

Dissenting Views

We strongly oppose H.R. 3309, the “Innovation Act.” Although we believe certain legislative changes are needed to respond to litigation asymmetries when so-called patent trolls—also referred to as non-practicing entities (NPE’s) or patent assertion entities (PAE’s)—unfairly target small businesses and end users,¹ the overall legislation is unbalanced and will discourage innovation. In particular, we oppose the legislation because:

- (i) it has been considered pursuant to a rushed and unfair process;
- (ii) it excludes the single most important step we can take to improve patent quality and protect against abusive litigation—ending US Patent and Trademark Office (PTO) fee diversion;
- (iii) it includes a number of one-sided changes to our civil justice system that apply to limit the rights of all patent holders, not just cases involving “trolls”; and
- (iv) it violates our system of separation of powers by imposing unnecessary mandates on the Federal courts.

There are few economic issues Congress will face that are more important than our patent system. Intellectual property intensive industries account for over a third of our Nation’s gross domestic product, about 5 trillion dollars, and contribute over 40 million jobs to the U.S. economy.² Our patent system, while not perfect, is the envy of the world and a significant driver of growth in our economy. While we support common sense changes to improve and enhance the system, we cannot support the changes included in H.R. 3309 which taken as a whole will unbalance the patent system for all patent owners (not just patent “trolls”), disrupt comity with our coequal judicial branch of government, and discourage the very innovation that is the lifeblood of our economy.

Our concerns are shared by a wide and deep range of participants and stakeholders in the patent system who have issued letters opposing or expressing numerous serious concerns with the legislation, including the Federal Judicial Conference, the American Bar Association (ABA), the American Intellectual Property Law Association (AIPLA), the Patent Officers Professional Association (POPA), the American Association of Universities (AAU), the Biotechnology Industry Association (BIO), the Coalition for Twenty-First Century Patent Reform (21C), the Innovation Alliance, the American Association for Justice (AAJ), the Pharmaceutical Research and Manufacturers Association (PhRMA), the Eagle Forum, the Institute of Electrical and Electronics Engineers, the National

¹Because many NPEs do not manufacture or run businesses with a substantial number of employees, they do not experience the disruptive effect that litigation may impose on businesses that do. Whether NPEs assert valid or dubious patents, they are more likely to settle, both prior to and after filing a lawsuit, for sums less than the estimated cost of litigation, which gives them greater leverage over alleged infringers. Also, because NPEs generally do not have corporate customers or consumers, they do not face the same reputational harms that operating companies do. *See generally* Brian T. Yeh, An Overview of the “Patent Troll” Debate, CRS R42668 (April 16, 2013) (describing NPEs and subsets of such entities, and analyzing the debate on their effect on innovation and role in litigation).

²Economics and Statistics Administration and the U.S. Patent and Trademark Office, 2012, “Intellectual Property and the U.S. Economy: Industries in Focus,” at vii.

Association of Patent Practitioners (NAPP), the National Venture Capital Association, and the National Bankruptcy Conference.³

