, advice, or recommendations received from the relevant advisory committee before setting or adjusting (as the case may be) the fee.

(e) **PUBLICATION IN THE FEDERAL REGISTER.**—

(1) **PUBLICATION AND RATIONALE.**—The Director shall—

(A) publish any proposed fee change under this section in the Federal Register;

(B) include, in such publication, the specific rationale and purpose for the proposal, including the possible expectations or benefits resulting from the proposed change; and

(C) notify, through the Chair and Ranking Member of the Committees on the Judiciary of the Senate and the House of Representatives, the Congress of the proposed change not later than the date on which the proposed change is published under subparagraph (A).

(2) PUBLIC COMMENT PERIOD.—The Director shall, in the publication under paragraph (1), provide the public a period of not less than 45 days in which to submit comments on the proposed change in fees.

(3) PUBLICATION OF FINAL RULE.—The final rule setting or adjusting a fee under this section shall be published in the Federal Register and in the Official Gazette of the Patent and Trademark Office.

(4) CONGRESSIONAL COMMENT PERIOD.—A fee set or adjusted under subsection (a) may not become effective—

(A) before the end of the 45-day period beginning on the day after the date on which the Director publishes the final rule adjusting or setting the fee under paragraph (3); or

(B) if a law is enacted disapproving such fee.

(5) RULE OF CONSTRUCTION.—Rules prescribed under this section shall not diminish—

(A) the rights of an applicant for a patent under title 35, United States Code, or for a mark under the Trademark Act of 1946; or

(B) any rights under a ratified treaty.

(f) RETENTION OF AUTHORITY.—The Director retains the authority under subsection (a) to set or adjust fees only during such period as the Patent and Trademark Office remains an agency within the Department of Commerce.

(g) [omitted-amendatory]

(h) ELECTRONIC FILING INCENTIVE.—

(1) IN GENERAL.—Notwithstanding any other provision of this section, an additional fee of \$400 shall be established for each application for an original patent, except for a design, plant, or provisional application, that is not filed by electronic means as prescribed by the Director. The fee established by this subsection shall be reduced by 50 percent for small entities that qualify for reduced fees under section 41(h)(1) of title 35, United States Code. All fees paid under this subsection shall be deposited in the Treasury as an offsetting receipt that shall not be available for obligation or expenditure.

(2) EFFECTIVE DATE.—This subsection shall take effect upon the expiration of the 60-day period beginning on the date of the enactment of this Act.

(i) EFFECTIVE DATE; SUNSET.—

(1) EFFECTIVE DATE.—Except as provided in subsection (h), this section and the amendments made by this section shall take effect on the date of the enactment of this Act.

(2) SUNSET.—The authority of the Director to set or adjust any fee under subsection (a) shall terminate upon the expiration of the [7-year] 17-year period beginning on the date of the enactment of this Act.

(3) PRIOR REGULATIONS NOT AFFECTED.—The termination of authority under this subsection shall not affect any regulations issued under this section before the effective date of such termination or any rulemaking proceeding for the issuance of regulations under this section that is pending on such date.

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SEC. 18. TRANSITIONAL PROGRAM FOR COVERED BUSINESS METHOD PATENTS.

(a) TRANSITIONAL PROGRAM.—

(1) ESTABLISHMENT.—Not later than the date that is 1 year after the date of the enactment of this Act, the Director shall issue regulations establishing and implementing a transitional post-grant review proceeding for review of the validity of covered business method patents. The transitional proceeding implemented pursuant to this subsection shall be regarded as, and shall employ the standards and procedures of, a post-grant review under chapter 32 of title 35, United States Code, subject to the following:

(A) **[Section 321(c)]** *Sections 321(c) and 326(a)(13)* of title 35, United States Code, and subsections (b), (e)(2), and (f) of section 325 of such title shall not apply to a transitional proceeding.

(B) A person may not file a petition for a transitional proceeding with respect to a covered business method patent unless the person or the person's real party in interest or privy has been sued for infringement of the patent or has been charged with infringement under that patent.

(C) A petitioner in a transitional proceeding who challenges the validity of 1 or more claims in a covered business method patent on a ground raised under section 102 or 103 of title 35, United States Code, as in effect on the day before the effective date set forth in section 3(n)(1), may support such ground only on the basis of—

(i) prior art that is described by **[section 102(a)]** *subsection (a) or (e) of section 102* of such title (as in effect on the day before such effective date); or

(ii) prior art that—

(I) discloses the invention more than 1 year before the date of the application for patent in the United States; and

(II) would be described by section 102(a) of such title (as in effect on the day before the effective date set forth in section 3(n)(1)) if the disclosure had been made by another before the invention thereof by the applicant for patent.

(D) The petitioner in a transitional proceeding that results in a final written decision under section 328(a) of title 35, United States Code, with respect to a claim in a covered business method patent, or the petitioner's real party in interest, may not assert, either in a civil action arising in whole or in part under section 1338 of title 28, United States Code, or in a proceeding before the International Trade Commission under section 337 of the Tariff Act of 1930 (19 U.S.C. 1337), that the claim is invalid on any ground that the petitioner raised during that transitional proceeding.

(E) The Director may institute a transitional proceeding only for a patent that is a covered business method patent.

(2) EFFECTIVE DATE.—The regulations issued under paragraph (1) shall take effect upon the expiration of the 1-year pe-

riod beginning on the date of the enactment of this Act and shall apply to any covered business method patent issued before, on, or after that effective date, except that the regulations shall not apply to a patent described in section 6(f)(2)(A) of this Act during the period in which a petition for post-grant review of that patent would satisfy the requirements of section 321(c) of title 35, United States Code.

(3) SUNSET.—

(A) IN GENERAL.—This subsection, and the regulations issued under this subsection, are repealed effective upon the expiration of the 8-year period beginning on the date that the regulations issued under to paragraph (1) take effect.

(B) APPLICABILITY.—Notwithstanding subparagraph (A), this subsection and the regulations issued under this subsection shall continue to apply, after the date of the repeal under subparagraph (A), to any petition for a transitional proceeding that is filed before the date of such repeal.

(b) REQUEST FOR STAY.—

(1) IN GENERAL.—If a party seeks a stay of a civil action alleging infringement of a patent under section 281 of title 35, United States Code, relating to a transitional proceeding for that patent, the court shall decide whether to enter a stay based on—

(A) whether a stay, or the denial thereof, will simplify the issues in question and streamline the trial;

(B) whether discovery is complete and whether a trial date has been set;

(C) whether a stay, or the denial thereof, would unduly prejudice the nonmoving party or present a clear tactical advantage for the moving party; and

(D) whether a stay, or the denial thereof, will reduce the burden of litigation on the parties and on the court.

(2) REVIEW.—A party may take an immediate interlocutory appeal from a district court's decision under paragraph (1). The United States Court of Appeals for the Federal Circuit shall review the district court's decision to ensure consistent application of established precedent, and such review may be de novo.

(c) ATM EXEMPTION FOR VENUE PURPOSES.—In an action for infringement under section 281 of title 35, United States Code, of a covered business method patent, an automated teller machine shall not be deemed to be a regular and established place of business for purposes of section 1400(b) of title 28, United States Code.

(d) DEFINITION.—

(1) IN GENERAL.—For purposes of this section, the term “covered business method patent” means a patent that claims a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service, except that the term does not include patents for technological inventions.

(2) REGULATIONS.—To assist in implementing the transitional proceeding authorized by this section, the Director shall issue regulations for determining whether a patent is for a technological invention.

(e) **RULE OF CONSTRUCTION.**—Nothing in this section shall be construed as amending or interpreting categories of patent-eligible subject matter set forth under section 101 of title 35, United States Code.

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PUBLIC LAW 111-349

AN ACT To establish a pilot program in certain United States district courts to encourage enhancement of expertise in patent cases among district judges.

SECTION 1. PILOT PROGRAM IN CERTAIN DISTRICT COURTS.

(a) **ESTABLISHMENT.**—

(1) **IN GENERAL.**—There is established a program, in each of the United States district courts designated under subsection (b), under which—

(A) those district judges of that district court who request to hear cases under which 1 or more issues arising under any Act of Congress relating to patents or plant variety protection are required to be decided, are designated by the chief judge of the court to hear those cases;

(B) cases described in subparagraph (A) are randomly assigned to the judges of the district court, regardless of whether the judges are designated under subparagraph (A);

(C) a judge not designated under subparagraph (A) to whom a case is assigned under subparagraph (B) may decline to accept the case; and

(D) a case declined under subparagraph (C) is randomly reassigned to 1 of those judges of the court designated under subparagraph (A).

(2) **SENIOR JUDGES.**—Senior judges of a district court may be designated under paragraph (1)(A) if at least 1 judge of the court in regular active service is also so designated.

(3) **RIGHT TO TRANSFER CASES PRESERVED.**—This section shall not be construed to limit the ability of a judge to request the reassignment of or otherwise transfer a case to which the judge is assigned under this section, in accordance with otherwise applicable rules of the court.

(b) **DESIGNATION.**—

(1) **IN GENERAL.**—Not later than 6 months after the date of the enactment of this Act, the Director of the Administrative Office of the United States Courts shall designate not less than 6 United States district courts, in at least 3 different judicial circuits, in which the program established under subsection (a) will be carried out.

(2) **CRITERIA FOR DESIGNATIONS.**—

(A) **IN GENERAL.**—The Director shall make designations under paragraph (1) from—

(i) the 15 district courts in which the largest number of patent and plant variety protection cases were filed in the most recent calendar year that has ended; or

(ii) the district courts that have adopted, or certified to the Director the intention to adopt, local rules for patent and plant variety protection cases.

(B) SELECTION OF COURTS.—From amongst the district courts that satisfy the criteria for designation under this subsection, the Director shall select—

(i) 3 district courts that each have at least 10 district judges authorized to be appointed by the President, whether under section 133(a) of title 28, United States Code, or on a temporary basis under any other provision of law, and at least 3 judges of the court have made the request under subsection (a)(1)(A); and

(ii) 3 district courts that each have fewer than 10 district judges authorized to be appointed by the President, whether under section 133(a) of title 28, United States Code, or on a temporary basis under any other provision of law, and at least 2 judges of the court have made the request under subsection (a)(1)(A).

[(c) DURATION.—The program established under subsection (a) shall terminate 10 years after the end of the 6-month period described in subsection (b).]

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

(d) APPLICABILITY.—The program established under subsection (a) shall apply in a district court designated under subsection (b) only to cases commenced on or after the date of such designation.

(e) REPORTS TO CONGRESS.—

(1) IN GENERAL.—At the times specified in paragraph (2), the Director of the Administrative Office of the United States Courts, in consultation with the chief judge of each of the district courts designated under subsection (b) and the Director of the Federal Judicial Center, 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 pilot program established under subsection (a). The report shall include—

(A) an analysis of the extent to which the program has succeeded in developing expertise in patent and plant variety protection cases among the district judges of the district courts so designated;

(B) an analysis of the extent to which the program has improved the efficiency of the courts involved by reason of such expertise;

(C) with respect to patent cases handled by the judges designated pursuant to subsection (a)(1)(A) and judges not so designated, a comparison between the 2 groups of judges with respect to—

(i) the rate of reversal by the Court of Appeals for the Federal Circuit, of such cases on the issues of claim construction and substantive patent law; and

(ii) the period of time elapsed from the date on which a case is filed to the date on which trial begins or summary judgment is entered;

(D) a discussion of any evidence indicating that litigants select certain of the judicial districts designated under subsection (b) in an attempt to ensure a given outcome; and

(E) an analysis of whether the pilot program should be extended to other district courts, or should be made permanent and apply to all district courts.

(2) TIMETABLE FOR REPORTS.—The times referred to in paragraph (1) are—

(A) not later than the date that is 5 years and 3 months after the end of the 6-month period described in subsection (b); and

(B) not later than 5 years after the date described in subparagraph (A).

(3) PERIODIC REPORTS.—The Director of the Administrative Office of the United States Courts, in consultation with the chief judge of each of the district courts designated under subsection (b) and the Director of the Federal Judicial Center, shall keep the committees referred to in paragraph (1) informed, on a periodic basis while the pilot program is in effect, with respect to the matters referred to in subparagraphs (A) through (E) of paragraph (1).

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PATENT LAW TREATIES IMPLEMENTATION ACT OF 2012

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TITLE II—PATENT LAW TREATY IMPLEMENTATION

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SEC. 202. CONFORMING AMENDMENTS.

(a) IN GENERAL.—Section 171 of title 35, United States Code, is amended—

(1) by striking “Whoever” and inserting “(a) In General.—Whoever”;

(2) by striking “The provisions” and inserting “(b) Applicability of This Title.—The provisions”; and

(3) by adding at the end the following:

“(c) FILING DATE.—The filing date of an application for patent for design shall be the date on which the specification as prescribed by section 112 and any required drawings are filed.”

(b) RELIEF IN RESPECT OF TIME LIMITS AND REINSTATEMENT OF RIGHT.—Title 35, United States Code, is amended—

(1) in section 41—

(A) in subsection (a), by striking paragraph (7) and inserting the following:

“(7) REVIVAL FEES.—On filing each petition for the revival of an abandoned application for a patent, for the delayed payment of the fee for issuing each patent, for the delayed response by the patent owner in any reexamination proceeding,

for the delayed payment of the fee for maintaining a patent in force, for the delayed submission of a priority or benefit claim, or for the extension of the 12-month period for filing a subsequent application, \$1,700.00. The Director may refund any part of the fee specified in this paragraph, in exceptional circumstances as determined by the Director"; and

(B) in subsection (c), by striking paragraph (1) and inserting the following:

"(1) ACCEPTANCE.—The Director may accept the payment of any maintenance fee required by subsection (b) after the 6-month grace period if the delay is shown to the satisfaction of the Director to have been unintentional. The Director may require the payment of the fee specified in subsection (a)(7) as a condition of accepting payment of any maintenance fee after the 6-month grace period. If the Director accepts payment of a maintenance fee after the 6-month grace period, the patent shall be considered as not having expired at the end of the grace period.";

(2) in section 119(b)(2), in the second sentence, by striking "including the payment of a surcharge" and inserting "including the requirement for payment of the fee specified in section 41(a)(7)";

(3) in section 120, in the fourth sentence, by striking "including the payment of a surcharge" and inserting "including the requirement for payment of the fee specified in section 41(a)(7)";

(4) in section 122(b)(2)(B)(iii), in the second sentence, by striking ", unless it is shown" and all that follows through "unintentional";

(5) in section 133, by striking ", unless it be shown" and all that follows through "unavoidable";

(6) by striking section 151 and inserting the following:";

[(7) in section 361, by striking subsection (c) and inserting the following:

["(c) International applications filed in the Patent and Trademark Office shall be filed in the English language, or an English translation shall be filed within such later time as may be fixed by the Director.";]

[(8) (7) in section 364, by striking subsection (b) and inserting the following:

"(b) An applicant's failure to act within prescribed time limits in connection with requirements pertaining to an international application may be excused as provided in the treaty and the Regulations."; and

[(9) (8) in section 371(d), in the third sentence, by striking ", unless it be shown to the satisfaction of the Director that such failure to comply was unavoidable".

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ACT OF JULY 5, 1946

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TITLE VI—REMEDIES

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SEC. 39. (a) The district and territorial courts of the United States shall have original jurisdiction, the courts of appeals of the United States (other than the United States Court of Appeals for the Federal Circuit) and the United States Court of Appeals for the District of Columbia shall have appellate jurisdiction, of all actions arising [under this Act] *under this Act (except as provided in section 1295(a)(4) of title 28, United States Code)*, without regard to the amount in controversy or to diversity or lack of diversity of the citizenship of the parties.

(b) No State or other jurisdiction of the United States or any political subdivision or any agency thereof may require alteration of a registered mark, or require that additional trademarks, service marks, trade names, or corporate names that may be associated with or incorporated into the registered mark be displayed in the mark in a manner differing from the display of such additional trademarks, service marks, trade names, or corporate names contemplated by the registered mark as exhibited in the certificate of registration issued by the United States Patent and Trademark Office.

