THE COALITION FOR 21ST CENTURY PATENT REFORM

Protecting Innovation to Enhance American Competitiveness

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SUMMARY OF 21C POSITION ON KEY PROVISIONS IN H.R. 3309, the "INNOVATION ACT"

November 6, 2013

FULL FUNDING FOR THE UNITED STATES PATENT AND TRADEMARK OFFICE

The single most critical issue facing the U.S. Patent & Trademark Office (USPTO) is its inability to retain all of the fees paid by patent and trademark applicants and to use those fees to provide the services for which they were paid. Legislation to prevent USPTO user fees from being diverted or sequestered and redirected to support other government programs must be enacted. Over the last two decades, Congress has redirected more than one billion dollars in user fees to such purposes, treating these fee revenues as if they were normal taxpayer dollars. This tax on America's innovators must be stopped.

The Coalition for 21st Century Patent Reform (21C) has therefore strongly endorsed H.R. 3349, introduced by Ranking Member Conyers with bipartisan support. Provisions similar to H.R. 3349 were proposed for inclusion in the America Invents Act (AIA) in the 112th Congress, but were ultimately not included because of concerns that, if enacted, they would abolish or hinder the oversight powers of Congress. This was not the case with those bills, and is likewise not the case with H.R 3349 as fully explained in our letter to the sponsors.[1]

Unless a statutory mechanism is enacted to prevent future fee diversion or sequestration, the existing and new responsibilities vested in the USPTO will suffer, the ability of the USPTO to plan for and build the type of agency our innovation economy demands will be frustrated, and the job-stifling patent application backlog will continue.

The 21C strongly urges that H.R. 3349 be included in H.R. 3309.

Sec. 3. PATENT INFRINGEMENT ACTIONS

(a) PLEADING REQUIREMENTS [Yellow – Amendments Needed]

Proposed § 281A in the Innovation Act would require any pleading alleging patent infringement, except allegations of infringement in Hatch Waxman cases, to include the following: each patent and each claim allegedly infringed; each accused instrumentality, including its name or model number; an explanation of all theories of infringement; an identification of the right of the party alleging infringement to assert the patent(s)-in-suit; a description of the principal business of the party alleging infringement; a list of prior litigation involving the patent(s)-in-suit; disclosure of whether the patent(s)-in-suit have been declared essential in a standard-setting body; and whether a government has imposed specific licensing requirements. If a party required to disclose such information does not make the disclosure, it is required to explain why the information is not readily accessible and the efforts it made to access that information. For good cause shown, a court may allow information determined to be confidential to be filed under seal.

The Coalition for 21st Century Patent Reform (21C) believes that further study and amendments are required to this proposal before it would be acceptable to its members. Although the 21C does not

[1] Available at http://www.patentsmatter.com/issue/pdfs/21C_Letter_in_Support_of_HR_3349.pdf.

believe that additional pleading specificity is the most direct or effective way to address abusive patent litigation practices, we believe that some additional specificity beyond what is currently required by Federal Rule of Civil Procedure Form 18, the model complaint for patent infringement, for pleading claims of patent infringement would be appropriate. The 21C has supported, for example, revisions to Form 18 to provide an identification of the accused product(s) and the basis for the alleged infringement. When sufficient information is available, it would be fair to expect that patent infringement complaints provide notice of, and an explanation of the bases for, allegations demonstrating how at least one claim is alleged to be infringed by at least one accused product or process. The 21C is mindful of the fact that patent owners will sometimes lack sufficient information to provide complete specificity with respect to all of their claims and all of the defendant's products, which is why an explanation of how the patent owner believes that one or more of the claims is infringed by at least one accused product should suffice to put the defendant on fair notice of the basis for the action, without imposing undue burden on the patent owner to plead all details of its case before any discovery has commenced. Accordingly, the 21C believes that the Judicial Conference should be encouraged to propose revisions to Form 18 to ensure that fair notice of the charge of infringement is provided in the Complaint, which may be accomplished with far fewer pleading requirements than those which would be required under proposed § 281A in the Innovation Act. The information required to put a defendant on fair notice of the infringement allegations being made against it should include:

(1) An identification of the party asserting infringement and a description of the right of that party to bring the action;
(2) An identification of at least one claim alleged to be infringed for each patent asserted in the action;
(3) For each patent claim identified as infringed, an identification of at least one apparatus, product, feature, device, method, system, process, function, act, service, or other instrumentality alleged to infringe.

The pleading requirements in proposed § 281A go well beyond this concept of fair notice of the basis for the allegation of infringement and well beyond the requirements of Rule 11 of the Federal Rules of Civil Procedure. We do not see the benefit of requiring that all of the information specified in proposed § 281A be included in the complaint. The additional information required may not be readily available to the patent owner at the time of filing the complaint; and in any event, it is typically exchanged as part of the routine discovery between the parties.

The harm of requiring pleading specificity of the degree required by proposed § 281A is readily apparent. Pleading requirements with this degree of specificity will simply engender disputes at the outset of cases about the sufficiency of the pleadings, even in cases where the parties fully understand the basis for the allegation of infringement. The new pleading requirements in proposed. § 281A will add to the costs, burdens and time it takes to identify and narrow the issues in dispute and to resolve patent infringement actions. Moreover, those burdens will fall only upon patent owners. Defendants in infringement actions should likewise be required to plead the basis for the denials and defenses in their answers, and any allegations in their counterclaims, with corresponding specificity to whatever is required in § 281A.

As a practical matter, the 21C believes that the judiciary is in the best position to determine what additional pleading specificity will in fact best advance the efficient resolution of patent cases. Congress should encourage the Judicial Conference to propose revisions to Form 18, and the Supreme Court to adopt a revised Form 18, to ensure that a complaint for patent infringement includes sufficient information to ensure that the defendant has adequate notice of the basis for the allegation of infringement, without requiring so much specificity that every complaint spawns needless and burdensome battles about the adequacy of what has been pled. The judiciary, drawing upon its experience in the litigation of patent disputes, is best positioned to strike this balance in a revised Form 18. The 21C notes that this approach is precisely what the Innovation Act sets forth in Section 6(c). The 21C supports this approach and believes that it should be pursued in lieu of the onerous and unnecessary pleading requirements set forth in proposed § 281A.