³These and numerous other well-regarded groups and individuals have cited similar concerns with the bill. The following materials are on file with the House of Representatives Committee on the Judiciary, Democratic Staff, and many are accessible on the minority website: Letter from Jeffrey S. Sutton, Chair of the Committee on Rules of Practice and Procedure of the Judicial Conference of the United States, and Jonathan C. Rose, Secretary of the Committee on Rules of Practice and Procedure of the Judicial Conference of the United States, to Representative John Conyers, Jr., Ranking Member of the House Committee on the Judiciary (Nov. 6, 2013) (noting that “[b]y dictating the outcome of the Rules Enabling Act process with respect to potential rules, Section 6 of H.R. 3309 runs counter to that process.”); Letter from Thomas M. Susman, Director of the Governmental Affairs Office of the American Bar Association, to Representative Robert Goodlatte, Chairman of the House Committee on the Judiciary, and Representative John Conyers, Jr., Ranking Member of the House Committee on the Judiciary (Nov. 14, 2013) (noting that “[o]ur primary concerns regard provisions of the bill that call for Congress, rather than the courts, to establish certain rules of procedure for the Federal courts, thereby circumventing a rulemaking process that has served our justice system well for almost 80 years.”); Letter from Wayne P. Sobon, President of the American Intellectual Property Law Association, to Representative Robert Goodlatte, Chairman of the House Committee on the Judiciary (Nov. 19, 2013) (noting that “AIPA is concerned that the bill will mandate inflexible rules, many of which may have unintended consequences including impeding access to the courts, and we further believe that the Judicial Conference in its own discretion is in a better position to work with the district courts to institute appropriate case management rules.”); Letter from Robert D. Budens, President of the Patent Office Professional Association, to Representative Robert Goodlatte, Chairman of the House Committee on the Judiciary, and Representative John Conyers, Jr., Ranking Member of the House Committee on the Judiciary (Nov. 18, 2013) (arguing that “the Innovation Act appears skewed against small inventors.”); Letter from the Association of American Universities, American Council of Education, Association of American Medical Colleges, Association of Public and Land-grant Universities, Association of University Technology Managers, and Council on Governmental Relations to Representative Robert Goodlatte, Chairman of the House Committee on the Judiciary, and Representative John Conyers, Jr., Ranking Member of the House Committee on the Judiciary (Nov. 19, 2013) (arguing that “a number of provisions in the Manager’s Amendment are problematic, including the extremely broad scope of civil actions to which fee shifting would apply and the high, indefinite threshold for a court’s waiver of that fee shifting, the extent of the heightened pleading requirements, the breadth of the information required in Sec. 4’s transparency provisions, and the narrowing of the scope of the estoppel provisions in the AIA’s new post-grant review procedure.”); Letter from James C. Greenwood, President and CEO of the Biotechnology Industry Organization, to Representative Robert Goodlatte, Chairman of the House Committee on the Judiciary (Nov. 14, 2013) (arguing that “in an attempt to target abusive litigation practices by the few, the proposals impose unjustified burdens on too many legitimate patent owners seeking to enforce and defend their inventions in good faith.”); Letter from Carl B. Horton of the Coalition for 21st Century Patent Reform to Representative Robert Goodlatte, Chairman of the House Committee on the Judiciary, and Representative John Conyers, Jr., Ranking Member of the House Committee on the Judiciary (Nov. 18, 2013) (noting that “we continue to have a serious concern that the provision related to stays of discovery pending claim construction would prolong all patent litigation by a year or more, substantially increase its cost, and deny parties with meritorious positions of the timely relief they deserve.”); Letter from Brian Pomper, Executive Director of the Innovation Alliance, to Representative Robert Goodlatte, Chairman of the House Committee on the Judiciary, and Representative John Conyers, Jr., Ranking Member of the House Committee on the Judiciary (Nov. 19, 2013) (arguing that “[o]verly detailed pleading requirements, inflexible discovery limits, and broad provisions permitting stays against certain parties have the potential to undermine the enforceability of all patent rights, no matter how valuable the patent, and thus potentially incentivize infringement.”); Letter from Linda Lipsen, CEO of The American Association for Justice, to Representative Robert Goodlatte, Chairman of the House Committee on the Judiciary, and Representative John Conyers, Jr., Ranking Member of the House Committee on the Judiciary (Nov. 19, 2013) (arguing that the “Innovation Act makes radical and unnecessary changes to United States patent law that would close the courthouse door to individual inventors and small start-ups.”); Letter from Chester Davis, Jr., Executive Vice President of Advocacy and Member Relations for the Pharmaceutical Research and Manufacturers of America, to Representative Robert Goodlatte, Chairman of the House Committee on the Judiciary, and Representative John Conyers, Jr., Ranking Member of the House Committee on the Judiciary (Nov. 13, 2013) (noting that “many of the provisions contained in the recently introduced Innovation Act (H.R. 3309) perhaps unintentionally undermine the ability of patent owners more broadly to enforce their rights by filing a patent suit and litigating it to completion.”); Letter from Marc T. Apter, President of The Institute of Electrical and Electronics Engineers, to Representative Robert Goodlatte, Chairman of the House Committee on the Judiciary, and Representative John Conyers, Jr., Ranking Member of the House Committee on the Judiciary (Nov. 19, 2013) (arguing that “provisions in the Bill are still not sufficiently narrowly crafted to target litigation abuse and therefore would reduce the value and enforceability of patents more broadly.”); Letter from Priya Sinha Cloutier, Chair of The National Association of Patent Practitioners Government Affairs Committee, to Representative Robert Goodlatte, Chairman of the House Committee on the Judiciary (Nov. 19, 2013) (arguing that “the provisions contained in the recently introduced Innovation Act (H.R.3309) are not narrowly crafted to address abusive practices, butinstead broadly undermine the ability of patent owners

For these reasons, and those described below, we respectfully dissent and urge our colleagues to reject this legislation when it comes to the House floor.