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Dissenting Views

While we support reasonable changes to improve and enhance the patent system, we cannot support the changes included in H.R. 9 which, taken as a whole, will undermine our Nation's patent system.

Without question, the problem of abusive patent litigation and the exploitation of the patent process demand a solution. Congress should respond with an approach that is effective and that targets the sources of this problem. Unfortunately, H.R. 9, the "Innovation Act," is the wrong approach. The bill is overly broad, unbalanced, and will impede rather than promote innovation. In particular, we oppose the legislation because the bill: (1) includes one-sided changes to our civil justice system that limit the rights of all patent holders and fails to target so-called "patent trolls;" (2) fails to effectively address the extortionate use of demand letters; (3) does not fully address abuse of post grant proceedings at the U.S. Patent and Trademark Office (USPTO); (4) continues fee diversion from the USPTO; and (5) ignores the changing landscape in patent litigation.

These concerns are shared by a broad cross-section of stakeholders in the patent system, representing a vast and diverse range of industry interests. These include organizations on behalf of the life sciences industries, the higher education community, agricultural interests, entrepreneurs, inventors, small businesses, venture capitalists, the patent law community, experts in civil litigation, the Federal judiciary, and constitutional and property rights advocates. Specifically, they include the Biotechnology Industry Organization (BIO), the Pharmaceutical Research and Manufacturers Association (PhRMA), the Medical Device Manufacturers Association (MDMA), the National Venture Capital Association (NVCA), the American Association for Justice (AAJ), the Association of Amer-

ican Universities (AAU), the American Council on Education (ACE), the Association of American Medical Colleges (AAMC), the Association of Public and Land-grant Universities (APLU), the Council of 1890 Universities, the Association of University Technology Managers (AUTM), the Council on Governmental Relations (COGR), the Coalition for 21st Century Patent Reform (21C), the Innovation Alliance (IA), the American Intellectual Property Law Association (AIPLA), the Institute of Electrical and Electronics Engineers-USA (IEEE-USA), the National Small Business Association (NSBA), the Small Business Technology Council (SBTC), the Alliance for U.S. Startups and Inventors for Jobs (USIJ), the California Life Sciences Association (CLSA), Entrepreneurs for Growth, Research!America, the U.S. Business & Industry Council, VentureOhio, the Inventor's Project, the California Association of Wheat Growers, the California Farm Bureau Federation, the Western Agricultural Processors Association, the Judicial Conference of the United States, the American Bar Association (ABA), the Federal Bar Association, the Federal Circuit Bar Association, Heritage Action, the American Conservative Union, the Club for Growth, and the Eagle Forum, among many others.¹

¹These and other well-regarded groups and individuals have expressed concerns with the bill. The following materials are on file with the House of Representatives Committee on the Judiciary, Democratic Staff, and are accessible on the minority website: Statement of PhRMA (June 11, 2015) (announcing its opposition to H.R. 9); News Release from BIO (June 11, 2015) (urging "Members of Congress to oppose the Innovation Act"); Statement of Kevin Rhodes, Chairman of 21C and Chief Intellectual Property Counsel of 3M Company (June 12, 2015) (urging that "H.R. 9 as reported by the House Judiciary Committee not be brought to the House Floor"); Letter from Brian Pomper, Exec. Dir. of IA, to Rep. Bob Goodlatte, Chairman, H. Comm. on the Judiciary, & Rep. John Conyers, Jr., Ranking Member, H. Comm. on the Judiciary (June 10, 2015) ("The Innovation Alliance must continue to oppose the revised H.R. 9"); Letter from Sharon A. Israel, Pres. of AIPLA, to Rep. Bob Goodlatte, Chairman, H. Comm. on the Judiciary, & Rep. John Conyers, Jr., Ranking Member, H. Comm. on the Judiciary (June 10, 2015) ("the [manager's amendment does] not achieve the desired balance of interests or alleviate the concerns we raised in our April 16, 2015 letter"); Letter from Linda Lipsen, CEO of AAJ, to Rep. Bob Goodlatte, Chairman, H. Comm. on the Judiciary, & Rep. John Conyers, Jr., Ranking Member, H. Comm. on the Judiciary (June 10, 2015) (submitting its "letter in strong opposition to H.R. 9"); Letter from James A. Jefferies, Pres. of IEEE-USA, to Rep. Bob Goodlatte, Chairman, H. Comm. on the Judiciary, & Rep. John Conyers, Jr., Ranking Member, H. Comm. on the Judiciary (June 10, 2015) ("H.R. 9 as introduced will have a significant negative impact on Americans' ability to continue unsurpassed innovation."); Statement from Mark Leahey, Pres. and CEO of MDMA (June 10, 2015) (announcing its opposition to H.R. 9); Letter from Bobby Franklin, Pres. and CEO of NVCA, to Rep. Bob Goodlatte, Chairman, H. Comm. on the Judiciary, & Rep. John Conyers, Jr., Ranking Member, H. Comm. on the Judiciary (June 10, 2015) ("On behalf of NVCA, I am writing to express our opposition to H.R. 9, as it is currently written."); Statement from AAU, ACE, AAMC, APLU, AUTM, and COGR (June 10, 2015) ("We unfortunately must oppose the legislation."); Letter from Juliette Bell, Chair of the 1890 Council of Universities, and RoSusan D. Bartee, Interim Vice President of Access and Success, to Rep. G.K. Butterfield, Chairman of the Congressional Black Caucus (July 17, 2015) ("We urge your support for addressing patent troll abuses in a measured and balanced way and thus your opposition to H.R. 9"); Letter from Todd McCracken, Pres. and CEO of the NSBA, to Rep. Michael Burgess & Rep. Marcy Kaptur (May 26, 2015) (opposing the Innovation Act); Letter from Robert N. Schmidt, Co-Chair of SBTC to Rep. Bob Goodlatte, Chairman, H. Comm. on the Judiciary (June 10, 2015) ("writing to oppose H.R. 9"); Letter from Charles Giancarlo, Chairman of the Board of Advisors for USIJ, to Rep. Bob Goodlatte, Chairman, H. Comm. on the Judiciary, & Rep. John Conyers, Jr., Ranking Member, H. Comm. on the Judiciary (June 10, 2015) ("Without specific reforms to sections of the Innovation Act . . . USIJ must continue to strongly oppose the bill."); Statement from CLSA (June 12, 2015) ("CLSA must therefore strongly urge members of our California congressional delegation to oppose the legislation."); Letter from Mary Woolley, President and CEO of Research!America, to Rep. Bob Goodlatte, Chairman, H. Comm. on the Judiciary, Rep. John Conyers, Jr., Ranking Member, H. Comm. on the Judiciary, Sen. Charles Grassley, Chairman, S. Comm. on the Judiciary, & Sen. Patrick Leahy, Ranking Member, S. Comm. on the Judiciary (July 15, 2015) (several issues "merit further consideration and remedial action before legislation reaches the House or Senate floor."); Letter from John McIlwraith, Chairman of VentureOhio, to Rep. John Boehner, Speaker of the House (May 20, 2015) ("VentureOhio does not support the current version of H.R. 9 and its overly broad provisions."); Letter from California's agricultural community to Rep. Bob Goodlatte (May 21, 2015) ("The Innovation Act/H.R. 9 actually reduces protections for patent holders and could ultimately weaken U.S. patents overall."); Letter from James C. Duff, Secretary of the Judicial Conference of the United States, to Rep. John Conyers, Jr., Ranking Member, H. Comm. on the Judiciary (May

For these reasons, and those described below, we respectfully dissent and urge our colleagues to reject this flawed legislation.

BACKGROUND OF ABUSIVE PATENT LITIGATION

H.R. 9 attempts to respond to abuses and asymmetries in the patent system by changing court rules and procedures for patent cases. Bad actors in the patent system, often referred to as “patent trolls,” own vague patents and use litigation, or the threat of litigation, to coerce a quick settlement from legitimate inventors.² Their typical behavior includes sending out hundreds of vague patent infringement demand letters, offering a quick settlement, and when the recipients of the demand letters do not settle, the bad actors sometimes file lawsuits.³ Once in litigation, the so-called “patent trolls” generally seek to drive up costs through extensive discovery, hoping to encourage the defendant to settle even a frivolous claim early, rather than paying the significant costs that litigation may entail.⁴

CONCERNS WITH H.R. 9

I. THE INNOVATION ACT LIMITS THE RIGHTS OF ALL PATENT HOLDERS, NOT JUST SO-CALLED “PATENT TROLLS,” AND PRESENTS OTHER POLICY CONCERNS

We support a targeted approach to curbing abusive patent litigation practices. However, the Innovation Act is overly broad and goes well beyond the problem of abusive patent litigation. It could harm legitimate patent holders and individual inventors by potentially weakening every single patent in America. Among its most pernicious provisions, the bill would:

- Impose burdensome pleading requirements for plaintiffs that exceed what is required in other civil cases and which demand details plaintiffs may not know before conducting discovery (Section 3(a));
- Discourage, through a presumptive fee shifting standard, small businesses and individual inventors from bringing meritorious lawsuits because the risk of having to pay the

28, 2015) (listing concerns with proposed rules for patent cases and the proposed expansion and extension of the patent pilot program); Letter from Matthew B. Moreland, Pres. of the Federal Bar Association, to Rep. Bob Goodlatte, Chairman, H. Comm. on the Judiciary, & Rep. John Conyers, Jr., Ranking Member, H. Comm. on the Judiciary (Mar. 26, 2015) (“[T]he necessity for legislation that overlaps with actions within the authority of the judiciary appears ill advised.”); Letter from James E. Brookshire, Exec. Dir. of the Federal Circuit Bar Association, to Rep. Bob Goodlatte, Chairman, H. Comm. on the Judiciary, & Rep. John Conyers, Jr., Ranking Member, H. Comm. on the Judiciary (Feb. 20, 2015) (“H.R. 9 has now become both unnecessary and . . . problematic.”); Statement of Michael A. Needham, CEO of Heritage Action (July 20, 2015) (“Heritage Action opposes H.R. 9. The bill should not come to the floor.”); Letter from Phyllis Schlafly, Chair of the Eagle Forum, to Rep. Bob Goodlatte, Chairman, H. Comm. on the Judiciary, & Rep. John Conyers, Jr., Ranking Member, H. Comm. on the Judiciary (June 10, 2015) (“Eagle Forum must oppose the ‘Innovation Act’ and we urge Judiciary Committee members to vote against H.R. 9.”); General Letter from Dan Schneider, Exec. Dir. of the American Conservative Union (June 10, 2015) (urging Members to “[p]lease vote ‘NO’ on H.R. 9”); and Letter from 25 conservative advocates to Rep. John Boehner, Speaker of the House, Rep. Nancy Pelosi, Minority Leader of the House, Sen. Mitch McConnell, Sen. Majority Leader, and Sen. Harry Reid, Sen. Minority Leader (Mar. 11, 2015) (“We ask that you support innovation and a strong patent system by opposing the ‘Innovation Act’ and stopping any such bill from reaching the floor.”).

²See *Patent Reform: Protecting American Innovators and Job Creators from Abusive Patent Litigation: Hearing Before the H. Comm. on the Judiciary*, 114th Cong. 8 (2015) [hereinafter Mar. 25, 2015 Hearing] (testimony of Mark Griffin, General Counsel, Overstock.com).

³See *id.* at 17 (testimony of Kathryn Underwood, Pres. and CEO, Ledyard National Bank).

⁴See *id.* at 9 (testimony of Griffin).

other side's court costs may outweigh the benefits of winning (Section 3(b));

- Deter investments by venture capitalists in entrepreneurs, start-ups, and individual inventors through harsh joinder rules that may make the investors liable for paying attorneys' fees (Section 3(c));
- Limit discovery for plaintiffs that will lead to costly litigation and case delays (Section 3(d)); and
- Improperly shield some of the most culpable infringers through an over-broad stay of litigation for end users of infringing products (Section 5).

A. The Bill's Heightened Pleading Requirements Will Deny Legitimate Inventors Access to the Courts

We oppose the heightened pleading requirements established by section 3(a) of the bill because they are unfair to all patent holders; are drafted in a one-sided manner; will prolong litigation; and are unnecessary because the courts are already addressing the issue.

Supporters of the Innovation Act contend that plaintiffs in patent cases are not required to provide sufficient detail in their complaints to give defendants fair notice of what patents the defendants are alleged to have infringed and how the patents have been infringed. However, the information required by the heightened pleading standards in H.R. 9 is unduly burdensome on patent owners because the information may not be available to the patent holders at the time of the filing.⁵ As the NSBA explains, the bill's heightened pleading standards "essentially requir[e] the inventor trying to protect her patent" to "prove her case before filing a case."⁶ Furthermore, as MDMA points out, "[t]he combination of heightened pleadings and limited discovery is a 'double jeopardy' of sorts that requires a petitioner to guess at detailed facts that may not be in their possession (e.g., how a product is manufactured), and then be penalized by not being able to obtain the facts, even those that may establish clear infringement."⁷ AIPLA expressed its concern about this provision as well, writing that "statutorily imposing detailed pleading requirements, as in the current draft, may deter legitimate infringement actions."⁸

Second, section 3(a) is drafted in a one-sided manner. As the ABA noted in writing about H.R. 3309, the "Innovation Act," upon which H.R. 9 is modeled, the subsection applies "only to parties asserting patent infringement, either as a plaintiff or as a defendant counterclaimant [but] does not provide any corresponding height-

⁵ Often the specific information required under this section may only be obtained through discovery which typically cannot be obtained prior to filing a complaint or other pleading. Even though the bill relieves a claimant of the obligation to provide the level of detail required if the information "is not reasonably accessible", there is no guidance for making that determination.

⁶ Letter from Todd McCracken, Pres. and CEO of NSBA to Rep. John Boehner, Speaker of the House, and Rep. Nancy Pelosi, Minority Leader of the House (May 18, 2015) (on file with the H. Comm. on the Judiciary, Democratic Staff).

⁷ Letter from Mark B. Leahey, Pres. and CEO of MDMA, to Rep. Bob Goodlatte, Chairman, H. Comm. on the Judiciary, & Rep. John Conyers, Jr., Ranking Member, H. Comm. on the Judiciary (Apr. 14, 2015) [hereinafter MDMA April 14, 2015 Letter] (on file with the H. Comm. on the Judiciary, Democratic Staff).

⁸ Letter from Sharon A. Israel, Pres. of AIPLA, to Rep. Bob Goodlatte, Chairman, H. Comm. on the Judiciary, & Rep. John Conyers, Jr., Ranking Member, H. Comm. on the Judiciary (Apr. 16, 2015) [hereinafter AIPLA April 16, 2015 Letter] (on file with the H. Comm. on the Judiciary, Democratic Staff).

ened pleading standards for asserting non-infringement or invalidity in a complaint or counterclaim for Declaratory Judgment.”⁹ Under this provision, a small inventor will be required to provide detailed information in their complaint. However, an alleged infringer does not bear the same burden to explain with specificity to that inventor why they believe they have not infringed the patent or why they believe the patent is invalid. As IEEE–USA has written, “[s]ince most patent infringement complaints draw a counter-claim of patent invalidity, any such counter-claim should also be pleaded with comparable particularity (e.g., citing applied prior art references to all claim terms) that would support the invalidity contention.”¹⁰ In addition, BIO has noted that the pleading requirements in H.R. 9, “remain overly burdensome and will impede the ability of all patent owners to timely bring suit to protect against infringement. We believe that the new language regarding identification of claims is too ambiguous and does not provide sufficient guidance to parties or courts on what a sufficient complaint would require, creating too many opportunities for abusive motions by accused infringers challenging the sufficiency of complaints and delaying enforcement against them.”¹¹

Third, although the stated goal of the legislation is to reduce and shorten litigation, the heightened pleading requirement may well have the opposite effect by fostering litigation over whether the patent owner has met the heightened pleading standard or had reasonable access to the required information if they admittedly did not comply. AAJ has noted that the “excessively-detailed pleadings” required under the bill “would lead to additional litigation and challenges even before the case begins.”¹² In addition, IA has warned that H.R. 9’s “overly broad and burdensome” pleadings requirements will impose “massive costs and delays in patent cases” to both plaintiffs and defendants.¹³ In the same vein, AIPLA explained that “[t]hese requirements could raise enforcement costs and prolong litigation by increasing preliminary motion practice, among other things.”¹⁴ Similarly, 21C contends that “this provision is also likely to raise costs and prolong case resolutions by fostering more preliminary motion practice.”¹⁵ The ABA, commenting on similar provisions in S. 1137, the “Protecting American Talent and Entrepreneurship (PATENT) Act,” suggested that heightened pleading requirements will “generate extensive motion practice, re-

⁹American Bar Association Section of Intellectual Property Law, 2013 Fall Council Meeting, Innovation Act Task Force Resolutions and Reports, at 5, Nov. 8, 2013.