(b) FEES AND OTHER EXPENSES [Attorneys Fees Award: Green – OK]
[Attorneys Fees Recovery: Yellow – Amendments Needed]

The proposed amendments to 35 U.S.C. § 285 would mandate the award of reasonable fees and other expenses to a prevailing party in an infringement action, "unless the court finds that the position of the losing party was substantially justified or that special circumstances make an award unjust."[2] If a losing party is unable to satisfy the award, the court would be empowered to make the reasonable costs and other expenses recoverable against any interested party joined pursuant to proposed new section 299(d) (discussed below). If a party asserting a claim for relief in a civil action unilaterally extends a covenant not to sue to the accused party, the asserting party shall be deemed a nonprevailing party for purposes of § 285, unless the asserting party would have been entitled to voluntarily dismiss the claim (also discussed below).

Currently, 35 U.S.C. § 285 empowers district courts to award attorneys fees to prevailing parties in "exceptional" cases. The 21C believes, however, that existing § 285 is invoked too rarely to serve as an effective deterrent against litigants who seek to assert specious positions – including questionable assertions of infringement or questionable infringement defenses. The 21C has long advocated for a relaxation of the "exceptional" case standard to permit fee shifting in more cases and thereby encourage both plaintiffs and defendants alike in patent infringement actions to assert only meritorious positions.

The 21C supports this language (which is similar to the approach for awarding attorneys' fees in S. 1013) to address the litigation behavior sought to be discouraged – the assertion of unjustified claims or defenses in patent infringement cases – in a balanced fashion, seeking to curtail such behavior whether it comes from a plaintiff or a defendant. In other words, such abusive litigation behavior should be targeted regardless of the party that engages in it. Any litigant asserting non-meritorious litigation positions should face the prospect of "loser pays."

The 21C also supports authorizing courts to order the recovery of reasonable fees and expenses in certain circumstances when the losing party is unable to pay and a related nonparty should be responsible for satisfying the fee award. Specifically, courts should be empowered to address the situation where an entity has transferred a patent to a shell company with assets inadequate to satisfy a fee award, who then asserts that patent in a way that violates Section 285. For the reasons explained further below, however, the 21C questions whether joinder of parties with a direct financial interest in the case is the appropriate mechanism to ensure that an attorneys' fees award is collectable when the named party against whom the fees have been assessed is unable to pay such fees. In our view, a better approach would be to extend contingent liability for satisfaction of a fee award to certain non-parties related to a losing party against whom fees have been assessed – specifically, to any person with a direct financial right to a share of a damages award or settlement proceeds in the action. Accordingly, for the reasons explained in the following section, we believe proposed § 285 should be amended to impose contingent liability on those having a direct financial right to a share of a damages award or settlement proceeds, rather than making interested parties subject to joinder pursuant to proposed new section 299(d).

The Innovation Act would add a new subsection (c) to § 285, to provide that a party giving a unilateral covenant not to sue shall be deemed a "nonprevailing" party for purposes of fee shifting. This provision would not advance the interests of prompt and efficient resolution of patent disputes. There may be many good reasons to give a covenant not to sue that have nothing to do with the merits of an infringement action, including changed marketplace conditions or economic circumstances that make further litigation wasteful or unnecessary, or even the possibility that the party asserting its patent rights has simply exhausted its funds to pursue litigation. In such circumstances, parties should be encouraged to offer

[2] The 21C believes that this language should be amended slightly, to read: "unless the court finds that the position and conduct of the losing party was substantially justified or that special circumstances make an award unjust." Addition of the words "and conduct" will make clear that litigation misconduct can form the basis for an award of attorneys' fees, as is currently the case under Section 285. *See*, *e.g.*, *MarcTec, LLC v. Johnson & Johnson,* 664 F.3d 907, 919 (Fed.Cir.2012) ("[I]t is well-established that litigation misconduct and unprofessional behavior may suffice, by themselves, to make a case exceptional under § 285.") (internal quotations omitted).

covenants not to sue rather than to continue the litigation to avoid the risk of an automatic application of this provision. For these reasons, the 21C opposes this new subsection.

(c) JOINDER OF INTERESTED PARTIES [Yellow – Amendments Needed]

The Innovation Act would amend 35 U.S.C. § 299 to add new subsection 299(d), requiring courts in any civil action arising under the patent laws to grant a motion by a party defending an infringement action to join an "interested party" to the case if the party alleging infringement has no substantial interest in the patent(s)-in-suit other than litigation – *i.e*., the patent owner is a so-called patent assertion entity. A joinder motion could be denied, however, if the party sought to be joined is not subject to service of process in the action or if joinder would deprive the court of subject matter jurisdiction or make venue improper. The joinder requirements in the Innovation Act are largely the same as those in S.1013 (Cornyn).

The definition of an "interested party" who can be joined under this provision includes assignees of the patent at issue, persons who have a right to enforce or sublicense the patent, or a person who has a "direct financial interest" in the patent. However, a direct financial interest would not include i) an attorney or law firm providing legal representation in the action or ii) a person whose sole financial interest in the patent is ownership of an equity interest in the party alleging infringement, unless that person has the right or ability to influence, direct or control the civil action.

With respect to the impact of joinder under this provision, proposed subsection 285(b) would extend contingent liability to satisfy an attorney's fee award made pursuant to proposed subsection 285(a) to an interested party joined pursuant to section 299(d):

> "If a nonprevailing party is unable to pay reasonable costs and other expenses awarded by the court pursuant to subsection (a) [35 U.S.C. § 285(a)], the court may make the reasonable costs and other expenses recoverable against any interested party joined pursuant to section 299(d)."

The 21C questions whether the joinder provision will function as intended. In particular, we question the scope of the third category of persons who may be joined, and whether the provision will achieve its objective of adding the parent companies of shell patent plaintiffs or litigation funders as parties to patent infringement cases. The 21C believes that more effective mechanisms exist for achieving that purpose.