DESCRIPTION AND BACKGROUND

I. BRIEF SUMMARY OF H.R. 3309

H.R. 3309 includes several common sense proposals that as a general matter we believe would improve the patent system and respond to abuses and asymmetries in the patent system. These include:

- (i) *Transparency of Patent Ownership (Sec. 4)*—requiring patent litigants to disclose the real parties in interest in the asserted patent.⁴
- (ii) *Customer Stay (Sec. 5)*—limiting the practice of suing downstream users of a patented product or technology, such as retailers, restaurants or supermarkets, for infringement by allowing the manufacturer to step in to defend against an infringement claim.⁵
- (iii) *Small Business Assistance (Sec. 7)*—facilitating coordination between the USPTO patent ombudsman, the Small Business Administration, and the Minority Business Development Agency to provide educational resources and outreach programs for small business concerns arising from patent infringement and abusive patent litigation practices.

At the same time, we strongly oppose a number of provisions that go well beyond the problem of patent trolls and would harm legitimate patent holders and independent inventors. These include:

- (i) *Limits on Access to the Courts (Sec. 3)*—imposing a series of limitations on the civil justice system involving patents, including heightened pleading requirements; mandatory fee shifting in most cases; and limitations on discovery.
- (ii) *Encroachment on Judicial Authority (Sec. 6)*—imposing a series of mandates and directives on the Federal judiciary involving patent litigation in contravention of the time-tested Rules Enabling Act process.

to enforce their constitutionally protected government (USPTO) granted patent rights.”); Letter from Bobby Franklin, President and CEO of the National Venture Capital Association, to Representative Robert Goodlatte, Chairman of the House Committee on the Judiciary, and Representative John Conyers, Jr., Ranking Member of the House Committee on the Judiciary (Nov. 20, 2013) (noting that it is “critical that Congress balance the need for patent litigation reform with the needs of those start-ups that depend on strong patent protection and that believe the system is working. Congress must also take care to avoid any unintended consequences that could weaken strong patent protection.”); Letter from Phyllis Schlafly, President of the Eagle Forum, to Chairman Robert Goodlatte (Oct. 29, 2013); and Memoranda of the National Bankruptcy Conference (Nov. 11–12, 2013) (noting the National Bankruptcy Conference’s opposition to the enactment of section 6(d) of H.R. 3309 as a matter of international bankruptcy policy.).

⁴We find the additional fee-shifting provision in this section unnecessary and duplicative. We supported the Conyers/Watt substitute that did not create an additional fee-shifting requirement associated with the transparency obligations.

⁵We would hope that the final language concerning the customer stay could be reviewed and fine tuned if necessary to insure that the language does not have any unintended consequences in terms of protecting culpable parties. See, e.g., testimony of David J. Kappos before the Committee on the Judiciary, H.R. 3309 Innovation Act, Oct. 29, 2013.

II. DETAILED SECTION-BY-SECTION ANALYSIS OF H.R. 3309

Sec. 1. Short Title. Section 1 sets forth the short title of the bill as the “Innovation Act.”

Sec. 2. Definitions. Section 2 provides for the definitions of “Director” and “Office”.

Sec. 3. Patent Infringement Actions. Subsection (a) imposes heightened pleading requirements on parties asserting patent infringement whether in an initial complaint, counterclaim or cross-claim. Current law governing pleading in all civil actions, including patent infringement claims, is somewhat fluid following the decisions of the U.S. Supreme Court in *Bell Atlantic v. Twombly*, 550 U.S. 544 (2007) and *Ashcroft v. Iqbal*, 556 U.S. 662 (2009). Those cases moved away from the traditional “notice” pleading regime and moved towards more fact-based pleading requirements. Section 3(a) imposes statutory heightened pleading requirements by requiring patent holders to identify the patents and claims infringed and to provide more specificity as to how they are infringed.