¹⁰Letter from Marc T. Apter, Pres. of IEEE–USA to Rep. Robert Goodlatte, Chairman, H. Comm. on the Judiciary, & Rep. John Conyers, Jr., Ranking Member, H. Comm. on the Judiciary (Nov. 19, 2013) (on file with the H. Comm. on the Judiciary, Democratic Staff).

¹¹Letter from James C. Greenwood, Pres. and CEO of BIO, to Rep. John Conyers, Jr., Ranking Member, H. Comm. on the Judiciary (June 19, 2015) [hereinafter BIO June 19, 2015 Letter] (on file with the H. Comm. on the Judiciary, Democratic Staff).

¹²Letter from Linda Lipsen, CEO of AAJ, to Rep. Bob Goodlatte, Chairman, H. Comm. on the Judiciary, & Rep. John Conyers, Jr., Ranking Member, H. Comm. on the Judiciary (June 10, 2015) [hereinafter AAJ June 10, 2015 Letter] (on file with the H. Comm. on the Judiciary, Democratic Staff).

¹³Letter from Brian Pomper, Exec. Dir. of IA, to Rep. Bob Goodlatte, Chairman, H. Comm. on the Judiciary, & Rep. John Conyers, Jr., Ranking Member, H. Comm. on the Judiciary (June 10, 2015) (on file with the H. Comm. on the Judiciary, Democratic Staff).

¹⁴AIPLA April 16, 2015 Letter.

¹⁵Summary of 21C’s Positions on Provisions of the Innovation Act of 2015, at 5, available at http://patentmatter.com/issue/pdfs/20150316_21CKeyProvisionsChartTalkingPoints.pdf [hereinafter 21C Position Summary on H.R. 9].

sulting in increased delays and expenses of the proceedings.”¹⁶ Recognizing the particular burden that these requirements would place on individuals and small entities, Representative Scott Peters (D-CA) offered an amendment during the markup of H.R. 9 to exempt small businesses, independent inventors, and non-profit organizations from section 3(a), but it was rejected by voice vote.¹⁷

Finally, as with many other provisions in section 3, it is unnecessary for Congress to change the pleadings requirements because the federal judiciary is already addressing the issue. The Supreme Court has approved the Judicial Conference’s recommendation under the Rules Enabling Act¹⁸ to eliminate Form 18¹⁹ of the Federal Rules of Civil Procedure, which provides for very basic notice pleading in patent cases.²⁰ This change will take effect on December 1, 2015, unless Congress acts to reject, modify, or defer it.²¹ When Form 18 is eliminated, patent infringement suits will be subject to the already heightened pleading requirements provided for under the Supreme Court’s decisions in *Bell Atlantic v. Twombly*²² and *Ashcroft v. Iqbal*.²³ In these cases, the Court held that plaintiffs must include enough facts in their complaint to show that their claim is “plausible on its face.”²⁴ As the Federal Bar Association has explained, “[f]reed from the strictures of Form 18, the judiciary will be able to develop a body of common law as to the proper pleading standard under the evolving *Twombly/Iqbal* standard. The federal judiciary should be given the chance to do so.”²⁵

B. The Bill’s Fee Shifting Standard Will Favor Wealthy Parties and will Chill Potential Meritorious Claims

We oppose section 3(b)’s fee shifting requirement because it will favor wealthy corporate parties over individual inventors; deprives courts of discretion; is drafted in an over-broad manner to apply beyond patent infringement actions; would lead to increased litigation costs; and is unnecessary because the Federal courts have already made it easier for prevailing parties to be awarded fees.

Supporters of the Innovation Act claim that abusive litigation can be deterred if bad actors face a significant risk that they will

¹⁶ Letter from William C. Hubbard, Pres. of the American Bar Association, to Sen. Chuck Grassley, Chairman, S. Comm. on the Judiciary, & Sen. Patrick Leahy, Ranking Member, S. Comm. on the Judiciary (June 1, 2015) (on file with the H. Comm. on the Judiciary, Democratic Staff).

¹⁷ Unofficial Tr. of Markup of H.R. 9, “The Innovation Act,” by the H. Comm on the Judiciary, 114th Cong. at 158 (June 11, 2015) [hereinafter H.R. 9 Markup Unofficial Transcript] (Amendment #15 by Representative Scott H. Peters) (failed by voice vote), available at http://judiciary.house.gov/_cache/files/ec171c22-04d4-4c0f-91ac-8b6ecc5859f1/06.11.15-markup-transcript.pdf.

¹⁸ 28 U.S.C. §§ 2071–77 (2015).

¹⁹ Fed. R. Civ. P. 84 provides: “The forms in the Appendix suffice under these rules and illustrate the simplicity and brevity that these rules contemplate.” Form 18 in the Appendix is the template for a complaint for patent infringement.

²⁰ See Amendments to the Federal Rules of Civil Procedure Adopted by the Supreme Court of the United States pursuant to Section 2072 of Title 28, United States Code (Apr. 29, 2015) [hereinafter Supreme Court Adopts Rules Changes], available at http://www.supremecourt.gov/orders/courtorders/frcv15%28update%29_1823.pdf; Judicial Conference of the United States.

²¹ *Id.*

²² 550 U.S. 544 (2007).

²³ 556 U.S. 662 (2009).

²⁴ Leslie Gordon, *For Federal Plaintiffs, Twombly and Iqbal Still Present a Catch-22*, ABA JOURNAL, Jan. 1, 2011, available at http://abajournal.com/magazine/article/for_federal_plaintiffs_twombly_and_iqbal_still_present_a_catch-22.

²⁵ Letter from Matthew B. Moreland, Pres. of the Federal Bar Association, to Rep. Bob Goodlatte, Chairman, H. Comm. on the Judiciary, & Rep. John Conyers, Jr., Ranking Member, H. Comm. on the Judiciary (Mar. 26, 2015) [hereinafter Federal Bar Association Mar. 26, 2015 Letter] (on file with the H. Comm. on the Judiciary, Democratic Staff).

be forced to pay the other party's attorneys' fees and court costs if they are found to have brought a frivolous case. To the extent that fee shifting can, in fact, deter abusive litigation, H.R. 9's provision goes too far. Instead of requiring that fees be shifted in exceptional cases, as set forth in current law, this provision would create a presumption of fee shifting in every single case, not just cases involving so-called "patent trolls." The non-prevailing party will carry the burden of establishing that fees should not be imposed.

Our first concern is that fee-shifting always favors the party with greater financial resources, and thus could chill potential meritorious claims. Enacting a mandatory regime into our patent law system is not only unfair to independent inventors and entrepreneurs, it would set a dangerous precedent in our civil justice system generally. AAJ calls section 3(b) a "drastic provision that would have a significant impact on who can bring a patent case. The parties who would be affected are the small inventors who would now be less likely to sue for patent infringement out of fear of losing and not being able to pay the vast attorney fees of the infringing party."²⁶ Similarly, MDMA has warned that "[f]aced with the prospect of having to cover the legal expenses of larger companies, start-up companies with limited capital either will not bring otherwise meritorious cases against infringers of their patents or will be forced into early settlements when defending against alleged infringement."²⁷

The dangerous nature of this provision was highlighted in an article by the American Enterprise Institute discussing H.R. 3309, upon which H.R. 9 is modeled. The article noted:

By shifting the burden of proof onto the losing party, it will require courts to examine the justification of each and every case. . . . it won't be just patent trolls who pay but, at times, the legitimate companies who occasionally are found to infringe [patent trolls'] patents. . . . [O]ur unique justice system, dedicated as it is to allowing every American person and company its 'day in court' would be immutably changed in the area of patent litigation. We'd be one step closer to adopting the loser-pays model.²⁸

In this regard, we would dispute the Majority's assertion that section 3(b) is fairly based on the Equal Access to Justice Act (EAJA).²⁹ EAJA was developed as a means to allow private citizens to obtain legal fees when they prevail in litigation against the U.S. government, not to serve as a model for fee shifting in private lawsuits.

Further, although the bill purports to align itself with EAJA, the fees and expenses scheme established by EAJA is far more balanced than section 3(b). For example, EAJA permits the court "in its discretion [to] reduce . . . or deny an award, to the extent that the prevailing party . . . engaged in conduct which unduly and un-

²⁶ AAJ June 10, 2015 Letter.

²⁷ MDMA April 14, 2015 Letter.

²⁸ Patent troll legislation: a closer look (pt. 2)—fee shifting, Tech Policy Daily, Nov. 26, 2013, available at <http://www.techpolicydaily.com/technology/patent-troll-legislation-closer-look-pt-2-fee-shifting>.

²⁹ See H.R. 9 Markup Unofficial Transcript, at 88–89 (statement of Chairman Bob Goodlatte).

reasonably protracted the final resolution of the matter in controversy.”³⁰ H.R. 9 provides the court no such balance or flexibility.

During the markup of H.R. 9, Representative Henry C. “Hank” Johnson, Jr. (D-GA) offered an amendment to substitute the more reasonable fee shifting provision contained in the Senate’s PATENT Act, which would have required the prevailing party to bear the burden of demonstrating that it is entitled to fees. The amendment would have also adopted a more reasonable standard for determining whether fees are appropriate, i.e., whether the position and conduct of the non-prevailing party were objectively reasonable. In addition, the amendment would have exempted positions or actions that are *de minimus* or are not material to the consideration or outcome of the litigation. Unfortunately, the amendment failed, by a vote of 10 to 22.³¹

Third, section 3(b) is drafted in an overly broad manner. The higher education community, writing about H.R. 3309, upon which H.R. 9 is modeled, noted that the language is so broad that it could potentially apply:

to any civil action in which any party asserts a claim for relief arising under any Act of Congress relating to patents. That scope sweeps in over 25 statutes containing patent law clauses, including the Space Act, the Atomic Energy Act, the Non-Nuclear R&D Act as well as all titles of the omnibus bills in which the Bayh-Dole Act and amendments became law. The breadth of the proposed amendment will impair parties’ ordinary enforcement procedures and litigation activities outside the scope of abusive patent litigation.³²

The higher education community has more recently warned that H.R. 9’s fee shifting provision would “substantially increase the financial risks associated with patent enforcement and consequently discourage universities and other patent holders lacking extensive litigation resources from legitimately defending their intellectual property.”³³ Moreover, they note that “[t]his amplified risk would deter potential licensees and venture capitalists from investing in university patents, reducing the number of research discoveries that advance to the marketplace.”³⁴ This concern was echoed by a coalition of more than 140 universities.³⁵ The universities comprising the Big Ten Conference also expressed concern, writing that the fee shifting and joinder provisions together “would have the effect of making patent licensing negotiations more complex and likely discourage at least some of our members from licensing their inventions at all. In addition, these provisions would make litigation so potentially risky that few legitimate patent holders without deep

³⁰ERR14*30 28 U.S.C. § 2412(d)(1)(c) (2015).

³¹See H.R. 9 Markup Unofficial Transcript, at 105 (Amendment #5 by Rep. Henry C. “Hank” Johnson, Jr.).

³²Statement from the Higher Education Community on H.R. 3309, The Innovation Act (Nov. 8, 2013) (on file with the H. Comm. on the Judiciary, Democratic Staff).

³³Higher Education Association Statement on Scheduled House Judiciary Committee Markup of Innovation Act (H.R. 9) June 10, 2015.

³⁴*Id.*

³⁵Letter from American universities and associated technology transfer foundations and organizations to Sen. Chuck Grassley, Chairman, S. Comm. on the Judiciary, Sen. Patrick Leahy, Ranking Member, S. Comm. on the Judiciary, Rep. Bob Goodlatte, Chairman, H. Comm. on the Judiciary, & Rep. John Conyers, Jr., Ranking Member, H. Comm. on the Judiciary (Feb. 24, 2015) (on file with the H. Comm. on the Judiciary, Democratic Staff).

pockets would dare risk doing so.”³⁶ To ensure that universities are not unfairly burdened by H.R. 9’s fee shifting requirements, Representative David Cicilline (D-RI) offered an amendment during the markup to clarify that the bill’s exception for special circumstances that would make an award unjust should include severe economic hardship to an institution of higher education or a university technology transfer organization. Unfortunately, the amendment failed by a voice vote.³⁷

Fourth, the mandatory nature of H.R. 9’s fee shifting provision will lead to increased litigation costs for all parties. As AIPLA explains, “requiring courts to make an attorneys’ fees award determination in every case could unnecessarily prolong litigation and increase costs.”³⁸ The Federal Bar Association also notes that “[a] fee shifting presumption not only raises concerns about access to the courts, it encourages satellite disputes about fee-shifting because prevailing parties have a strong incentive to force the opposing party to rebut the presumption in situations where they would not otherwise seek a fee award.”³⁹ In addition, the inclusion of language defining a non-prevailing party as one who offers a “covenant not to sue” may also have the effect of increasing litigation, with 21C stating that “[s]imply put, this provision would not advance the interests of prompt and efficient resolution of patent disputes.”⁴⁰

Fifth, the fee shifting provision is again wholly unnecessary after the Supreme Court issued two decisions last year, *Octane Fitness, LLC v. ICON Health & Fitness*⁴¹ and *Highmark Inc. v. Allcare Health Mgmt. Sys. Inc.*,⁴² that significantly lowered the threshold for when courts should award fees. Since those decisions, lower courts have awarded fees at a dramatically higher rate⁴³ and patent litigation filings have plummeted.⁴⁴ Whatever deterrent effect fee shifting may have on abusive litigation has been adequately addressed by the courts, and any legislative action, particularly the drastic provisions contained in H.R. 9, are clearly unnecessary.

³⁶Letter from the Big Ten Conference to Rep. John Conyers, Jr. (Jan. 20, 2015) (on file with the H. Comm. on the Judiciary, Democratic Staff).

³⁷H.R. 9 Markup Unofficial Transcript, at 137 (Amendment #13 of Rep. David N. Cicilline) (failed by voice vote).

³⁸AIPLA Apr. 16, 2015 Letter.

³⁹Federal Bar Association Mar. 26, 2015 Letter.

⁴⁰21C Position Summary on H.R. 9, at 7.

⁴¹134 S. Ct. 1749 (2014).

⁴²134 S. Ct. 1744 (2014).

⁴³See Mallun Yen, *Fee Shifting Before and After the Supreme Court Decisions*, INSIDE COUNSEL, Feb. 25, 2015 (reporting that in the 8 months prior to *Octane Fitness* and *Highmark* fees were awarded in 6 of the 31 cases in which they were requested while in the 8 months after the decision fees were awarded in 21 of the 43 cases in which they were requested) [hereinafter Mallun Yen, *Fee Shifting Before and After the Supreme Court Decisions*]; Posting of Hannah Jiam to PatentlyO.com, *Emerging Trends Post-Octane Fitness* (May 13, 2015), available at <http://patentlyo.com/patent/2015/05/emerging-octane-fitness.html> [hereinafter Hannah Jiam, *Emerging Trends Post-Octane Fitness*].