With respect to the categories of persons who may be joined, the first two categories – assignees and persons with the right to enforce or sublicense the patent – are relatively noncontroversial. For the most part, such persons must be joined as plaintiffs in patent infringement actions for standing purposes under existing law.

The third category of persons who may be joined – persons with a direct financial interest in a patent-in-suit – raises several concerns. First, the language "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" is ambiguous. For example, would this include persons or entities who might stand to benefit from a successful patent infringement action, but who are not so-called "third party litigation funders" who would receive a share of a damages award or who control the conduct of the litigation? The second exception (which would exclude from joinder "a person whose sole financial interest in the patent at issue is ownership of an equity interest in the party alleging infringement, unless such person has the right or ability to influence, direct or control the civil action") would alleviate some, but not all, of our concerns. We still question, however, whether this language would permit joinder of parent companies, or shareholders, of a named plaintiff, since it could be alleged that such persons have at least the ability to "influence" the civil action. The provision should be tightened to clarify that the joinder provision would only reach those persons who have the right to receive proceeds from an award of damages or settlement of the action. We believe that such tightening would better reflect the intent underlying the provision to join only those persons with a right to share in the proceeds of the litigation.

More fundamentally, the 21C questions whether joinder is the appropriate mechanism to ensure that an attorneys' fees award is a meaningful deterrent to abusive litigation tactics. We acknowledge that a fee-shifting provision without the ability to assess fee awards against certain third parties may not be effective in deterring litigation misconduct, because litigation funders could bring suits in the name of shell corporations that lack adequate funds to satisfy a fee award. Thus, we recognize that fee-shifting needs to reach beyond the nominal plaintiff.

The problem with joinder, however, is that it is likely to engender collateral disputes over the question of whether joinder is proper at the outset of many patent cases, even those in which a fee award is ultimately not an issue. Such collateral disputes risk delaying and unduly complicating the resolution of patent disputes generally. Equally problematic are the questions of jurisdiction and venue over the parties sought to be joined. Proposed subsection 299(d)(2) provides that joinder may be denied where the interested party is not subject to service or process, or where joinder would deprive the court of personal jurisdiction over the parties or make venue improper. This exception creates a risk that nominal plaintiffs who are shell companies lacking the resources to satisfy fee awards will bring suits in courts where their nonparty owners or litigation funders are not subject to jurisdiction, thus defeating the intended purpose of the joinder provision.

In our view, a better approach is to extend contingent liability for satisfaction of a fee award to certain non-parties related to a losing party against whom fees have been assessed – specifically, to any person with a direct financial right to share in damage awards or settlement proceeds from the action. Such contingent liability would be triggered when the named party against whom the fees have been assessed is unable to pay the awarded fees. Notice would be given to any third party with a financial interest in a patent when that patent has been asserted in litigation. The notice would inform the third party that the patent is being litigated and would allow the third party to protect itself against any liability by renouncing its right to receive proceeds from an award of damages or settlement of the action. This would ensure that such third parties would be fairly treated and be guaranteed due process.

This approach would extend contingent liability for fee awards to certain third parties without generating fights over bonding or joinder at the outset of patent cases. In addition, this approach would not be subject to circumvention by a plaintiff bringing suit in a court lacking personal jurisdiction over the third party. It might, in some cases, require collateral litigation to collect the fee award at the conclusion of the patent infringement action, but only in that subset of cases in which 1) fees are actually awarded following adjudication on the merits, 2) the nominal plaintiff is unable to pay, and 3) the third party refuses to pay voluntarily.

To ensure that the reach of this contingent fee liability proposal is properly limited, it could be made clear in the legislation or its legislative history that it would not reach to non-parties who are not the real-party-in interest, who are not in privity with a party to the action, and who would benefit only indirectly from a favorable litigation outcome. It would not encompass, for example, patent owners who have exclusively licensed their patents to the plaintiff, with the only interest in the litigation being the possibility of increased royalties if successful litigation allows the licensee to expand its revenue. Rather, it would extend only to those third-parties who own a stake in the proceeds from the litigation. The 21C believes that such an approach would directly address any concern that fee-shifting might be ineffective because patent owners would bring suits in the name of shell corporations that lack adequate funds to satisfy a fee award. It would be both more efficient, and more effective, than would the joinder of interested parties approach currently proposed in the Innovation Act.

(d) DISCOVERY LIMITS [Red – Unacceptable]

Proposed § 299A would limit discovery in every civil action relating to patents where construction of the terms used in a patent claim is required until the court has rendered such decision. Discovery would only be permitted of information “necessary for the court to determine the meaning of the terms used in the patent claim, including any interpretation of those terms used to support the claim of infringement.”

Since judicial construction of claims is sooner or later required in almost every patent case, the effect of this provision would be to delay and bifurcate merits discovery. Even in courts where claims construction is routinely conducted early in the proceeding, it normally takes several months for the court to issue its order. Under proposed § 299A, discovery that might otherwise be undertaken concurrently during this period will be postponed, thus delaying trial while the postponed discovery is completed, delaying the resolution of all patent cases.

Such a bifurcated approach would be less efficient and likely more costly. Discovery disputes over which documents must be produced in the first phase of discovery and which may be withheld would be likely, as would the necessity to recall witnesses for further depositions as the case progresses.

Under current practice, where discovery on all issues starts immediately, additional evidence will normally be adduced that may facilitate the early termination of the case by summary judgment ruling or through settlement. If, as proposed, such discovery is not allowed prior to claims construction, the court will often be required to delay or deny early disposition of the case pending its completion.