Subsection (b) alters the fee-shifting scheme under existing law. Currently, a court “in exceptional cases may award reasonable attorney fees to the prevailing party” in a patent infringement lawsuit. There is pending litigation concerning the meaning of the term “exceptional cases.” The Federal Circuit is expected to address this issue within the next month in *Sidense Corp. v. Kilopass Tech., Inc.*⁶ And the Supreme Court has granted *certiorari* in two cases involving fee-shifting in patent litigation this term, including *Octane Fitness v. Icon Health & Fitness Inc.* in which the two-step test to meet the “exceptional case” standard has been challenged.⁷ Section 3(b) would replace the current discretionary statutory provision with a mandatory fee-shifting provision. As amended by Representative Hakeem Jeffries’ amendment at markup, it requires that fees shift to the non-prevailing party unless they can meet the burden of establishing that their position was “reasonably justified” or that “special circumstances”⁸ 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.”

Subsection (c) establishes an additional mechanism for joinder of additional plaintiffs notwithstanding Federal Rules of Civil Procedure 19 and 20, which already provide for the permissive and mandatory joinder of parties, respectively. Under section 3(c) defendants may join additional parties having a financial interest in the

⁶See *Sidense Corp. v. Kilopass Tech., Inc.*, (Fed. Cir. pending 2013).

⁷*Octane Fitness v. Icon Health & Fitness, Inc.*, 496 Fed. Appx. 57 (Fed. Cir. 2012), cert. granted, 81 USLW 3567 (U.S. Oct. 1, 2013) (No. 12–1184). *Octane Fitness* will consider the Federal Circuit’s two-part test for satisfying the “exceptional case” standard. According to the Federal Circuit “[a]bsent misconduct in conduct of the litigation or in securing the patent, sanctions may be imposed . . . only if both (1) the litigation is brought in subjective bad faith, and (2) the litigation is objectively baseless.” *Brooks Furniture Mfg. Inc. v. Futailer Int’l, Inc.*, 393 F.3d 1378, 1381 (Fed. Cir. 2005). The Court also granted *certiorari* in *Highmark, Inc. v. Allcare Health Management Systems, Inc.*, 687 F.3d 1300 (Fed. Cir. 2012), cert. granted, 81 USLW 3562 (U.S. Oct 1, 2013) (No. 12–1163, 12A763), in which it will consider to what extent a district court’s determination whether the criteria for “exceptional case” status has been met is entitled to deference.

⁸The Jeffries Amendment parenthetically explains that “special circumstances” includes “severe economic hardship to a named inventor).”

patents at issue for the purpose of satisfying any award of attorneys' fees and other expenses against a judgment-proof patentee.

Subsection (d) requires a judge to limit discovery in any case where the court will hold a *Markman* hearing⁹ to construe the terms in the patent claim and determine the scope of the patent. *Markman* proceedings can occur early in the litigation or at the end of full-scale discovery but before the trial. Section 3(d) strips the court of discretion to manage proceedings before it by requiring that they limit discovery in all cases to only that information needed to construe the claims of the patent and render a *Markman* ruling. This section further restricts the discretion of the court to expand the scope of discovery prior to claim construction only in cases with a statutory deadline (specifically including cases where a pharmaceutical company submits an abbreviated application for approval of a new drug) "when necessary to resolve a motion properly raised" or "as necessary to prevent the manifest injustice."

Sec. 4. Transparency of Patent Ownership. Section 4(a) requires a patent owner who asserts an infringement claim in court to provide detailed information about all persons or entities having an interest in the patent. Specifically, the patent owner has an ongoing duty to inform the parties, the court, and the USPTO of the identity of any: (1) assignee of the patent, (2) entity with the right to sublicense or enforce the patent, (3) entity with any financial interest in the patent or in the patentee, and (4) the ultimate parent entity of the assignee. The patent owner is encouraged to comply with this requirement by causing it to forfeit attorneys fees under section 285 or enhanced damages. In addition, the patent owner may also be required to pay the opposing party's costs and attorneys fees incurred to determine the identity of the real parties at interest in the patent if the patent owner fails to comply with this section. Fees may be shifted even if the identity of additional parties was immaterial to the proceedings and may only be avoided if the court determines they are "unjust."