⁴⁴Some reports put the decrease in filings since 2013 as high as 40%. See Letter from ACE, AAMC, AAU, APLU, AUTM, BIO, IA, MDMA, PhRMA, and USBIC Educational Forum to Rep. Bob Goodlatte, Chairman, H. Comm. on the Judiciary, Rep. John Conyers, Jr., Ranking Member, H. Comm. on the Judiciary, Sen. Patrick Leahy, Chairman, S. Comm. on the Judiciary, & Sen. Chuck Grassley, Ranking Member, S. Comm. on the Judiciary (Dec. 10, 2014) [hereinafter Patent Protections Coalition Letter] (on file with the H. Comm. on the Judiciary, Democratic Staff); Letter from Charles Giancarlo, Chairman of the Board of Advisors for USIJ, to Rep. Bob Goodlatte, Chairman, H. Comm. on the Judiciary, Rep. John Conyers, Jr., Ranking Member, H. Comm. on the Judiciary, Sen. Charles Grassley, Chairman, S. Comm. on the Judiciary, & Sen. Patrick Leahy, Ranking Member, S. Comm. on the Judiciary (Feb. 12, 2015) [hereinafter USIJ February 12, 2015 Letter] (on file with the H. Comm. on the Judiciary, Democratic Staff).

C. The Bill's Joinder Provision Will Deter Investments in Entrepreneurs and Individual Inventors

The joinder provision, included in section 3(c) to help enforce the fee shifting provision, although improved by the Manager's Amendment, still raises a host of potential additional concerns. Among other things, it is drafted in a one-way manner that only benefits alleged infringers. Deep pocketed defendants would be guaranteed satisfaction of fee awards but small companies, startups, and independent inventors would not be similarly protected when they prevail as plaintiffs against defendant infringers that hide their assets, file for bankruptcy, or otherwise evade payment of fee awards.

This provision also raises constitutional concerns because it creates standing for parties that would otherwise not have it. In other words, a defendant may join a third-party at the end of the case for purposes of fee shifting, even though the third-party had no standing to assert or defend themselves during the course of the legal proceedings. BIO notes that "the language is too vague in critical respects and could potentially sweep in many legitimate patent owners and their assignees, licensees, and investors" and will "chill investment in areas like biotechnology that require partnerships and collaborations among researchers, investors, and companies."⁴⁵

Furthermore, defendants already have other avenues to join plaintiffs, including through Federal Rules of Civil Procedure 19 and 20. Rule 19 mandates that the court join parties whenever feasible and Rule 20 permits, but does not require, a court to join parties.

When combined with H.R. 9's overly expansive fee shifting provision, the joinder provision could devastate inventors and their investors, and should be rejected.

D. The Bill's Discovery Limitations Invite Abuse and Can be Better Addressed by the Courts

The legislation's limitations on discovery pending resolution of certain preliminary motions, as set forth in section 3(d), are objectionable because they will lead to abuse and gamesmanship by the parties and can be more properly dealt with by the courts.

This provision, as modified by the Manager's Amendment, is an improvement over the bill as introduced, but is still seriously flawed. According to 21C, section 3(d) "is a recipe for delay, gamesmanship and abuse" because a stay may be granted based on motions filed a full 3 months after the case begins.⁴⁶ Similarly, IA warns that the provision "would still invite abuse by parties" because it does not set a deadline to file preliminary motions or to lift the stay, which "would invite attorneys to manipulate the discovery stay by filing triggering motions back to back in order to prolong the stay."⁴⁷

BIO also expressed concerns with the discovery stay provision, especially with regard to the competitive harm exception, which "only covers companies with products already on the market, fail-

⁴⁵ BIO June 19, 2015 Letter.

⁴⁶ Press Release, 21C, 21C Opposes H.R. 9, the Innovation Act, After Yesterday's Markup Tilted the Balance Against All Patent Owners (June 12, 2015) [hereinafter 21C June 12, 2015 Press Release] (on file with the H. Comm. on the Judiciary, Democratic Staff).

⁴⁷ Fact Sheet from the Innovation Alliance, Other Provisions of the Managers' Amendment Remain Overbroad and Would Substantially Devalue Patent Rights [hereinafter Innovation Alliance Fact Sheet on H.R. 9] (on file with the H. Comm. on the Judiciary, Democratic Staff).

ing to protect the thousands of start-up companies on the cusp of commercial marketing from being able to timely enforce their patents against infringers who are trying to destroy their businesses before they even make it to market.”⁴⁸ Likewise, 21C writes that the competitive harm exception “was rendered effectively meaningless by an amendment that requires a preliminary injunction be granted before discovery may proceed.”⁴⁹

Second, these new limitations on discovery ignore the role of the courts in setting proper discovery time lines. As IA notes, “[j]udges already have significant discretion to manage discovery including through grant of stays.”⁵⁰ Furthermore, “[a]dditional legislation is unnecessary and carries potential to increase costs and delays.”⁵¹ The Judicial Conference shares this concern and pointed out that “the Supreme Court recently transmitted to Congress a package of revisions to the Federal Rules of Civil Procedure that aim to reduce discovery costs and burdens in all civil litigation, including patent litigation. In light of these pending rule changes, it is not clear that additional discovery reforms are necessary at this time.”⁵²

E. The Bill’s Customer Stay Provision Could Deprive Legitimate Patent Owners of Meaningful Relief

We support the concept of a true customer stay that enables end users and small businesses to have lawsuits against them stayed pending resolution of litigation against an upstream manufacturer who is better positioned to defend the lawsuit. However, some stakeholders have expressed serious concerns about section 5 of H.R. 9, as drafted, because it is over-broad and often would improperly shield the most culpable infringers from litigation, effectively denying patent owners a remedy for infringement.

Rather than being targeted at true end users, section 5 could sweep in many large companies and retailers who, as a matter of policy, should not receive a stay. For example, it would protect both sophisticated device makers that reap huge profits by incorporating infringing components into their products and large retailers who sell infringing knock-off products at the expense of the patent owner.⁵³ In testimony before the Subcommittee on Courts, Intellectual Property, and the Internet, Bryan Pate, CEO of Elliptigo, stated that “the stay begs to be abused by infringers and will have the unintended result of crippling the ability of American businesses to fight manufacturers that copy their patented products and flood U.S. markets with cheap, poor quality knock-offs.”⁵⁴

Although we think that protecting innocent end users from frivolous litigation is a worthy objective, IA warns that the provision would have “unintended consequences”⁵⁵ because it “fails to ensure that only truly ‘innocent’ end users of products receive a stay, and that a stay will only be granted if the upstream manufacturer is

⁴⁸ BIO June 19, 2015 Letter.

⁴⁹ 21C June 12, 2015 Press Release.

⁵⁰ Innovation Alliance Fact Sheet on H.R. 9.

⁵¹ *Id.*

⁵² Letter from James C. Duff, Secretary of the Judicial Conference of the United States, to Rep. John Conyers, Jr., Ranking Member, H. Comm. on the Judiciary (May 28, 2015).

⁵³ See Mar. 25, 2015 Hearing (testimony of Bryan Pate, CEO of Elliptigo).

⁵⁴ See *id.*

⁵⁵ Fact Sheet, Innovation Alliance, Priority Concerns with H.R. 9 Manager’s Amendment [Innovation Alliance Priority Concerns] (on file with the H. Comm. on the Judiciary, Democratic Staff).

directly infringing a patent.”⁵⁶ IEEE–USA also opposes this provision because, as currently drafted, it “creates an exemption for many points in a distribution chain and makes enforcement essentially impossible for some classes of infringing exports.”⁵⁷

We also have concerns that where the manufacturer of an infringing component of a larger product is located overseas, it will be difficult, or even impossible, to enforce a U.S. judgment against it.⁵⁸ Even where a patent owner could obtain jurisdiction over a “covered manufacturer,” courts in certain foreign jurisdictions are unlikely to recognize a U.S. judgment, and collection mechanisms could be ineffective or non-existent as a practical matter.

Patent owners’ ability to obtain relief for infringement could also be impaired if they were forced to defend their rights against manufacturers upstream in a supply chain. A manufacturer of a component of a larger product is likely to be only an *indirect* infringer of a patent when the patent is not infringed until the component is incorporated into a larger system.⁵⁹ The Supreme Court has made it extremely difficult to bring indirect infringement actions, including by adding knowledge requirements that are not required to prove direct infringement.⁶⁰ Proving indirect infringement also requires proof of direct infringement.⁶¹ However, H.R. 9 would grant a stay to the direct infringer, thereby forcing patent owners to prove indirect infringement against upstream manufacturers while their real case of direct infringement by the covered customer is stayed. Ultimately, this could leave large companies that profit most from the infringement at issue free to continue infringing without consequences while their case is stayed, leaving patent owners without any recourse for the most damaging aspects of the ongoing infringement.

We are eager to work with our colleagues to ensure that small businesses and true end users receive appropriate stays of litigation. Indeed, during the markup, we supported an amendment by Representative Scott Peters that would have limited the definition of covered customers under this provision to a small business concern, as defined by section 3 of the Small Business Act, but the amendment was withdrawn.⁶² However, as drafted, the customer stay provision in H.R. 9 is over-broad. It goes far beyond protecting innocent end users at the end of a supply chain and could instead give large businesses—who profit most from the sale or incorpora-

⁵⁶*Id.*

⁵⁷Letter from James A. Jefferies, Pres. of IEEE–USA, to Rep. Bob Goodlatte, Chairman, H. Comm. on the Judiciary, & Rep. John Conyers, Jr., Ranking Member, H. Comm. on the Judiciary (June 10, 2015).

⁵⁸See Mar. 25, 2015 Hearing (testimony of Bryan Pate, CEO of Elliptigo).

⁵⁹See, e.g., 35 U.S.C. §271(b), (c) (2015); Arris Group, Inc. v. British Telecomms. PLC, 639 F.3d 1368, 1376 n.8 (Fed. Cir. 2011) (“Claims which recite a ‘system,’ ‘apparatus,’ ‘combination,’ or the like are all analytically similar in the sense that their claim limitations include elements rather than method steps. All such claims can be contributorily infringed by a component supplier.”); SynQor, Inc. v. Artesyn Techs., Inc., 709 F.3d 1365, 1373 (Fed. Cir. 2013) (“SynQor asserted claims for induced and contributory infringement under 35 U.S.C. §271(b) and (c), alleging Defendants sold the power supply components with knowledge that they would be used in, or were especially made to be used in, infringing systems imported into the United States.”); see generally, TecSec, Inc. v. IBM, 731 F.3d 1336, 1351 (Fed. Cir. 2013) (“An act of infringement occurs when all of the elements of a claimed product or method are met by the accused device or process. This is the familiar ‘all elements’ rule.”).

⁶⁰See Global-Tech Appliances, Inc. v. SEB S.A., 131 S. Ct. 2060 (2011).

⁶¹Limelight Networks, Inc. v. Akamai Technologies, Inc., 134 S. Ct. 2111, 2117 (2014).

⁶²H.R. 9 Markup Unofficial Transcript (Amendment #23 by Representative Scott H. Peters).

tion of infringing products and inflict the most harm on patent owners—what is in effect a shield against meritorious litigation.⁶³

F. The Bill Includes Extraneous Measures That Were Not Given Proper Consideration

H.R. 9 includes a number of provisions that are unrelated to the bill’s goal of curbing abusive litigation, but which have important policy implications. These range from significant changes in the post-grant review (PGR) proceeding at the USPTO to a troubling change in bankruptcy law. None of these provisions were the subject of a hearing or any deliberative process, and demand more consideration before being included in any patent reform legislation.

i. H.R. 9 Makes a Controversial Change to the Estoppel Provision in Post-Grant Review Proceedings

Section 9 of the bill sets forth technical corrections to the Leahy-Smith America Invents Act. Subsection (a) contains an amendment to 35 U.S.C. § 325(e)(2), which relates to PGR, by striking the words “or reasonably could have raised.” This clause was added to the Patent Act by the Leahy-Smith America Invents Act (AIA).

Currently, a participant in a PGR proceeding is prohibited from asserting in a subsequent civil action any claims that were “raised or reasonably could have raised” during the PGR proceeding. The striking of the clause by Section 9(a) would effectively prohibit only those claims that a participant actually raised in the PGR proceeding.

Supporters of this change state that it is needed to correct a so-called “scrivener’s error” in the drafting of the AIA.⁶⁴ Setting aside aspersions of blame for the inclusion of the language in the AIA, section 9(a) is controversial and therefore not a mere technical change.⁶⁵ Then-Ranking Member of the Senate Judiciary Committee Senator Chuck Grassley has indicated “hopefully nobody will try to use technical or clarifying language to get something done that they couldn’t get done during the 6 years that this process was being negotiated.”⁶⁶ Former Senator Tom Coburn similarly stated that he supported “a pure technical correction bill, but anything that significantly changes the estoppel provisions in the bill we passed needs to have the full consideration of all the stakeholders and all the members of this Committee before we would do that.”⁶⁷ Further, a technical corrections bill to the AIA was enacted 16 months after enactment of the AIA, and it did not include language similar to H.R. 9’s Section 9(a).⁶⁸

Additional Congressional review of this issue is necessary before making such a controversial change through legislation.

⁶³ See Letter from Brian Pomper, Exec. Dir. of IA, to Rep. Bob Goodlatte, Chairman, H. Comm. on the Judiciary, & Rep. John Conyers, Jr., Ranking Member, H. Comm. on the Judiciary (June 10, 2015).

⁶⁴ H.R. 9 Markup Unofficial Transcript, at 167 (statement of Chairman Bob Goodlatte).

⁶⁵ Robert L. Stoll, Maintaining Post-Grant Review Estoppel in the America Invents Act: A Call for Legislative Restraint, 2012 Patently-O Patent Law Review 23–25.

⁶⁶ *Oversight of the U.S. Patent and Trademark Office: Hearing on the Implementation of the Leahy-Smith America Invents Act and Int’l Harmonization Effort Before the S. Comm. on the Judiciary*, 112th Cong. 3 (June 20, 2012) (statement of Sen. Chuck Grassley, Ranking Member, S. Comm. on the Judiciary).

⁶⁷ *Id.* at 17 (statement of Sen. Tom Coburn).

⁶⁸ Leahy-Smith America Invents Technical Corrections, Pub. L. No. 112–274 (2013).

ii. *H.R. 9 Overrides Important Bankruptcy Policy*

Section 6(e) makes three substantive amendments to the Bankruptcy Code. Of particular concern is section 6(e)(1) which amends section 1522 of the Bankruptcy Code. Bankruptcy Code section 1522 specifies various protections for creditors and other interested persons in chapter 15 cross-border insolvency cases.⁶⁹ By way of background, chapter 15 of the Bankruptcy Code⁷⁰ codifies the Model Law on Cross-Border Insolvency (Model Law) promulgated by the United Nations Commission on International Trade Law.⁷¹ Chapter 15 reflects a very carefully crafted international agreement that guides bankruptcy courts throughout the world about how to manage transnational insolvencies implicating the laws of other nations. To achieve the law's goal of reciprocal recognition, cooperation is fostered *inter alia* through "fair and efficient administration of cross-border insolvencies that protects the interests of all creditors, and other interested entities, including the debtor."⁷²

Specifically, section 6(e)(1) would make section 365(n) of the Bankruptcy Code, which sets forth the rights of a licensee pursuant to an intellectual property executory contract that is rejected in a bankruptcy case, applicable to chapter 15 cases.⁷³ Pursuant to section 6(e)(1), a U.S. court would be required to apply Bankruptcy Code section 365(n) to "foreign main proceedings," a type of chapter 15 case "pending in the country where the debtor has the center of its main interests."⁷⁴

Unfortunately, section 6(e), by adding a provision to chapter 15 that deals with a special situation, would alter a fundamental principle of chapter 15, namely, that it not favor a particular country's law. As the nonpartisan National Bankruptcy Conference observed with respect to a similar provision included in legislation considered in the last Congress, the provision "violates the principle of uniformity that makes the Model Law a valuable mechanism for greater legal certainty for trade and investment."⁷⁵ This change effectively imposes U.S. law whether or not it should apply to a particular license. For example, a U.S. bankruptcy court would be required to apply U.S. law to a license owned by a foreign company and issued under another country's law even if the intellectual property that is the subject of the license agreement is not located in the U.S.