While some patent cases might be managed more efficiently by deferring some, or all, discovery pending the claims construction ruling, courts are already empowered to manage discovery in this manner and to tailor case management to the particular facts and circumstances of each case. The 21C notes that district courts across the country with the most experience and skill in managing patent infringement cases have adopted local rules that specify the timing and scope of discovery and, to our knowledge, none of those courts has put in place an automatic stay of discovery pending claim construction. To the contrary, most local patent rules provide for initial disclosures at the outset of cases mandating an early, robust exchange of documents and information related to the merits of the action, recognizing that such disclosures help to clarify and narrow the issues in dispute and often foster early settlement. These courts also recognize that a developed evidentiary record at the time of the *Markman* proceedings assists judges in making claim construction rulings. For these reasons, an automatic stay of discovery pending claim construction is likely to be counterproductive in resolving many patent cases promptly or efficiently. Simply put, the case has not been made to legislate this one-size-fits-all approach to patent infringement case management.

While proposed § 299A would allow the court to exercise its discretion to expand the scope of discovery for the limited subset of cases where federal law requires completion of the case in a “specified period of time,” or “when necessary to resolve a motion properly raised” before the claims construction ruling, neither of these exceptions would remedy the principal concerns with the proposal: that it would prolong almost all patent litigation and substantially increase its already high expense.

Sec. 4. TRANSPARENCY OF PATENT OWNERSHIP [Yellow – Amendments Needed]

Proposed new subsection 290(b) would require the disclosure of certain ownership and related information regarding the patents at issue upon the filing of the initial complaint for patent infringement. This includes the assignee of the patent(s) at issue, any entity with a right to sublicense or enforce the patent(s), any entity that the plaintiff knows to have a financial interest (further defined in proposed subsection 290(e)) in the patent(s) or the plaintiff, and the ultimate parent of any assignee. Proposed new subsection 290(d) would require this information be continually updated and sanction the failure to do so.

When a patent is being asserted against a potential infringer, it is natural that the defendant desires to know the owner or assignee of the patent being asserted. If this information is not already of record (as it routinely is in patent litigation), requiring it to be provided will generally not impose an undue burden on the patent owner nor disclose information that can fairly be deemed confidential.

Depending upon the circumstances, however, some of the information required to be disclosed could pertain to competitively sensitive information that should not be required to be disclosed in a public document. Examples of information that may fall in this category include disclosure of the ultimate parent entity of the assignee or disclosure of entities with a right to sublicense the patent. Consequently, while the 21C has no objection to providing such information in a case filing made under seal (as provided in Section 3 for the information to be disclosed in an initial complaint), we do not believe it should be disclosed to the Patent and Trademark Office.

The “right to enforce” a patent is not nearly as straightforward as identifying the owner or assignee of a patent, and is more likely to require the disclosure of confidential business relationships. Whether a party has the right to enforce a patent, also referred to as a “real party in interest,” is a legal determination that is frequently litigated and is often not resolved until a court has issued a final decision on the issue. Consequently, the 21C believes that initial disclosure requirements should focus on requiring disclosure of the underlying facts, if known, upon which such legal conclusions may depend, leaving to discovery inquiries into further information that may inform the issue.

SEC. 5. CUSTOMER-SUIT EXCEPTION [Yellow – Amendments Needed]

Proposed § 296 would provide that, where certain requirements are met, a manufacturer or supplier would have the right to intervene in patent infringement actions brought against its customers or end users, or to file a separate declaratory judgment action against a party suing its customers or end users, and the right of customers or end users to stay patent infringement actions against them pending the outcome of an infringement suit between the patent owner and the manufacturer or supplier of the accused product or process
The 21C supports the right of a manufacturer or supplier to intervene in patent infringement actions brought against its customers or end users, or to proceed in a separate action against the patent owner. Customers or end users who have been sued should have the option, if they agree to be bound by the outcome, to stay the actions against them pending the outcome of an infringement suit between the patent owner and the manufacturer or supplier. This right to stay customer/end user suits would curtail the practice of filing such suits to coerce settlements and would promote resolution of patent disputes between the parties in the best position to litigate the merits of the case: the patent owner and the manufacturer or supplier of the products accused of infringement.

The 21C notes that the proposed language includes a number of important safeguards to ensure that stays do not unfairly prejudice any party to an action. First, both the customer and the manufacturer must consent in writing to the stay. This ensures that the stay is entirely voluntary as between the supplier and its customer, thus avoiding unintended consequences of impacting contractual obligations that may exist between suppliers and purchasers and that may allocate the risks of infringement or the costs of defending against infringement allegations. Second, the customer must agree to be bound by any judgment against the manufacturer to the same extent that the manufacturer may be bound with respect to issues that the manufacturer and the customer have in common. This safeguards the patent holder against duplicative litigation on the same issues against the manufacturer and the customer and ensures that the stay does not unduly delay the ultimate resolution of the action. Third, the motion to stay must be filed within 120 days after service of the first "pleading" – we would suggest the first "paper" -- in the action identifying the product or process alleged to infringe. This ensures the timely filing of motions to stay and protects against such motions being filed late in the litigation to delay resolution or for other improper tactical purposes. Fourth, the stay applies only to the patents, and products, systems or components accused of infringement, so it would not apply with respect to infringement allegations based on other patents or accused products, systems or components – actions involving such allegations would proceed. Finally, the stay may be lifted upon grant of a motion showing that the action involving the manufacturer will not resolve a major issue in suit against the customer, or a showing that the stay unreasonably prejudices and would be manifestly unjust to the party seeking to lift the stay.

However, the 21C believes that the stay provision lacks adequate guidance as to when entry of a stay may not be appropriate, even if a manufacturer and customer agree to the stay. We believe that courts should have the discretion to deny a stay even when such an agreement is reached, because a stay may nonetheless not advance ultimate resolution of the dispute or may be unfair to a patent holder. Specifically, the 21C believes that the stay provision should expressly provide courts with discretion to deny a stay under specific circumstances, which should be enumerated in the stay provision, including: 1) when the customer has designed or specified the design of the accused product or process; 2) when the customer has modified the accused product or process, or combined it with other components, products or processes, in a manner that gives rise to the charge of infringement; or 3) when the customer has used the accused product in a particular way, other than its off-the-shelf or intended use, that gives rise to the charge of infringement. In such circumstances, the customer is in the best position to defend the case and a stay of the action against the customer does not advance the prompt or efficient resolution of the infringement dispute. Thus, in such cases, a stay should not be entered in the first place, even if the manufacturer/supplier and the customer/end user agree to its entry.

SEC. 6. PROCEDURES AND PRACTICES TO IMPLEMENT

(a) - (c) DISCOVERY BURDENS AND COSTS, CASE MANAGEMENT, AND FORM 18 [Red – Unacceptable]

Subsections 6(a)-(b) of the Innovation Act require the Judicial Conference of the United States to develop rules to implement specific requirements set forth in the section to address asymmetries in discovery burdens, including how and when payment for discovery in addition to core discovery is to occur and what information must be presented to demonstrate financial capacity before permitting discovery in addition to core documentary evidence. Section 6 further mandates the specific types of discovery that will and will not be permitted, how it must be requested, and the conditions upon which modifications can be made. Section 6 further instructs the courts as to what must be discussed by the parties concerning discovery, and requires the adoption of such rules, and corresponding local court rules, within specified time frames.

The Innovation Act's approach to patent case discovery reflects a narrow and one-sided view of patent litigation, in essence legislating that each case be managed in the manner that a defendant in an action brought by a non-practicing entity would seek to have the action managed. This unbalanced and inflexible approach to all cases is reflected in the automatic stay of discovery pending claim construction, as discussed above. It is also reflected in the definitions of "core documentary evidence" set forth in Section 6(a)(3)(A)(i). Such evidence does not even include, for example, any documents showing the sales of the products accused of infringement, either in dollars or units. On the other hand, the patent owner is required to produce "documents sufficient to show profit attributable to the claimed invention of the patent or patents at issue." Sec. 6(a)(3)(A)(i)(V).

Appropriately, it is within the discretion of the district court judge to decide whether or not to bifurcate damages discovery. But to legislate an approach whereby basic information showing the defendant's sales of the accused product is not "core" discovery, when it is sought by nearly every patent owner in nearly every patent case, and is essential to proving the patent owner's entitlement to its requested relief, reflects a troubling bias against all patent owners seeking to enforce their rights against alleged infringers.

Putting aside the issues of whether the particular proposals might have merit as to some cases if considered by the Judicial Conference, they raise serious concerns regarding the role of an independent judiciary. As explained above, U.S. courts traditionally manage their own calendars and adopt their own case management procedures. The authority to establish and revise the Federal Rules of Civil Procedure has long fallen under the auspices of the United States Supreme Court, which manages the process of reviewing and revising these rules in reliance upon the recommendations of the Judicial Conference of the United States. Indeed, such an effort is currently underway. For example, Judge Jeffrey S. Sutton, Chair of the Committee on Rules of Practice and Procedure of the Judicial Conference, just published a request for "Comments on Proposed Rules and Forms Amendments" on August 15, 2013. This rules package includes proposals to amend Rule 26, Duty to Disclose; General Provisions Governing Discovery; Rules 30 and 31, Depositions by Oral Examination and by Written Questions; Rule 33, Interrogatories to Parties; and Rule 34, Production of Documents – to list just a few. Comments are due February 15, 2014. The 21C believes Congress should offer recommendations to the Judicial Conference and leave the development of specific in-court practices to its deliberations.

(d) PROTECTION OF INTELLECTUAL PROPERTY LICENSES IN BANKRUPTCY [Green – OK]

Subsection 6 (d) of the Innovation Act would amend Chapter 15 of the bankruptcy code to make it clear that, in U.S. bankruptcy proceedings involving foreign bankruptcy administrators, U.S. courts will apply the protections of §365(n) of title 11 to prevent unilateral rejection of the debtor's existing intellectual property licenses. The 21C continues to support this provision as it will ensure that existing licensees of U.S. intellectual property owned by foreign entities will receive the same protection as licensees of U.S. intellectual property owned by domestic entities. This ensures that existing licenses will not lose their license rights if the foreign intellectual property owner files for bankruptcy under the laws of a foreign country that allow existing intellectual property licenses to be rejected by the bankruptcy administrator.

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

(a) REPEAL OF CIVIL ACTION TO OBTAIN A PATENT [Red – Unacceptable]

Section 9(a) of the Innovation Act would repeal Section 145, which allows a patent applicant to appeal a decision of the Patent Trial and Appeal Board (PTAB) on patentability to the United States District Court for the Eastern District of Virginia.

The 21C continues to oppose repeal of §145. Such repeal would eliminate an inventor's right to pursue obtaining a patent in district court if the inventor is dissatisfied with the outcome of the proceedings in the USPTO. The main purpose of §145 is to allow an applicant to supplement the record through the introduction of additional evidence in a district court proceeding rather than taking an immediate appeal to the Federal Circuit. This procedural alternative allows the inventor to obtain and introduce evidence that may not have been available or accessible during the proceedings in the USPTO. This option is sometimes important to the issue of patentability, as inventors do not have the right to subpoena witnesses in USPTO proceedings, and the USPTO will not consider live testimony. As the Supreme Court explained in *Kappos v. Hyatt*:[3]

> In a §141[appeal to the Federal Circuit] and §144 [Decision on Appeal], the Federal Circuit must review the PTO's decision on the same administrative record that was before the PTO. Thus, there is no opportunity for the applicant to offer new evidence in such a proceeding...
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> In *Zurko* [*Dickinson v. Zurko*, 527 U. S. 150 (1999)], we also noted that, unlike §141, §145 permits the applicant to present new evidence to the district court that was not presented to the PTO. 527 U.S. at 164. This opportunity to present new evidence is significant, not the least because the PTO generally does not accept oral testimony. See Brief for Petitioner 40, n. 11.

While the current statutory provision first appeared in the Patent Act of 1952, its origins date back to an 1839 amendment of the 1836 Act, which established our original patent examination system.