In addition, section 6(e)(2)(A) amends Bankruptcy Code section 101(35A), which defines the term "intellectual property."⁷⁶ The bill expands this definition to include a trademark, service mark, and trade name, as those terms are defined in the Trademark Act of

⁶⁹ 11 U.S.C. § 1522 (2015).

⁷⁰ Enacted in 2005, chapter 15 is intended to "provide effective mechanisms for dealing with cases of cross-border insolvency" through various statutorily mandated objectives. 11 U.S.C. § 1501(a) (2015).

⁷¹ The text of the Model Law and the Report of UNCITRAL on its adoption are found at U.N. G.A., 52d Sess., Supp. No. 17 (A/52/17). As explained in this Committee's report that accompanied the legislation which led to the enactment of chapter 15, "[c]ases brought under chapter 15 are intended to be ancillary to cases brought in a debtor's home country, unless a full United States bankruptcy case is brought under another chapter." H. Rep. No. 109-31, at 105-06 (2005).

⁷² 11 U.S.C. § 1501(a)(3) (2015).

⁷³ 11 U.S.C. § 365(n) (2015).

⁷⁴ 11 U.S.C. § 1506 (2015).

⁷⁵ Memorandum from the International Aspects Comm. to the National Bankruptcy Conference Exec. Comm. 2 (Nov. 12, 2013) (on file with the Judiciary Committee Democratic Staff).

⁷⁶ 11 U.S.C. § 101(35A) (2015).

1946.⁷⁷ We note, however, that the Committee has not to any meaningful degree examined the policy ramifications of expanding the Bankruptcy Code's definition of intellectual property. As a result of the changes made by H.R. 9, such a definition would apply to all forms of bankruptcy relief, not just chapter 15. Thus, it would apply to chapter 7 (liquidation), chapter 9 (municipal), chapter 11 (business reorganization), chapter 12 (family farmer reorganization), and chapter 13 (individual reorganization) bankruptcy cases.

Finally, section 6(e)(2)(B) amends Bankruptcy Code section 365(n)(2), to impose an affirmative duty on the licensee to maintain the quality of the products and services offered under or in connection with the licensed trademark, service mark, or trade name. And, it provides that the debtor-licensor retains its right to oversee and enforce quality control for such products or services. As with section 6(e)(1), this provision would apply to all types of bankruptcy cases.

Congress should carefully consider the effects of these provisions on the Bankruptcy Code before including them in this legislation.

II. THE INNOVATION ACT DOES NOT EFFECTIVELY ADDRESS THE DECEPTIVE USE OF DEMAND LETTERS, STOP ABUSE OF POST-GRANT PROCEEDINGS AT THE USPTO, OR IMPROVE PATENT EXAMINATION QUALITY AT THE USPTO

To the extent there are asymmetries in the patent litigation system, H.R.9 does not effectively address the root causes of such problems.

The Innovation Act fails to take an effective approach to curtail the problem of abusive demand letters based on vague patents. In addition, the bill does nothing to ensure that the USPTO has all of the resources it needs to train its examiners to stop issuing vague patents in the first place. And, H.R. 9 does not prevent further abuses targeting the biopharmaceutical industries of post-grant proceedings at the USPTO.

A. Congress Must Make a Serious Effort to Stop the Extortionate Use of Demand Letters

Because civil litigation can be costly, would-be plaintiffs often notify by letter would-be defendants of an issue that could be resolved outside of court amicably. In the context of the patent system, the patent holder's pre-suit notification letter typically includes details about the patent the recipient is alleged to be infringing and either requests the recipient to stop infringing the patent or offers the recipient a licensing arrangement. This process sometimes helps the parties avoid litigation.

Nevertheless, some patent holders have abused the process by sending letters to end users having no knowledge that the off-the-shelf products they are using may be allegedly infringing a patent. And, these bad actors have no intent to litigate if a licensing arrangement cannot be completed.⁷⁸ Their intent is only to intimi-

⁷⁷ 15 U.S.C. § 1127 (2015).

⁷⁸ "Trolls also send deceptive patent infringement letters demanding a licensing fee with no intention to ever file a lawsuit." *The Innovation Act: Hearing on H.R. 3309 Before the H. Comm. on the Judiciary*, 113th Cong. 247 (Oct. 29, 2013) [hereinafter *Innovation Act 2013 Hearing*] (letter for the record from David French, Senior Vice Pres. of Government Relations at the National Retail Federation).

date and extort settlements from small and medium sized businesses such as credit unions,⁷⁹ community banks,⁸⁰ and retailers.⁸¹ These bad actors “target a settlement just under what it would cost for litigation, knowing that these businesses will want to avoid costly litigation and probably pay up.”⁸² Essentially, the “demand letters are in all reality thinly-veiled threat letters that use excessive legal jargon and litigation scare tactics to trick recipients into cutting big checks, even if no infringement has occurred.”⁸³

Several witnesses at Committee hearings, as well as other stakeholders, have called for Congress to legislate an end to the abusive use of deceptive demand letters.⁸⁴ In response, several legislative proposals have been introduced that could effectively curtail the abuse.⁸⁵

Unfortunately, H.R. 9 is not one of those proposals. The bill contains three provisions targeting the use of demand letters: a sense of Congress that it is an abuse of the patent system to send out purposely evasive demand letters;⁸⁶ new language barring plaintiffs from enhanced damages for willful infringement if preceded by a vague demand letter in the pre-suit notification stage;⁸⁷ and a requirement that the USPTO conduct a study on the prevalence of

⁷⁹“A growing number of credit unions are reporting receipt of demand letters from law firms representing ‘patent trolls’ claiming patent infringement with an option to settle or face litigation.” *Id.* at 266 (letter for the record from Brad Thaler, Vice Pres. of Legislative Affairs at the National Association of Federal Credit Unions).

⁸⁰“Vaguely-worded demand letters wreak havoc on small businesses where every dollar counts.” Mar. 25, 2015 Hearing, at 17 (written statement of Underwood).

⁸¹“As primary targets of the trolls, retailers seek an effective resolution to this abusive patent litigation strategy by trolls.” Innovation Act 2013 Hearing, at 247 (letter for the record from David French, Senior Vice Pres. of Government Relations at the National Retail Federation).

⁸²*Id.* at 2 (statement of Chairman Bob Goodlatte).

⁸³H.R. 9 Markup Unofficial Transcript, at 126 (statement of Representative Tom Marino).

⁸⁴Letter from James A. Jefferies, Pres. of IEEE-USA, to Rep. Bob Goodlatte, Chairman, H. Comm. on the Judiciary, & Rep. John Conyers, Jr., Ranking Member, H. Comm. on the Judiciary (June 10, 2015) (“Abusive demand letters are the lynchpin of the entire troll business model. Enacting carefully targeted fixes provides time to carefully evaluate further targeted measures that may be needed.”); Letter from the Electronic Frontier Foundation, Engine Advocacy, Public Knowledge, and the R Street Institute, to Rep. Fred Upton, Chairman, H. Comm. on Energy & Commerce, & Rep. Frank Pallone, Jr., Ranking Member, H. Comm. on Energy & Commerce (Apr. 28, 2015) (“Abusive patent demand letters are a major problem today, and we support legislation that curbs such abuses and strongly protects the public.”); Letter from Phyllis Schlafly, Chair, Eagle Forum, to Rep. Michael Burgess, Chairman, Subcomm. on Commerce, Manufacturing, & Trade of the H. Comm. on Energy & Commerce, & Rep. Jan Schakowsky, Ranking Member, Subcomm. on Commerce, Manufacturing, & Trade of the H. Comm. on Energy & Commerce (Apr. 22, 2015) (“We also favor relieving mom-and-pop retailers of the abusive use of demand letters that make false, misleading claims of patent infringement by components of off-the-shelf goods.”); Mar. 25, 2015 Hearing, at 57 (testimony of Underwood) (“I think reforming the demand letter process is key to stopping most of these frivolous attempts to extort money from small businesses.”); Mar. 25, 2015 Hearing at 59 (testimony of Mark Griffin, General Counsel of Overstock.com, Inc.) (“Demand letters are a problem, and that problem should be fixed.”); Mar. 25, 2015 Hearing, at 49 (testimony of Bryan Pate, CEO of ElliptiGO, Inc.) (“Well, I think the demand letter is a great place to focus just listening to the conversation and reading the testimony. It still seems to be the crux of where these extortion settlements come from, and it seems to be an unfair business practice.”); Innovation Act 2013 Hearing, at 247 (letter for the record from David French, Senior Vice Pres. of Government Relations at the National Retail Federation) (“It is important to the retail community that legislation addressing patent litigation reform also addresses the misleading correspondence trolls use.”).

⁸⁵H.R. 1896, the Demand Letter Transparency Act of 2015; H.R. 2045, the Targeting Rogue and Opaque Letters Act of 2015; S. 632, the Support Technology and Research for Our Nation’s Growth Patents Act of 2015; and S. 1137, the Protecting American Talent and Entrepreneurship Act of 2015.

⁸⁶H.R. 9, § 3(e).

⁸⁷H.R. 9, § 3(f). “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.” *The Innovation Act: Hearing on H.R. 9 Before the H. Comm. on the Judiciary*, 114th Cong. (Apr. 14, 2015) [hereinafter *Innovation Act 2015 Hearing*] (written statement of Robert A. Armitage, at 14).

the sending of patent demand letters and their negative effect on the marketplace.⁸⁸

These provisions are not serious efforts to address the demand letter issue. The bill will not deter the sending of the letters because it focuses on the litigation stage and many of the bad actors never intend to litigate.⁸⁹ Congress should take a more thorough and effective approach than H.R. 9. Such an approach should carefully balance the needs of legitimate patent holders to protect their patents from infringement while stopping the prevalent use of deceptive demand letters.

B. Patent Reform Legislation Should Effectively Rein in Abuses of Post-grant Proceedings at the USPTO

The AIA created new post-grant proceedings before the Patent Trial and Appeal Board (PTAB), including *inter partes* review (IPR) and PGR proceedings. They were intended to be efficient and fair for patent owners and challengers. And they “were designed to provide a quicker, cost-effective alternative to district court litigation.”⁹⁰

These proceedings, however, have turned out to be arguably unfair for many patent owners. Recent statistics reveal that the PTAB grants approximately 75% of petitions⁹¹ and finds at least some challenged claims unpatentable in nearly 85% of final written decisions.⁹² These one-sided statistics have drawn bad actors to abuse the proceedings. “Litigants are subverting a well-intended but unfairly implemented system of adjudicating patents for their financial gain and to the detriment of innovation, investment and our economy.”⁹³ For example, hedge funds have shorted the stock of biopharmaceuticals and then filed IPR petitions to drive down share prices.⁹⁴ According to PhRMA, “[i]f this abuse is not ad-

⁸⁸H.R. 9, § 8(e).

⁸⁹“This [legislation] only refers to demand letters once we are in litigation.” Mar. 25, 2015 Hearing, at 59 (statement of Rep. Ted Deutch).

⁹⁰BIO June 19, 2015 Letter.

⁹¹Patent Trial and Appeal Board AIA Progress, Statistics, available at http://www.uspto.gov/sites/default/files/documents/aia_statistics_06-18-2015.pdf.

⁹²Patent Public Adv. Comm. Quarterly Meeting, Patent Trial and Appeal Board Update, at 13, 15, available at http://www.uspto.gov/sites/default/files/documents/20150219_PPAC_PTAB_Update.pdf.

⁹³*The PATENT Act: Finding Effective Solutions to Address Abusive Patent Practices: Hearing on S. 1137 Before the S. Comm. on the Judiciary*, 114th Cong. (May 7, 2015) (written statement of Henry Hadad, Senior Vice Pres. and Deputy General Counsel-Intellectual Property for Bristol-Myers Squibb, at 4).

⁹⁴Innovation Act 2015 Hearing (written statement of Hans Sauer, Deputy General Counsel for Intellectual Property, at 1). The cases hedge funds have filed include: *Coalition for Affordable Drugs (ADROCA), LLC. v. ACORDA Therapeutics, INC.*, Petition for Inter Partes Review of U.S. Patent No. 8,663,685 (February 11, 2015); *Coalition for Affordable Drugs (ADROCA), LLC. v. ACORDA Therapeutics, INC.*, Petition for Inter Partes Review of U.S. Patent No. 8,007,826 (February 27, 2015); *Coalition for Affordable Drug (ADROCA), LLC. v. Shire, INC.*, Petition for Inter Partes Review of U.S. Patent No. 6,773,720 (April 1, 2015); *Coalition for Affordable Drugs II, LLC. v. NPS Pharmaceuticals, INC.*, Inter Partes Review of U.S. Patent No. 7,056,886 (April 1, 2015); *Coalition for Affordable Drugs III, LLC. v. Jazz Pharmaceuticals, INC.*, Petition for Inter Partes Review of U.S. Patent No. 7,895,059 (April 6, 2015); *Coalition for Affordable Drugs IV, LLC. v. Pharmacyclics, INC.*, Petition for Inter Partes Review of U.S. Patent No. 8,754,090 (April 20, 2015); *Coalition for Affordable Drugs V, LLC. v. Biogen IDEC International GmbH*, Petition for Inter Partes Review of U.S. Patent No. 8,759,393 (April 22, 2015); *Coalition for Affordable Drugs IV, LLC. v. Celgene Corporation*, Petition for Inter Partes Review of U.S. Patent No. 6,045,501 (April 22, 2015); *Coalition for Affordable Drugs II, LLC. v. NPS Pharmaceuticals*, Petition for Inter Partes Review of U.S. Patent No. 7,056,886 (April 23, 2015); *Coalition for Affordable Drugs VI, LLC. v. Celgene*, Petition for Inter Partes Review of U.S. Patent No. 6,315,720 (April 23, 2015); *Coalition for Affordable Drugs VI, LLC. v. Celgene Corporation*, Petition for Inter Partes Review of U.S. Patent No. 6,315,720 (April 23, 2015); *Coalition for Affordable Drugs VI, LLC. v. Celgene Corporation*, Petition for Inter Partes Review of U.S. Patent No.

Continued

dressed, the end result will be to discourage the investment needed to develop new treatments and cures for patients.”⁹⁵

Unfortunately, H.R. 9 does not effectively prevent further abuse of the IPR and PGR proceedings. The bill requires that challengers in IPR and PGR proceedings certify that they “do not own or will not require a financial instrument” as a hedge against any decrease in the market value of the stock of the patent owner it is challenging.⁹⁶ However, this language is too narrowly tailored to address what has actually been occurring: where a hedge fund sells or shorts the stock of the patent holder before filing for the IPR or PGR of the patent holder’s patent. It also would not cover situations where the challenger “tips off” a friend, colleague, or family member to sell or short the stock of the patent holder before the hedge fund files for IPR or PGR.

21C states that the bill “falls short in terms of meaningful reforms to the procedures used” at the USPTO in IPR and PGR proceedings.⁹⁷ BIO,⁹⁸ PhRMA,⁹⁹ Research!America,¹⁰⁰ and more than 90 patient advocacy organizations¹⁰¹ concur.

For those reasons, Representative Mimi Walters (R-CA) offered, but later withdrew, an amendment at the Committee markup of H.R. 9 to exclude biopharmaceutical patents covering approved drug and biological products from IPR proceedings.¹⁰² Several Members spoke in favor of the amendment¹⁰³ and Chairman Bob Goodlatte assured them that this issue would be addressed.¹⁰⁴ Since the Committee’s markup of H.R. 9, 79 members have urged that Congress address the issue along the lines of Rep. Walters’ amendment before the bill is considered on the floor.¹⁰⁵ Until an effective solution is incorporated into H.R. 9, the legislation continues to fail at protecting patent holders from abuses in post-grant proceedings at the USPTO.