Although applicants now seldom avail themselves of the opportunity to take their cases from the PTAB to the district court, the 21C believes that this alternative continues to play an important role in assuring inventors that all available evidence may be considered that bears on the patentability of their inventions, and that, when necessary, judges will consider and weigh live oral testimony in reaching their final decisions. While this need seldom arises, it is unquestionable that in situations where it does, such as where crucial evidence is available to the inventor only by judicial subpoena or where fairness requires the consideration of live testimony, the access to the courts that §145 provides is as important to inventors now as it has been over the past 174 years.

For this reason, the 21C opposes the repeal of 35 USC §145.

(b) POST-GRANT REVIEW AMENDMENT [Green – OK]

Proposed Section 9(b) of the Innovation Act would amend §325(e)(2) of the AIA's post-grant review (PGR) procedure to eliminate the "reasonably could have been raised" estoppel provision that was added by a "scrivener's error."[4] This estoppel provision relates to the invalidity grounds that can be raised in subsequent civil actions following a PGR procedure that has continued to a decision. By deleting the inadvertent phrase "reasonably could have raised," the amendment limits the applicable estoppel in subsequent civil actions to issues actually raised in the PGR proceeding. The correction of this error in the AIA conforms §325(e)(2) to the provision contained in S. 23, a bill that passed the Senate by a vote of 95-5 on March 8, 2011, and in H.R. 1249, introduced in the House of Representatives on March 30, 2011. Although H.R. 1249 as reported by the House Judiciary Committee on June 1, 2011 included this scrivener's error, no amendment was adopted by the Committee authorizing such a change. The

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[3] 566 U.S. 1 (2012)

[4] See http://www.patentsmatter.com/issue/pdfs/RCHR%20Estoppel%20Paper%2012-30-2012.pdf and http://www.patentsmatter.com/issue/pdfs/Why%20RCHR%20Estoppel%20Should%20Not%20Apply%20to%20PGR.pdf.

application of a civil-litigation "reasonably could have been raised" estoppel to PGR will significantly impair the effectiveness of the PGR proceeding if it is not eliminated. PGR, unlike the later available inter partes review procedure, can encompass any issue of patent invalidity. Thus, if a "reasonably could have been raised" estoppel were applied to PGR, a PGR challenger would be forced to waive the possibility of raising any different validity defense against the patent if the challenger is later sued for infringement. In order to ensure that the post-grant review system can be optimally utilized – and the public, patent owners and patent challengers can all reap the full benefits envisioned from PGR's role as a quality check on issued U.S. patents – the Innovation Act properly repeals the civil-litigation "could reasonably have been raised" estoppel and continues to have the full support of the 21C.

(c) (1) & (2) USE OF DISTRICT-COURT CLAIM CONSTRUCTION IN POST-GRANT AND INTER PARTES REVIEWS [Use District Court Claim Construction in PGR/IPR: Green – OK]
[Effect of Prior Claim Construction Rulings in PGR/IPR: Yellow – Amendments Needed]

Proposed Sections 9(c)(1) and (2) of the Innovation Act would add subparagraphs (14)(A) and (13)(A), respectively, to §§ 316(a) and 326(a) of the AIA to require that each claim of a patent in a PGR (made applicable by Section 18(a)(1) of the AIA to proceedings involving for covered business method patents) or IPR "shall be construed" as it has been or would be in a civil action under section 282(b) of title 35. They require that each claim be construed 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.

These provisions would overrule the USPTO's current practice in these post-grant proceedings of construing claims using the "broadest reasonable interpretation" ("BRI") approach that it uses in its initial examination of patent applications, and at certain other times when applicants have the unfettered freedom to amend claims in response to rejections by a patent examiner.

As the comments of the three major IP associations – ABA-IPL Section, AIPLA and IPO -- pointed out during the rulemaking process to implement the AIA, Congressional intent was clear in enacting both the PGR and IPR procedures that the USPTO was being given a new authority to adjudicate the validity of issued patents in fully contested proceedings before the Office under the same legal precedents applicable in the courts.[5] The USPTO nonetheless opted to employ the procedural "BRI" protocol used by patent examiners, both during original examinations and in reexaminations, where the patentee has a right to amend the claims at issue in response to examiners' rejections.

Under the BRI protocol, the USPTO limits its consideration of claims in post-grant proceedings to the express language of the claims and the patent specification, ignoring the prosecution history of those claims, prior statements made by the applicant and the patent examiner about the scope of those claims, and evidence concerning the ordinary and customary meanings of the claim terms as understood by those of ordinary skill in the art, all of which are routinely used by the courts in reaching proper constructions of the claims.

In doing so, the USPTO overlooked existing precedent that authorizes the use of BRI only in examinations where the applicant still enjoys the right to freely amend the claims at issue in response to USPTO rejections--- a right not provided under PGR or IPR. Since the purpose of PGR and IPR was to provide procedures for testing the validity of issued patents using the same principles applied in the courts or an invalidity challenge before the ITC, it is entirely appropriate that the same claim constructions be used in IPR and PGR and in the courts and ITC. Moreover, this change would bring uniformity to proceedings in the Office where it presently uses judicial claim constructions in reexaminations involving expired patents where, as in PGR and IPR, the claims can no longer be freely amended.[6]

[5] Available at http://www.uspto.gov/aia_implementation/comment-aba-aipla-ipo.pdf.

[6] As the PTO's MPEP § 2258 G explains, "In a reexamination proceeding involving claims of an expired patent, claim construction pursuant to the principle set forth by the court in Phillips v. AWH Corp., 415 F.3d 1303, 1316, 75 USPQ2d 1321, 1329 (Fed. Cir. 2005) (words of a claim "are generally given their ordinary and customary meaning as understood by a person of ordinary skill in the art in question at the time of the invention) should be applied since the expired claim are not subject to amendment."

The 21C supports the addition of subparagraphs (14)(A) and (13)(A) to §§ 316(a) and 326(a) of the AIA.[7]

Proposed Sections 9(c)(1) and (2) of the Innovation Act would also add subparagraphs (14)(B) and (13)(B), respectively, to §§ 316(a) and 326(a) of the AIA to require that where a court has previously construed a claim in a civil action in which the patent owner was a party, the USPTO shall *consider* such claim construction. (emphasis added) While the 21C believes this proposal is appropriate as far as it goes, we believe it should also require that the USPTO be bound by any claim construction that has previously been entered in an action involving both the petitioner and patent owner. This additional requirement would ensure that the USPTO could not construe a claim differently in a post-grant proceeding involving the same parties as construed by a court involving those parties.