6,315,720 (April 23, 2015); *Coalition for Affordable Drugs V, LLC v. Biogen MA, Inc.*, Petition for Inter Partes Review of U.S. Patent No.8,399,514 (May 1, 2015).

⁹⁵ Statement of PhRMA (June 11, 2015) [hereinafter PhRMA June 11, 2015 Statement] (on file with the House Committee on the Judiciary, Democratic Staff).

⁹⁶ H.R. 9, § 9(b)(1) and 9(b)(2).

⁹⁷ 21C June 12, 2015 Press Release.

⁹⁸ “BIO appreciates the IPR reforms in the bill, but we believe they are insufficient to address the fundamental problems and abuses within the IPR system.” BIO June 19, 2015 Letter.

⁹⁹ “Unfortunately, the bill as approved fails to address the serious problems with the Inter Partes Review process (IPR) at the Patent and Trademark Office (PTO), which is a top priority of PhRMA and the entire biopharmaceutical industry.” PhRMA June 11, 2015 Statement.

¹⁰⁰ Letter from Mary Woolley, President and CEO of Research!America, to Rep. Bob Goodlatte, Chairman, H. Comm. on the Judiciary, Rep. John Conyers, Jr., Ranking Member, H. Comm. on the Judiciary, Sen. Charles Grassley, Chairman, S. Comm. on the Judiciary, & Sen. Patrick Leahy, Ranking Member, S. Comm. on the Judiciary (July 15, 2015) (on file with the H. Comm. on the Judiciary, Democratic Staff).

¹⁰¹ Letter from over 90 patient advocacy organizations to Rep. Bob Goodlatte, Chairman, H. Comm. on the Judiciary, Rep. John Conyers, Jr., Ranking Member, H. Comm. on the Judiciary, Sen. Charles Grassley, Chairman, S. Comm. on the Judiciary, & Sen. Patrick Leahy, Ranking Member, S. Comm. on the Judiciary (May 21, 2015) (on file with the H. Comm. on the Judiciary, Democratic Staff).

¹⁰² H.R. 9 Markup Unofficial Transcript, at 112 (Amendment #12 of Representative Mimi Walters).

¹⁰³ *Id.* at 115–119, 171–175 (statements of Reps. Doug Collins, Henry C. “Hank” Johnson, Jr., Zoe Lofgren, & Scott H. Peters).

¹⁰⁴ *Id.* at 114, 174–175 (statements of Chairman Bob Goodlatte).

¹⁰⁵ Letter signed by 79 Representatives to Rep. John Boehner, Speaker of the House, Rep. Nancy Pelosi, Minority Leader of the House, Rep. Kevin McCarthy, Majority Leader of the House, & Rep. Steny Hoyer, Minority Whip of the House (July 24, 2015) (on file with the H. Comm. on the Judiciary, Democratic Staff).

C. Any Legislation to Reform the Patent System Must Improve Patent Examination Quality by Ending Fee Diversion

H.R. 9 fails to improve patent examination quality because it does not prevent the continuing diversion of fees from the USPTO. When the Judiciary Committee reported the AIA in 2011, there was bipartisan consensus that diverting user fees from the USPTO to the Treasury to be used for purposes unrelated to the services and functions of the USPTO undermined the USPTO's efforts to reduce its backlog.¹⁰⁶ For that reason, the AIA included a provision which created a permanent revolving fund for the USPTO.¹⁰⁷ Unfortunately, the provision was substantially altered by replacing the permanent revolving fund with a much weaker reserve fund before the AIA was brought to the floor.¹⁰⁸

The failure to end fee diversion after enactment of the AIA in 2011 led to nearly \$150 million in badly needed user fees being diverted in Fiscal Year 2013 because of the sequester. This loss is on top of the estimated \$1 billion in fees diverted over the last two decades.¹⁰⁹ By failing to provide patent examiners the resources they need to review and analyze effectively the hundreds of thousands of complex and interrelated patent applications they receive every year, ongoing efforts at the USPTO to keep pace with innovation and to continue to enhance patent quality will be stymied. This diversion prevented improvements to IT projects and resulted in the hiring of about 1000 less patent examiners.¹¹⁰

There is widespread agreement by observers of the system and stakeholders that this is an unacceptable and harmful situation. In 2013, former USPTO Director David Kappos testified at a hearing on the Innovation Act:

Less than 2 years after the passage of the AIA and all the accompanying focus on USPTO fee diversion, we found ourselves again looking at an Agency having its lifeblood, the user fees that come with the work asked of USPTO by American innovators drained away. *I simply cannot overstate the destruction that is causing, as the work remains without funding to handle it, creating an innovation deficit that will require future generations of innovators to pay into the Agency again in hopes their fees are paid.* Nor will it be possible for the USPTO to accomplish the mandates of the AIA, much less the added responsibilities contemplated by parts of H.R. 3309, without access to the user fees calculated to meet those challenges.¹¹¹

¹⁰⁶ Unofficial Tr. of Markup of H.R. 1249, "The America Invents Act," by the H. Comm on the Judiciary, 112th Cong. at 45 (Apr. 14, 2011) (statement of Representative Jim Sensenbrenner), available at <http://judiciary.house.gov/files/hearings/pdf/04142011MarkupTranscript.pdf>. See also H.R. Rep. No. 112-98, pt. 1, at 55 (2011).

¹⁰⁷ H.R. 1249, 112th Cong. § 22 (2011).

¹⁰⁸ Pub. L. No. 112-29, § 22, 125 Stat. 326 (2011).

¹⁰⁹ "Over the last two decades the government has withheld, diverted or sequestered about \$1 billion in USPTO user fee collections." Letter from Herbert C. Wamsley, Exec. Dir. of the Intellectual Property Owners Association (IPO), to Rep. John Conyers, Jr., Ranking Member, H. Comm. on the Judiciary, & Rep. Doug Collins, Vice Chair of the Subcomm. on Courts, Intellectual Property and the Internet of the H. Comm. on the Judiciary (April 16, 2015) [hereinafter IPO Apr. 16, 2015 Letter] (on file with the House Committee on the Judiciary, Democratic Staff).

¹¹⁰ IPO Daily News for Friday, Nov. 22, 2013, available at <http://www.ipso.org>.

¹¹¹ Innovation Act 2013 Hearing, at 40 (written statement of David J. Kappos, Partner at Cravath, Swaine & Moore LLP) (emphasis added).

AIPLA concurred: “This denial of fund access had serious negative consequences, such as the cancellation of much-needed IT improvements, significant delays in the rollout of satellite offices, and a slowing down of examiner hiring, all of which are critical to improvements in quality and pendency.”¹¹² Many witnesses at the Committee hearings on abusive patent litigation have agreed that fee diversion has had a serious adverse impact on the patent system.¹¹³

Similarly, 21C has written that there is a continuing need to prevent “user fees from being sequestered or diverted to support other government programs.”¹¹⁴ This view is shared by the IEEE–USA,¹¹⁵ IA,¹¹⁶ and IPO.¹¹⁷

Further, ending fee diversion will help prevent so-called “patent trolls” from obtaining vague patents to use as a threat in demand letters or in litigation. MDMA described the importance of ending fee diversion to combating abusive patent litigation:

Many complaints about “patent trolls” include allegations that these entities are asserting “bad patents” that should never have been granted. The most effective action that can be taken to improve patent quality is to allow the USPTO to retain its revenues to allow it to improve the examination process, hire more and better-qualified examiners, increase examiner training, and upgrade the USPTO’s IT infrastructure. This should be a core element of any legislation aimed at addressing the “troll” problem.¹¹⁸

For those reasons, Ranking Member John Conyers, Jr. (D-MI) offered an amendment at the Committee markup to prevent future fee diversion from the USPTO. The amendment would have established a revolving fund in the United States Treasury that would allow the USPTO to retain and use all of the user fees it collected by applicants and still provide for Congressional oversight of the USPTO.¹¹⁹ Even though the subject of the amendment received

¹¹² Letter from Lisa K. Jorgenson, Exec. Dir. of AIPLA, to House Committee on the Judiciary Representatives John Conyers, Jr. & Jim Sensenbrenner, Jr. (April 20, 2015) (on file with the House Committee on the Judiciary, Democratic Staff).

¹¹³ Innovation Act 2015 Hearing (written statement of Sauer, at 22); *Examining Recent Supreme Court Cases in the Patent Arena: Hearing Before the Subcomm. on Courts, Intellectual Property and the Internet of the H. Comm. on the Judiciary*, 114th Cong. 70 (Feb. 12, 2015) (testimony of Herb C. Wamsley, Exec. Dir. of IPO; Andrew J. Pincus, Partner at Mayer Brown, LLP; Krish Gupta, Senior Vice Pres. and Deputy General Counsel of EMC Corp.).

¹¹⁴ Letter from Kevin Rhodes, 21C, to Rep. John Conyers, Jr., Ranking Member, H. Comm. on the Judiciary, & Rep. F. James Sensenbrenner, Jr. (Apr. 16, 2015) (on file with the H. Comm. on the Judiciary, Democratic Staff).

¹¹⁵ “Our members have long felt that the diversion of revenues derived from intellectual property applications was a detriment to the quality of patents and trademarks.” Letter from James Jefferies, Pres. of IEEE–USA, to Rep. John Conyers, Ranking Member, H. Comm. on the Judiciary (Apr. 16, 2015) (on file with the H. Comm. on the Judiciary, Democratic Staff).

¹¹⁶ “We have long maintained that ending fee diversion, and thereby giving the [USPTO] all of the fees it is paid by patent applicants, is the single most important change policymakers can make to improve the U.S. patent system.” Letter from Brian Pomper, Exec. Dir. of IA, to Rep. John Conyers, Jr., Ranking Member, H. Comm. on the Judiciary, & Rep. F. James Sensenbrenner, Jr. (Apr. 16, 2015) (on file with the H. Comm. on the Judiciary, Democratic Staff).

¹¹⁷ “The U.S. needs a fully funded USPTO to keep our nation competitive, encourage innovation, and create new jobs.” IPO Apr. 16, 2015 Letter.

¹¹⁸ Letter from Mark B. Leahey, Pres. and CEO of MDMA, to Rep. John Conyers, Ranking Member, H. Comm. on the Judiciary (June 2, 2015) (on file with the H. Comm. on the Judiciary, Democratic Staff).

¹¹⁹ The amendment is modeled after H.R. 1832, the “Innovation Protection Act,” which Ranking Member Conyers and Representative Sensenbrenner, along with an evenly divided bipar-

widespread support by the Members, the amendment failed because some Members posited that a point of order would be raised on the floor and hinder passage of the legislation.¹²⁰

Failure to include language ending USPTO fee diversion once and for all belies any serious and responsible effort to reform and update the patent system.

III. RECENT DEVELOPMENTS MAKE MANY OF THE PROVISIONS IN THE INNOVATION ACT UNNECESSARY

When a substantially similar version of the Innovation Act was introduced in October 2013,¹²¹ the bill was rushed through the House of Representatives in a matter of weeks.¹²² Since then, the courts and the executive branch have taken a number of actions to reduce abusive patent litigation, rendering many of the provisions contained in H.R. 9 unnecessary.

In addition, H.R. 9 is even more objectionable than the more deliberate and cautious approach in the Senate's PATENT Act, which the Senate Committee on the Judiciary recently reported.¹²³ If the House chooses to pursue legislation to curb abusive patent litigation, it should consider some of the positive improvements reflected in the Senate's approach.

A. Courts are Already Awarding Fees at a Much Higher Rate

A centerpiece of H.R. 9 is its mandatory presumptive fee shifting provision, which will force a non-prevailing party to demonstrate that it should not bear the court costs and attorneys' fees of the prevailing party.¹²⁴ Supporters of this legislation claim that a stronger fee shifting regime is necessary to deter litigation abuses.¹²⁵ However, two recent Supreme Court cases make the need for H.R. 9's fee shifting provision moot.

Under 35 U.S.C. § 285, a court "in exceptional cases" may award reasonable attorneys' fees to a prevailing party in a patent case. Before 2014, courts rarely awarded fees because of a strict standard set by the U.S. Court of Appeals for the Federal Circuit, in *Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.*¹²⁶ In its 2014 decision in *Octane Fitness*,¹²⁷ the Supreme Court held that the standard was unduly rigid. The Court explained that an "exceptional" case is one that merely "stands out from others with respect to the substantive strength of a party's litigation position (considering both the governing law and the facts of the case) or unreasonable

tisan group of 6 additional members, introduced on April 16, 2015. The legislation currently has 22 cosponsors.

¹²⁰H.R. 9 Markup Unofficial Transcript, at 54 (Amendment #20 of Ranking Member John Conyers, Jr.) (failed 11–16).

¹²¹H.R. 3309, 113th Cong. (2013).

¹²²H.R. 3309 was introduced on October 23, 2013 and the House Committee on the Judiciary held a hearing on the bill on October 29, 2013. Thereafter, the Committee marked up the bill on November 20, 2013 and the House passed the bill on December 5, 2013.

¹²³The Protecting American Talent and Entrepreneurship (PATENT) Act: Markup of S. 1137 Before the S. Comm. on the Judiciary, 114th Cong. (June 4, 2015).

¹²⁴H.R. 9, 114th Cong. § 3(b) (2015).

¹²⁵See, e.g., Letter from United for Patent Reform to Sen. Charles Grassley, Chairman, S. Comm. on the Judiciary, Patrick Leahy, Ranking Member, S. Comm. on the Judiciary, Rep. Bob Goodlatte, Chairman, H. Comm. on the Judiciary, & Rep. John Conyers, Jr., Ranking Member, H. Comm. on the Judiciary (Jan. 15, 2015) (on file with the H. Comm. on the Judiciary, Democratic Staff).

¹²⁶393 F.3d 1378, 1381 (Fed. Cir. 2005).

¹²⁷134 S. Ct. 1749 (2014).

manner in which the case was litigated.”¹²⁸ The decision makes it easier for a court to award fees.

On the same day, the Court also ruled, in *Highmark*,¹²⁹ that the Federal Circuit’s review of a district court’s fee award should be reviewed for abuse of discretion rather than *de novo*. The decision made it more difficult for the Federal Circuit to reverse district court decisions on fee awards.

Since the Supreme Court’s decisions in these two cases, courts have been awarding fees at a substantially higher rate. According to one study, in the 8 months prior to these decisions, fees were awarded in almost 20% of the cases in which they were requested. In the 8 months following the decisions, however, fees were awarded in almost half the cases in which they were requested.¹³⁰ Another study reported a jump in cases in which fees were awarded from 13% in the period analyzed prior to *Octane Fitness* and *Highmark* to 43% after those cases.¹³¹

Although we have strong concerns about the impact of loser pays provisions on legitimate plaintiffs, to the extent that the threat of fee shifting acts as a deterrent to filing abusive litigation, the stringent provisions of the Innovation Act are clearly unnecessary. The Supreme Court loosened the standard for when fees should be awarded and district courts have responded, in short order, with a significant increase in the frequency of fee awards. There is no need for the mandatory presumptive fee shifting contained in H.R. 9, which would make fee awards the default rule and discourage inventors from enforcing their patent rights in court.

B. Patent Case Filings Have Decreased Significantly Over the Last Year

One of the primary arguments for supporters of H.R. 9 is that patent litigation rates have skyrocketed. However, statistics reveal that there has been a dramatic decrease in the number of patent cases filed, with some reports finding that infringement cases dropped by as much as 40% between September 2013 and September 2014.¹³²

Although a number of factors may be behind this trend, one important contributor was likely the Supreme Court’s decision in *Alice Corp. v. CLS Bank Int’l*.¹³³ In *Alice*, the Court held that simply implementing an abstract idea using a generic computer is not enough to turn that abstract idea into a patentable invention.¹³⁴ As

¹²⁸ *Id.* at 1756.

¹²⁹ 134 S. Ct. 1744 (2014).