(3) TECHNICAL AND CONFORMING AMENDMENT [Red – Unacceptable]

Although contained in a provision styled "technical amendment" (which is usually just that), proposed Section 9(c)(3) would limit the claim construction amendment in proposed Section 9(c)(2) by excluding its application to the covered business method patent proceedings under Section 18 of the AIA. This would allow the USPTO to continue to use BRI claim constructions in covered business method patent proceedings, in effect, nullifying the intended effect of proposed Section 9(c)(2) for such proceedings.

This proposed amendment is unacceptable. Proposed Section 9(c) should be amended by expressly stating that subsection (c)(2) is applicable to all post-grant reviews, including those conducted pursuant to the Transitional Program for Covered Business Method Patents, and subsection (c)(3) should be deleted.

(d) CODIFICATION OF THE DOUBLE-PATENTING DOCTRINE FOR FIRST-INVENTOR-TO-FILE PATENTS [Green – OK]

Proposed Section 9(d) would add a new § 106 to codify the judge-made law of "double patenting" for patents that will be subject to the AIA's new first-inventor-to-file standard for patentability. Under current law, if an inventor files a patent application within 18 months of a prior patent application claiming an obvious invention from the original invention, there is no mechanism in the AIA to disallow issuance of the obvious invention. The double-patenting doctrine ensures that an inventor cannot secure a second valid U.S. patent that has up to 18 months of additional enforceability by simply making slight variations in the claimed inventions in a first patent. In addition, this provision prevents the possibility that these two patents could become separately owned and be separately enforced, creating the potential for separate assignees to each bring an infringement action against an accused infringer.

The provision would codify the concept that, unless two patents from the same inventor could have validly issued had they been sought by two different inventors, the two patents must be owned by the same entity, and must both terminate upon the earliest termination of either patent.

The 21C supports this amendment.

(e) COVERED BUSINESS METHOD PATENT REVIEWS
(1)(A) LIMITATION TO FIRST-TO-INVENT PATENTS & (1)(B) REPEAL OF SUNSET
[Red – Unacceptable]

Proposed Sections 9(e)(1)(A) and 9(e)(1)(B) would eliminate Section 18(a)(3) of the AIA that repeals the Transitional Program for Covered Business Method Patents upon the expiration of the 8-year period from the date the regulations implementing Section 18 became effective. This provision would instead extend the Transitional Program to 20-years from the date the first-inventor-to-file provisions of the AIA took effect but would concurrently limit the application of the Covered Business Method Patent Reviews to <u>only</u> patents applied for prior to the application of

[7] For a complete explanation of why BRI is inappropriate for post-grant proceedings in the USPTO, see http://www.patentsmatter.com/issue/pdfs/Why_the_PTOs_Proposed_Use_of_BRI_is_Inappropriate_19July2012.pdf.

Section 3 of the AIA, i.e., applications filed under the pre-AIA "first-to-invent" rules. Thus, the provisions, taken together, would unnecessarily prolong the Transitional Program for an additional 12 years.

The 21C opposes extending the Transitional Program for another 12 years. Section 18 was proposed as a targeted, transitional measure for challenging a narrow group of "financial sector" business method patents that were granted following the 1998 decision of the U.S. Court of Appeals for the Federal Circuit in *State Street Bank & Trust Co. v. Signature Financial Group, Inc*.[8] Critics claimed that *State Street* launched an avalanche of patents for common business practices which were questionable because the USPTO only had access to "patent defeating information" contained in printed patents and publications, and did not have the ability to uncover public uses and sales of such inventions. Section 18 would allow such "financial sector" business method patents to be challenged on the basis that the inventions covered were not patentable on all grounds of invalidity, including prior public uses and sales, as well not being eligible for patent protection under §101 of title 35.

The very title of Section 18 – "Transitional Program" - indicates the need to balance it with the other new post-issuance procedures and to ensure it does not create any additional uncertainty to patent holders than absolutely necessary by limiting it to an eight-year life. The fact that Section 18 was sunset after 8 years was confirmation that it was intended to apply to a limited group of patents issued during a particular finite period and that eight years was sufficient to allow these patents to be challenged. Moreover, by the time the eight-year sunset is reached, all of the patents being granted will be first-inventor-to-file patents and fully eligible for challenge upon grant under PGR. Any extension of Section 18 beyond eight years, or any substantive expansion of Section 18, will only serve to increase uncertainty for, and the potential for harassment of, patent owners.[9] Such an amendment would also be detrimental to U.S. industry seeking to protect its innovations abroad. It would set a precedent that our trading partners could point to when amending their patent laws to add special interest exceptions inimical to U.S. inventors.

If there ever was any such an "avalanche" of business method patents, the improved search database created by the USPTO to review such inventions and the *Bilski*[10] decision's narrowing the subject matter which could be patented as a business method have clearly ended it.

The 21C strongly believes that Section 18 of the AIA should sunset as scheduled.

(2)(A) DEFINITION [Red – Unacceptable]

Proposed Section 9(e)(2)(A) of the Innovation Act would require that the words ''used in the practice, administration, or management of a financial product or service'' be construed consistently with the decision of the Patent Trial and Appeal Board of the United States Patent and Trademark Office in *SAP America, Inc. v. Versata Dev. Group, Inc.*, CBM2012-00001, Paper 36 (January 9, 2013). The 21C believes it is premature to statutorily embrace the interpretation of the phrase "used in the practice, administration, or management of a financial product or service'' by the Board in its *SAP* decision.