¹³⁰ Mallun Yen, *Fee Shifting Before and After the Supreme Court Decisions*, INSIDE COUNSEL, Feb. 25, 2015 (reporting that in the 8 months prior to *Octane Fitness* and *Highmark* fees were awarded in 6 of the 31 cases in which they were requested while in the 8 months after the decision fees were awarded in 21 of the 43 cases in which they were requested).

¹³¹ Posting of Hannah Jiam to PatentlyO.com, *Emerging Trends Post-Octane Fitness* (May 13, 2015), available at <http://patentlyo.com/patent/2015/05/emerging-octane-fitness.html>.

¹³² See Study by Lex Machina, available at <https://lexmachina.com/2014/10/september-2014-new-patent-case-filings-40-september-2013/> (showing that monthly patent filings decreased by 40% (549 to 329) between September 2013 and September 2014); Andrew S. Baluch, Esq. and Eoin Connolly, *Attorney fee awards in patent cases after Octane Fitness*, Westlaw Journal Intellectual Property, vol. 21, issue 17 at 14 (Dec. 10, 2014) (finding that at least 40 motions for attorneys’ fees were filed since the Supreme Court decided *Octane Fitness* and fees were awarded in 18 of those cases). See also Patent Protections Coalition Letter; USIJ February 12, 2015 Letter.

¹³³ 134 S. Ct. 2347 (2014).

¹³⁴ *Id.*

a result, the scope of patentable subject matter for many software-based inventions has been significantly narrowed.¹³⁵

Consequently, abusive litigants, who often hold this type of vague and over-broad patent, will have many of their suits dismissed at an early stage of litigation and the USPTO will issue fewer of these weak patents going forward.¹³⁶

C. Pleading Standards are Already Set to Increase Due to the Elimination of Form 18

A central provision in H.R. 9 calls for heightened pleading requirements because defendants contend that plaintiffs in patent cases are not required to provide sufficient detail in their complaints to give defendants fair notice of what patents they are allegedly infringing and how the patents have been infringed. However, the Federal courts have taken administrative actions that render this provision in the Innovation Act unnecessary.

Currently, patent holding plaintiffs merely need to file Form 18 of the Federal Rules of Civil Procedure as their complaint. That form requires plaintiffs to include minimal information. There is widespread agreement that this requirement provides insufficient notice to defendants. Fortunately, Form 18 should be eliminated by December 1 of this year.¹³⁷ After Form 18 is eliminated, patent infringement suits will be subject to the already heightened pleading requirements provided for under the Supreme Court's decisions in *Twombly*¹³⁸ and *Iqbal*¹³⁹ that applies to all other civil actions. Under *Twombly* and *Iqbal*, plaintiffs must include enough facts to show that their claim is "plausible on its face."¹⁴⁰

Once Form 18 is eliminated, the alleged need for H.R. 9's heightened pleading requirements will be unnecessary and if allowed to remain, would unfairly burden plaintiffs seeking to enforce their patent rights by requiring them to provide more details in their complaints beyond what is required under *Twombly* and *Iqbal*.

D. District Courts Have Developed Local Case Management Rules

Supporters of H.R. 9 contend that courts hearing patent cases have not imposed structures to limit discovery and prevent abuse of the litigation system. However, individual district courts have taken steps in recent years to lower the costs and improve the efficiency of patent cases by establishing local case management rules.

More than 30 courts currently have local case management rules for patent cases, up from just 12 in 2008, with more districts expected to follow.¹⁴¹ Rather than Congress legislating burdensome and heavy-handed rules governing patent litigation that will harm all plaintiffs, we should allow the courts, which have expertise in

¹³⁵ USIJ February 12, 2015 Letter.

¹³⁶ James Bessen, *What the Courts Did to Curb Patent Trolling—For Now*, THE ATLANTIC (Dec. 1, 2014).

¹³⁷ Supreme Court Adopts Rules Changes; "Summary of the Report of the Judicial Conference Committee on Rules of Practice and Procedure 14," (Sept. 2014), available at <http://www.uscourts.gov/uscourts/RulesAndPolicies/rules/Reports/ST09-2014.pdf>.

¹³⁸ 550 U.S. 544 (2007).

¹³⁹ 556 U.S. 662 (2009).

¹⁴⁰ Leslie Gordon, *For Federal Plaintiffs, Twombly and Iqbal Still Present a Catch-22*, ABA JOURNAL, Jan. 1, 2011, available at http://abajournal.com/magazine/article/for_federal_plaintiffs_twombly_and_iqbal_still_present_a_catch-22.

¹⁴¹ Dina Hayes & James Lyons, *Judges' Use of Case Management to Effect [sic] Patent Reform*, INSIDE COUNSEL, Dec. 22, 2014.

managing patent cases, to continue developing policies that will improve the litigation process.

E. The USPTO Has Begun an Enhanced Patent Quality Initiative

Innovation Act proponents have expressed concerns that so-called “patent trolls” rely on vague patents for the subjects of their demand letters and lawsuits. Recognizing that high quality patents bring certainty and clarity of rights, which reduces needless litigation and the issuance of vague patents, the USPTO recently announced an important initiative to enhance patent quality.¹⁴²

Beginning with a “Quality Summit” that was held in March of this year, the USPTO has proposed a variety of measures, including increased training of its examiners, better customer service, and new technology that will significantly improve the quality of the patents it issues.¹⁴³ These proposed initiatives join a host of other efforts already underway at the USPTO to enhance patent quality.¹⁴⁴ As the agency continues to increase the quality of the patents it issues, fewer vague and over-broad patents will be available to bad actors that seek to abuse the litigation system. Over time, this will be far more effective than the unfair and unnecessary measures contained in H.R. 9.

F. H.R. 9 Is More Objectionable than the Senate’s PATENT Act

Although S. 1137, the PATENT Act, which the Senate Judiciary Committee recently reported, still has room for improvement, we, along with many stakeholders, believe it provides much stronger protection for legitimate inventors than H.R. 9.¹⁴⁵ In particular, S. 1137 requires a prevailing party to demonstrate that it is entitled to fees. In addition, the Senate bill would require a court to determine whether the non-prevailing party’s claim and conduct were objectively reasonable.¹⁴⁶ H.R. 9, on the other hand, would require a court to award fees unless it found the non-prevailing party’s position and conduct to be reasonably justified.¹⁴⁷

On this and a few other issues, the Senate bill is preferable to the Innovation Act. Instead of pressing forward with H.R. 9, the House should take up and improve the Senate’s PATENT Act.

¹⁴² Request for Comments on Enhancing Patent Quality, 80 Fed. Reg. 6475 (proposed Feb. 5, 2015).

¹⁴³ *Id.*

¹⁴⁴ *Id.*

¹⁴⁵ See, e.g., Press Release, 21C, 21C Commends Senate Introduction of the PATENT Act (April 29, 2015), available at <http://patentsmatter.com/issue/pdfs/21CStatementonIntroductionoftheSenateBill.pdf>; Press Release, PhRMA, PhRMA Response to Introduction of Senate Patent Bill (April 29, 2015), available at <http://www.phrma.org/media-releases/phrma-response-to-introduction-of-senate-patent-bill>; Press Release, United for Patent Reform, Bipartisan Senate Judiciary Bill Will Protect America’s Businesses from Continued Patent Troll Extortion (April 29, 2015), available at <http://www.unitedforpatentreform.com/patent-reform-news/65/Press+Release+Bipartisan+Senate+Judiciary+Leadership+Bill+Will+Protect+America+s+Businesses+From>; Press Release, Association of American Universities, American Council on Education, Association of American Medical Colleges, Association of Public and Land-grant Universities, Association of University Technology Managers, and Council on Government Relations, Higher Education Association Statement on Introduction of Patent Act (April 30, 2015), available at <http://www.aplu.org/news-and-media/News/higher-education-association-statement-on-introduction-of-patent-act>; Niels Lesniewski, *Senate Bill Gets White House Plaudits*, ROLLCALL, May 1, 2015, available at <http://blogs.rollcall.com/white-house/senate-patent-bill-gets-white-house-plaudits/?dcz=>; Editorial, *Curbing Abusive Patent Lawsuits*, N.Y. TIMES, May 6, 2015.

¹⁴⁶ S. 1137, 114th Cong. §7(b) (2015).

¹⁴⁷ H.R. 9, 114th Cong. §3(b) (2015).

DETAILED SECTION-BY-SECTION ANALYSIS OF H.R. 9

The following explains the pertinent provisions of H.R. 9.

Section 3(a) imposes heightened pleading requirements on parties asserting patent infringement claims whether in an initial complaint, counterclaim or cross-claim. It requires patent holders to identify the patents and claims infringed and to provide more specificity as to how they are infringed. Current law governing pleading in all civil actions, including patent infringement claims, is somewhat fluid following the decisions of the U.S. Supreme Court in *Twombly*,¹⁴⁸ and *Iqbal*.¹⁴⁹ Those cases moved away from the traditional “notice” pleading regime and moved towards more fact-based pleading requirements. In addition, Form 18, which calls for simple notice pleading in patent cases, is set to be eliminated on December 1 of this year.¹⁵⁰

Section 3(b) amends Section 285 of title 35 to provide that the court shall award reasonable fees and other expenses to a prevailing party, unless the court finds that the position and conduct of the non-prevailing 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. Section 3(b) would replace the current discretionary statutory provision with a mandatory fee-shifting provision. The language requires that fees shift to the non-prevailing party unless they can meet the burden of establishing that their position was “reasonably justified” or that “special circumstances” make an award unjust. The provision also defines a non-prevailing party to include a plaintiff patentee who “subsequently unilaterally extends . . . a covenant not to sue for infringement with respect to the patent or patents at issue.”

Section 3(c) establishes an additional mechanism for joinder of additional plaintiffs notwithstanding Federal Rules of Civil Procedure 19 and 20, which already provide for the permissive and mandatory joinder of parties, respectively. This subsection provides that 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 defendant against an allegation of infringement of a patent claim, and in which the non-prevailing 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 non-prevailing party has no substantial interest in the subject matter at issue other than asserting such patent claim in litigation.

The court may deny a motion to join an interested party if: (1) the interested party is not subject to service of process; or (2) joinder would deprive the court of subject matter jurisdiction or make venue improper. The court must deny a motion to join an interested party if: (1) the interested party did not timely receive the notice required; or (2) within 30 days after receiving the notice required, the interested party renounces, in writing and with notice to the court and the parties to the action, any ownership, right, or

¹⁴⁸ 550 U.S. 544 (2007).

¹⁴⁹ 556 U.S. 662 (2009).

¹⁵⁰ Supreme Court Adopts Rules Changes.

direct financial interest that the interested party has in the patent or patents at issue.

An interested party may not be joined unless it has been provided actual notice, within 30 days after the expiration of the time period during which a certification is required to be filed, that the interested party has been identified in the initial disclosure. This subsection defines an interested party to mean a person other than the party alleging infringement that: (1) is an assignee of the patent or patents at issue; (2) has a right, including a contingent right, to enforce or sublicense the patent or patents at issue; or (3) 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 the licensing revenue, except that a person with a direct financial interest does not include: (i) an employee of the party alleging infringement—(I) whose principal source of income or employment is employment with the party alleging infringement; or (II) whose sole financial interest in the patent or patents at issue is a salary or hourly wage paid by the party alleging infringement; (ii) 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 (iii) a person whose sole financial interest in the patent or patents at issue is ownership of an equity or security interest in the party alleging infringement, unless such person also has the right or ability to direct or control (membership on the board of directors alone is not sufficient to demonstrate such right or ability) the civil action.

The term substantial interest in the subsection includes an interest in the subject matter of a patent at issue if the party: (1) invented the subject matter; or (2) commercially practices or implements, made substantial preparations directed particularly to commercially practicing or implementing, or is engaged in research and development in, technology in the field of the subject matter.

This subsection does not apply to an action if the party alleging infringement files, not later than 45 days after the date on which the party is served with the initial statement a certification that: (1) establishes and certifies to the court, under oath, that the party will have sufficient funds available to satisfy any award of reasonable attorneys' fees and expenses under section 285 if an award is assessed; (2) demonstrates that such party has a substantial interest in the subject matter at issue other than asserting the patent in the litigation; or (3) is made under oath that there are no other interested parties.

Section 3(c) does not apply to a technology transfer organization whose primary purpose is to facilitate the commercialization of technologies developed by one or more institutions of higher education (as defined in section 101(a) of the Higher Education Act of 1965 (20 U.S.C. 1001 §(a))) if such technology transfer organization is alleging infringement on behalf of an entity that would not be subject to this subsection.

Section 3(d) requires a judge, with limited exceptions, to stay all discovery if the defendant moves within 90 after service of a complaint to: (1) sever or drop a party for misjoinder; (2) transfer or dismiss the action due to improper venue; or (3) dismiss the action

pursuant to Federal Rule of Civil Procedure 12(b). A judge must decide a motion that is the basis for the stay before deciding any other substantive motion or issues a scheduling order. Section 3(d) permits discovery only when necessary for a court to decide a motion to sever, dismiss a party, or dismiss or transfer the action; when a preliminary injunction is granted to prevent competitive harm; or with the consent of the parties. This provision does not apply to an action that includes a cause of action described under section 271(e)(2).

Section 3(e) expresses a sense of Congress that it is an abuse of the patent system and against public policy to send out evasive demand letters to end users alleging patent infringement.

Section 3(f) adds a paragraph at the end of section 284 of title 35 providing that pre-suit notification of infringement may not be relied on to establish willfulness unless such notification identifies with particularity the patent and the accused products or process and explains why a claim is infringed to the extent possible following a reasonable inquiry.

Section 3(g)(1) amends section 1400 of title 28 to state that notwithstanding subsections (b) and (c) of section 1391, any civil action for patent infringement or any action for a declaratory judgment that a patent is invalid or not infringed 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 an act of infringement of a patent in suit and has a regular and established physical facility that gives rise to the act of infringement; (3) where the defendant has agreed or consented to be sued in the instant action; (4) where an inventor named on the patent in suit conducted research or development that led to the application for the patent in suit; (5) where a party has a regular and established physical facility that such party controls and operates, not primarily for the purpose of creating venue, and has: (A) engaged in management of significant research and development of an invention claimed in a patent in suit prior to the effective filing date of the patent; (B) manufactured a tangible product that is alleged to embody an invention claimed in a patent in suit; or (C) implemented a manufacturing process for a tangible good in which the process is alleged to embody an invention claimed in a patent in suit; or (6) for foreign defendants that do not meet the requirements of paragraphs (1) or (2), according to section 1391(d) of this title.

Section 3(g)(2) provides that for the purpose of determining whether relief may issue under section 1651 of title 28, a clearly and indisputably erroneous denial of a motion under section 1406(a) to dismiss or transfer a case on the basis of section 1400(b) shall be deemed to cause irreparable interim harm.

Section 3(g)(3) provides that if a defendant does not meet the definition of a retailer under section 296(a)(6) of title 35, as added by section 5 of the bill, solely because the defendant manufactures or causes the manufacture of the covered product or process in suit, the retail facilities of such defendant shall not constitute a regular and established physical facility for purposes of section 1400(b)(2) of title 28 as added by paragraph (1).

Section 3(g)(4) provides that the dwelling or residence of an employee or contractor of a defendant who works at such dwelling or

residence shall not constitute a regular and established physical facility of the defendant for purposes of section 1400(b)(2) of title 28, as added by paragraph (1).

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

Section 4(a) requires a patent owner who asserts an infringement claim in court to provide detailed information about all persons or entities having an interest in the patent. Specifically, the patent owner has an ongoing duty to inform the parties, the court, and the USPTO of: (1) any assignee of the patent; (2) any entity with the right to sublicense or enforce the patent; (3) any entity with any financial interest in the patent or in the patentee; (4) the ultimate parent entity of the assignee; (5) a clear and concise description of the principal business, if any, of the party alleging infringement; (6) a list of each complaint filed, of which the party alleging infringement has knowledge; and (7) for each patent identified, whether a standard-setting body has 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 the patent. These requirements 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).

The patent owner is encouraged to comply with these requirements because failure to do so will cause them to forfeit attorneys' fees under section 285 or pay enhanced damages. In addition, the patent owner may also be required to pay the opposing party's costs and attorney's fees incurred to determine the identity of the real parties at interest in the patent if the patent owner fails to comply with this section. Fees may be shifted even if the identity of additional parties was immaterial to the proceedings and may only be avoided if the court determines they are "unjust."

Section 4(d) states that the amendments made by section 4 shall take effect upon the expiration of the 6-month period beginning on the date of enactment of the bill and shall apply to any action for which a complaint is filed on or after such effective date.

Section 5(a) requires the court to 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 covered process if: (1) the covered manufacturer is a party to the action or to a separate action (in which a party asserts a claim for relief arising under any Act of Congress relating to patents) involving the same patent or patent related to the same covered product or covered process; (2) the covered customer agrees to be bound as to the issues determined in an action described in paragraph (1) without a full and fair opportunity to separately litigate any such issue, but only as to those issues for which all other elements of the common law doctrine of issue preclusion are met; (3) the motion for a stay is brought within 120 days of service of the first infringement pleading; and (4) in a case where the covered manufacturer has been made a party to the action on motion by the covered customer, the covered manufacturer and the covered customer consent in writing to the stay. A stay entered into under this section may

be lifted upon a grant of a motion based on a showing that: (1) the action involving the covered manufacturer will not resolve a major issue in the suit against the covered customer (such as a covered product or covered process identified in the motion to lift the stay is not a material part of the claimed invention or inventions in the patent or patents in dispute); or (2) the stay unreasonably prejudices or would be manifestly unjust to the party seeking to lift the stay.

In the case of a stay entered under this section based on the participation of the covered manufacturer in a separate action in subsection (b)(1), a motion may only be granted if the court determines that the showing required under paragraph (1) has been made. This section shall not apply to an action that includes a cause of action described under section 271(e)(2). The court may upon motion, determine that a consent judgment or an unappealed final order shall not be binding on the covered customer with respect to one or more of the issues that gave rise to the stay based on a showing that such consent judgment or unappealed final order would unreasonably prejudice or be manifestly unjust to the covered customer in light of the circumstances of the case if, following the grant of a motion to stay under this section, the covered manufacturer: (1) obtains or consents to entry of a consent judgment relating to such issue that gave rise to the stay; or (2) fails to prosecute to a final, non-appealable judgment such issue that gave rise to the stay. 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.

Currently, manufacturers or suppliers may seek leave to intervene in patent infringement actions against their customers or end users. They may also seek a declaratory judgment where a case or controversy exist, or pursue administrative legal action against a patent owner.

Section 6(a) requires that not later than 3 months after the date of enactment of the bill the Director of the Administrative Office of the United States Courts (Administrative Office) shall designate not fewer than six of the district courts of the United States that are participating in the patent cases pilot program established under section 1 of Public Law 111-349 to develop rules and procedures to implement proposals to address the asymmetries in discovery burdens and costs, and to establish case management procedures, in any civil actions arising under any Act of Congress relating to patents.

Section 6(b) requires that within 18 months after the designation by the Director of the Administrative Office of the six district courts to develop the rules and procedures pursuant to subsection (a), the six district courts shall complete the development of the rules and procedures, and begin to implement them.

Section 6(c) states that after the rules and procedures developed by the pilot program have been in effect for at least 2 years, the Judicial Conference of the United States (Judicial Conference), using existing resources, may expand the application of some or all of those rules and procedures to be implemented by all the district courts, and the United States Court of Federal Claims, for any civil action arising under any Act of Congress relating to patents.

Section 6(d) directs the Supreme Court to eliminate Form 18 (concerning patent pleadings) and authorizes the Court to replace Form 18 with specific minimum contents.

Section 6(e) makes three substantive amendments to the Bankruptcy Code. First, section 6(e)(1) amends section 1522 of the Bankruptcy Code, which specifies various protections for creditors and other interested persons in chapter 15 cross-border insolvency cases.¹⁵¹ Specifically, section 6(e)(1) would make section 365(n) of the Bankruptcy Code, which sets forth the rights of a licensee pursuant to an intellectual property executory contract that is rejected in a bankruptcy case, applicable to chapter 15 cases.¹⁵² Pursuant to section 6(e)(1), a U.S. court would be required to apply Bankruptcy Code section 365(n) to “foreign main proceedings,” a type of chapter 15 case “pending in the country where the debtor has the center of its main interests.”¹⁵³

Section 6(e)(2)(A) amends Bankruptcy Code section 101(35A), which defines the term “intellectual property.”¹⁵⁴ The bill expands this definition to include a trademark, service mark, and trade name, as those terms are defined in the Trademark Act of 1946.¹⁵⁵ In turn, section 6(e)(2)(B) amends Bankruptcy Code section 365(n)(2), to impose an affirmative duty on the licensee to maintain the quality of the products and services offered under or in connection with the licensed trademark, service mark, or trade name. And, it provides that the debtor-licensor retains its right to oversee and enforce quality control for such products or services.

Section 6(f) states that not later than 12 months after the date of enactment of the bill, the Judicial Conference, with assistance of the Director of the Federal Judicial Center and Director of the Administrative Office, must prepare and transmit to the Committees on the Judiciary of the Senate and House of Representatives a report on discovery proceedings in cases pertaining to litigation involving patent laws in the United States. The report shall: (1) provide the percentage of courts that have distinct phases of discovery in the court rules; (2) provide a description of at least two of the definitions of such phases; (3) identify by name any court that does not have such distinct phases and a description of why such courts have not implemented such phases; (4) provide with regard to proceedings in courts that have phases, in the cases of a discovery proceeding that extends beyond the core documents phases, a description of: (A) what additional discovery was requested and any consistent pattern or trend in the reasons or justifications for the request; (B) how much longer on average, the proceedings lasted than those settled within the first phase; and (C) any patterns for the courts that do not have phase rules; and (5) looking at proceedings in the courts that do not have phase rules, provide a description of how long, on average, the discovery proceedings last; and the scope of the requests.

Section 7(a) requires the USPTO to develop educational resources and outreach programs for small business concerns arising from patent infringement and abusive patent litigation practices.

¹⁵¹ 11 U.S.C. § 1522 (2015).

¹⁵² 11 U.S.C. § 365(n) (2015).

¹⁵³ 11 U.S.C. § 1506 (2015).

¹⁵⁴ 11 U.S.C. § 101(35A) (2015).

¹⁵⁵ 15 U.S.C. § 1127 (2015).

The existing small business patent outreach programs of the office, and 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.

Section 7(b) requires the USPTO to develop a website for small businesses that includes patent transparency information required under the bill whenever a patentee sues on a patent.

Section 8(a) requires the USPTO, in consultation with the Secretary of Commerce, the Secretary of Treasury, the Chairman of the Securities and Exchange Commission, the heads of other relevant agencies, and interested parties to conduct a study on oversight of the secondary market for patent transactions to promote transparency and ethical business practices. The study is due no later than 18 months after enactment of the bill.

Section 8(b) requires the USPTO, in consultation with the heads of relevant agencies and interested parties to conduct a study on patents owned by the U.S. government. The study must examine how patents are licensed and sold, and any litigation relating to the licensing or sale of the patents. The study is due no later than 1 year after enactment of the bill.

Section 8(c) requires the Government Accountability Office (GAO) to conduct a study on patent quality and access to the best information during examination. The GAO is also directed to evaluate the patent examination process at the USPTO and to assess the available technologies. The GAO study is due no later than 1 year after enactment of the bill.

Section 8(d) requires an additional study by the Administrative Office, in consultation with the Director of the Federal Judicial Center and the Director of the USPTO to examine the feasibility of developing a pilot program for patent small claims proceedings in certain judicial districts within the existing patent pilot program mandated by Public Law 111-349. The study is due no later than 1 year after enactment of the bill.

Section 8(e) requires the USPTO, in consultation with the heads of other appropriate agencies, to conduct a study on the prevalence of the practice of sending patent demand letters in bad faith and the extent to which the practice may, through fundamental or deceptive practices, impose a negative impact on the marketplace. The report is due within 1 year of enactment of the bill.

Section 8(f) requires the GAO to conduct a study to examine 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. The report is due no later than 1 year after enactment of the bill.

Section 8(g) requires the USPTO, in consultation with the Secretary of Commerce, the Director of the Administrative Office, the Director of the Federal Judicial Center, and the heads of other relevant agencies, to examine the economic impact of sections 3, 4, and 5 of the bill, and any amendments made by these sections on the ability of individuals and small businesses owned by women, veterans, and minorities to assert, secure, and vindicate the con-

stitutionally guaranteed exclusive right to inventions and discoveries by such individuals and small businesses. The report must be submitted no later than 2 years after enactment of the bill.

Section 9(a) deletes “or reasonably could have raised” from section 325(e)(2) in the AIA’s PGR procedure. The AIA established this new first window procedure to enable early challenge of patents. Section 325(e)(2) of the AIA currently contains an estoppel provision that prohibits a participant in PGR from asserting claims “on any ground that the petitioner raised or reasonably could have raised during that post-grant review” in a subsequent civil action. The revision would prevent a PGR petitioner from raising in a later lawsuit the claims the petitioner raised in the PGR.

Subsection 9(b) amends section 316(a) of title 35 by stating that 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 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 USPTO shall consider such claim construction. This subsection eliminates the “Broadest Reasonable Interpretation” (BRI) standard and requires that claims of issued patents be construed in PGR and IPR proceedings under the same standard used in district court. Patents before the district courts are presumed valid and subject to a “clear and convincing” standard of proof to establish validity. BRI is an administrative rule that the USPTO has used and the courts have sanctioned since the 1930’s. After enactment of the AIA, however, the USPTO issued a rulemaking proceeding to determine the rules of practice to implement the newly created IPR proceeding, the PGR proceeding, and the transitional post-grant review proceeding for covered business method patents (Section 18/CBM program). The final rule requires the USPTO to apply BRI to construe certain patent claims before the agency, including those in the new IPR and PGR proceedings. This subsection, in effect, repeals the agency rulemaking and replaces the BRI standard with the same standard used in the district courts.

Subsection (b) also provides that an inter partes review and post grant review may not be instituted unless the petitioner certifies that the petitioner and the real parties in interest of the petitioner: (1) do not own and will not acquire a financial instrument (including a prepaid variable forward contract, equity swap, collar, or exchange fund) that is designed to hedge or offset any decrease in the market value of an equity security of the patent owner or an affiliate of the patent owner, during a period following the filing of the petition to be determined by the Director of the USPTO; and (2) have not demanded payment, monetary or otherwise from the patent owner or an affiliate of the patent owner in exchange for a commitment not to file a petition under section 311 with respect to the patent that is subject of the petition, unless the petitioner or the real party in interest of the petitioner has been sued for or charged with infringement of the patent, during a period to be determined by the Director of the USPTO.

In addition, subsection (b) states that for serial or redundant petitions the Director shall designate as precedential (and may

change the designation as the Director determines to be appropriate), with respect to the application of subsections (d) and (e) of section 325 of title 35, the decisions of the Patent Trial and Appeal Board in each of the following decisions: (A) *Dell Inc. v. Electronics and Telecomms. Research Inst.*, IPR2015–00549, Paper 10 (PTAB Mar. 26, 2015); (B) *Zimmer Holdings, Inc. v. Bonutti Skeletal Innovations LLC*, IPR2014–01080, Paper 17 (PTAB Oct. 31, 2014); (C) *Prism Pharma Co., Ltd. v. Choongwae Pharma Corp.*, IPR2014–00315, Paper 14 (PTAB July 8, 2014); (D) *Unilever, Inc. v. The Procter & Gamble Co.*, IPR2014–00506, Paper 17 (PTAB July 7, 2014).

Further, subsection (b) provides that not later than 1 year after the date of enactment of the bill, the Director shall issue regulations to carry out sections 316(a)(15) and 326(a)(14) of title 35, as added by paragraphs (1) and (2). During the period that begins on the date of the enactment of the bill and ends on the date of issuance of the regulations, a petition filed under chapter 31 or 32 of title 35 on or after the date of enactment of this bill may not be instituted unless the petitioner certifies that the petitioner and real parties in interest: (1) do not own a financial instrument described in sections 316(a)(15) and 326(a)(14) of title 35 as added by paragraphs (1) and (2), during the 1-week period following the date on which the petition is filed; and (2) have not demanded anything of value from the patent owner or an affiliate of the patent owner during the period between September 16, 2012, and the date of the filing of the petition.

Subsection (b) also states that except as otherwise provided, 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 the bill, and shall apply to any proceeding under chapter 31 or 32 of title 35, as the case may be, for which the petition for review is filed on or after such effective date.

Section 9(c) codifies the judicial doctrine against double-patenting and applies it to patents issued after AIA under the first to file system. Current law prohibits two types of double patenting. One type is based on 35 U.S.C. § 101, which has been construed to disallow multiple patents for the “same invention.” The other type is judicially created. The judicial doctrine against double patenting prevents a patentee from prolonging the life of a patent by rejecting claims in a second patent that are obvious variations from claims in a first patent.

Section 9(d) redefines and expands the scope of prior art under the transitional covered business method program and allows the Director of the USPTO to waive payment of a filing fee for a transitional proceeding as described under section 18(a) of the AIA.

Section 9(e) states that an action or claim arises under an Act of Congress relating to patents if such action or claim: (1) necessarily requires resolution of a disputed question as to the validity of a patent or the scope of a patent claim; or (2) is an action or claim for legal malpractice that arises from an attorney’s conduct in relation to an action or claim arising under an Act of Congress relating to patents. This provision applies to all cases filed on or after, or pending on, the date of the enactment of this bill, but not to a case in which a Federal court has issued a ruling on whether the case or claim arises under any Act of Congress relating to pat-

ents or plant variety protection before the date of the enactment of this bill.

Section 9(f) extends the life of the patent pilot program from 10 to 20 years.

Section 9(g) amends section 3(b)(1) of title 35, to provide that the Secretary of Commerce, upon nomination by the Director of the USPTO, shall appoint a Deputy Under Secretary of Commerce for Intellectual Property and Deputy Director of the USPTO who shall serve as Acting Director in the event of the absence or incapacity of the Director or in the event of a vacancy in the office of the Director of the USPTO.

Section 9(h) makes a series of 11 additional changes it classifies as “technical,” including one that extends the time limit for bringing disciplinary proceedings before the USPTO.

Section 9(i) extends USPTO fee setting authority in section 10(i)(2) of the Leahy-Smith America Invents Act for 10 years.

Section 10 provides that, unless otherwise specified in the bill, the provisions become effective on the date of enactment and apply to any patent issued or any case filed on or after the date of enactment.

CONCLUSION

Congress must respond to the problems of abusive patent litigation in the courts and the gaming of the patent process at the USPTO, and we are willing to work with any and all stakeholders and interested parties to develop a fair process to find common sense solutions. That is why we supported amendments at the Committee markup to make reasonable improvements that would protect patent rights, while still curtailing abusive patent litigation and exploitation of the patent process. We must take a targeted approach that includes deterring further abuses of IPR proceedings and ending fee diversion from the USPTO to ensure adequate hiring, proper training of examiners, and sustained patent quality. And, serious patent reform legislation must stop the extortionate use of deceptive demand letters. Unfortunately, we cannot support H.R. 9 because it includes changes that go well beyond the problems of so-called “patent trolls;” it creates an imbalance in the patent system tilted against individual inventors and small businesses; and it will have a chilling effect on innovation.

Accordingly, we dissent from H.R. 9 for these reasons and urge our colleagues to oppose this flawed measure.

MR. CONYERS, JR.
 MS. JACKSON LEE.
 MR. JOHNSON, JR.
 MR. DEUTCH.
 MS. BASS.
 MR. CICILLINE.
 MR. PETERS.