In its *SAP* decision, the Board drew upon certain statements made during the consideration of Section 18(d), ignoring others. In this regard, we note that proposed Section 9(e)(2)(C) specifically adds language drawn from other statements made during the debate involving Section 18(d), providing a more comprehensive legislative history to guide the interpretation of the language. We believe this additional legislative history should be taken into account in any interpretation of Section 18 by the Board and, more importantly, by the courts before the early decision by the Board in the *SAP* case is memorialized in the patent law.

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[8] 149 F.3d 1368 (Fed. Cir. 1998).

[9] It is appropriate here to also note the "technical amendment" proposed in Section 9(c)(3) that would nullify the application of the claim construction amendment in proposed Section 9(c)(2) to covered business method patent proceedings. This would also increase uncertainty for, and the potential for harassment of, patent owners, and should not be adopted.

[10] *Bilski v. Kappos*, 130 S. Ct. 3218 (2010).

The 21C is therefore opposed to proposed Section 9(e)(2)(A) of the Innovation Act.

(2)(B) SCOPE OF PRIOR ART

Proposed Section 9(e)(2)(B) would expand the scope of prior art that could be used to challenge a claim in a covered business method patent to include inventions in earlier filed patent applications in this country and in certain earlier filed patents in other countries. This amendment would bring the prior art on which challenges could be made in a covered business patent review more in line with the prior art that could be used in court and reduce multiple patent office proceedings. The 21C believes this expansion is appropriate.

(3) AUTHORITY TO WAIVE FEE

Proposed Section 9(e)(3) would authorize the Director, subject to available resources, to waive payment of the filing fee for a transitional program covered business method patent proceeding. We are concerned that political pressures could lead to the use of this authority to permit agenda-driven individuals and organizations to seek to initiate unwarranted challenges on patentees. The 21C is therefore opposed to proposed Section 9(e)(3).

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(f) CLARIFICATION OF LIMITS ON PATENT TERM ADJUSTMENT [Red – Unacceptable]

Proposed Section 9(f) of the Innovation Act would codify the USPTO's current practice of excluding any time consumed by an RCE from the calculation of patent term adjustment under 35 U.S.C. §154(b)(1)(B). The amendment would overturn the November 1, 2012 decision of Judge Ellis in the EDVA in *Exelixis, Inc. v. Kappos I*[11] and codify the January 28, 2013 decision of Judge Brinkema, also in the EDVA, in *Exelixis, Inc. v. Kappos II*.[12]

The 21C continues to believe it would be premature at this time to attempt to clarify the provisions in the patent law for adjusting patent terms as proposed. Section 9(f) adopts the USPTO's current practice of excluding any time consumed by an RCE from the calculation of patent term adjustment under 35 USC §154(b)(1)(B). In *Exelixis I*, Judge Ellis held that "the plain and unambiguous language of subparagraph (B) requires that the time devoted to an RCE tolls the running of the three year clock if the RCE is filed within the three year period" but has "no impact on PTA if filed after the three year deadline has passed." Judge Brinkema in *Exelixis II* concluded that "the PTO's regulation denying PTA for the time period during which an RCE is under consideration, regardless of when the RCE is filed, is a reasonable implementation of the statute."

Over fifty civil cases have been filed in the EDVA seeking increases in PTA. *Exelixis I* has been appealed to the Federal Circuit and it is anticipated that *Exelixis II* will also be appealed, be joined with *Exelixis I*, and that a decision will be reached later this year. Given the pending appeal(s) of this question to the Federal Circuit, it would clearly be premature to pursue legislation at this time.

(g) CLARIFICATION OF JURISDICTION [Yellow – Amendments Needed]

Proposed Section (g) would have Congress find that the Federal interest in preventing inconsistent final judicial determinations as to the legal force or effect of the claims in a patent presents a substantial Federal issue that is important to the Federal system as a whole.

As we understand it, this "finding" is intended to address a concern that the Supreme Court's recent decision in *Gunn v. Minton* [13] has cast doubt over whether state law actions, such as actions for breach of a licensing agreement in which liability turns on whether a party has sold products that infringe a patent,[14] continue to "arise under" federal patent law. The Court's opinion in *Gunn* notes that "arising under"

[11] *Exelixis, Inc. v. Kappos*, No. 1: 12cv96 (E.D. Va. Nov. 1, 2012).
[12] *Exelixis, Inc. v. Kappos*, No. 1: 12cv574 (LMB/TRJ) (E.D. Va. Jan. 28, 2013).
[13] 133 S. Ct. 1059 (Feb. 20, 2013).
[14] *Scherbatskoy v. Halliburton Co.,* 125 F.3d 288 (Fifth Cir. 1997). Other such causes of action include state-law actions for business disparagement, unfair competition, injurious falsehoods, or interference with prospective economic advantage in which liability depends on whether a patent is infringed by a product, or whether a patent is invalid or unenforceable.

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.[15] If *Gunn's* enumeration of "arising under" factors is thus treated as 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.

Although the Federal Circuit has recently 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,"[16] there is concern that the matter remains unresolved in the Federal Circuit. Moreover, some regional courts of appeals have begun to apply *Gunn* broadly, effectively treating *Gunn's* partial enumeration of the factors that can render a patent issue "substantial" for purposes of arising under jurisdiction as an exclusive list.[17]

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 valid and infringed and another circuit finds the opposite. But a broad reading of Gunn threatens this very type of result.

Proposed Section 9(g) is thus intended to preclude a broad reading of *Gunn* via a congressional finding that avoiding inconsistent judgments as to the legal effect of the claims in a patent is a substantial federal interest that is important to the federal system – the test applied by *Gunn* – and that such cases therefore "arise under" federal patent law.

The 21C generally agrees with what we understand to be the intent of Section 9(g), but we believe the "finding" should be clarified to more clearly express its purpose.

7:00 p.m., 11/6/13

[15] *Gunn*, 133 S.Ct. at 1066-67.
[16] *Forrester Envntl. Servs., Inc. v. Wheelabrator Techs., Inc.*, 715 F.3d 1329 (Fed. Cir. 2013).
[17] *MDS (Canada) Inc. v. Rad Source Technologies, Inc.*, 720 F.3d 833, 842-43 (11th Cir. 2013).