Sec. 5. Customer-suit Exception. Currently, manufacturers or suppliers may seek leave to intervene in patent infringement actions against their customers or end users. They may also seek a declaratory judgment where a case or controversy exists, or pursue administrative legal action against a patent owner. Section 5(a) goes further to require an action against a customer be stayed if: 1) both the manufacturer and customer agree, 2) the customer agrees to be bound by any judgment against the manufacturer, and 3) the motion for a stay is brought within 120 days of service of the first infringement pleading.

Sec. 6. Procedures and Practices to Implement and Recommendations to the Judicial Conference. Section 6 includes a number of mandates that the Federal judiciary change its rules of procedure in several specified areas. Subsection (a) requires the Judicial Conference to promulgate rules and procedures on core document discovery, electronic communication production, fee-shifting for additional document discovery, and the sequence and scope of discovery. Subsection (b) requires the Judicial Conference to develop case management procedures for all patent cases, including proce-

⁹*Markman v. Westview Instruments, Inc.*, 517 U.S. 370 (1996).

dures that will focus on early disposition of the case. Subsection (c) requires the Supreme Court to eliminate Form 18 (concerning patent pleadings) and authorizes the Court to replace Form 18 with specific minimum contents.

Section 6(d) makes two substantive amendments to the Bankruptcy Code. The first concerns chapter 15 of the Bankruptcy Code, which codifies the Model Law on Cross-Border Insolvency promulgated by the United Nations Commission on International Trade Law (UNCITRAL). It reflects a very carefully crafted international agreement that guides bankruptcy courts throughout the world about how to manage transnational insolvencies implicating the laws of other nations.¹⁰ To achieve its goal of reciprocal international cooperation, chapter 15 requires “each country to recognize a foreign main proceeding in the debtor’s home country as the leader in the worldwide effort and that it cooperate with that jurisdiction to achieve the best results for all concerned.”¹¹ Section 6(d) would alter a fundamental principal of chapter 15, namely, that it not favor a particular country’s law. It does this by requiring a U.S. court to apply Bankruptcy Code section 365(n) (which gives certain rights to intellectual property licensees where the debtor has rejected the license agreement) to “foreign main proceedings,” a type of chapter 15 case “pending in the country where the debtor has the center of its main interests.”¹² This change effectively imposes U.S. law whether or not it should apply to a particular license. For example, a U.S. bankruptcy court would be required to apply U.S. law to a license owned by a foreign company and issued under another country’s law even if the intellectual property that is the subject of the license agreement is not located in the U.S.

In addition, section 6(d) amends the Bankruptcy Code’s definition of intellectual property to include trademarks, service marks, and trade names¹³ and imposes an affirmative duty on the debtor-licensor that has rejected the license contract to monitor and control the quality of the licensed product or service. This provision would apply to all types of bankruptcy cases, namely, liquidating chapter 7 cases, reorganizing chapter 11 cases, and transnational chapter 15 bankruptcy cases.

Sec. 7. Small Business Education, Outreach, and Information Access. Subsection (a) requires the USPTO to develop educational resources and outreach programs for small business concerns arising from patent infringement and abusive patent litigation practices. It requires the Patent Ombudsman Program, established under AIA, to coordinate with small and minority business initiatives. The Di-

¹⁰ Enacted in 2005, chapter 15 is intended to “provide effective mechanisms for dealing with cases of cross-border insolvency” through various statutorily mandated objectives. Bankruptcy Abuse Prevention and Consumer Protection Act of 2005, Pub. L. No. 109–8, 119 Stat. 23 (2005). The text of the Model Law and the Report of UNCITRAL on its adoption are found at U.N. G.A., 52d Sess., Supp. No. 17 (A/52/17). These include promoting cooperation between U.S. courts and the courts of foreign nations and ensuring “fair and efficient administration of cross-border insolvencies that protects the interests of all creditors, and other interested entities, including the debtor.” 11 U.S.C. § 1501(a)(1) & (3) (2013). As explained in this Committee’s report that accompanied identical legislation that led to the enactment of chapter 15, “[c]ases brought under chapter 15 are intended to be ancillary to cases brought in a debtor’s home country, unless a full United States bankruptcy case is brought under another chapter.” H. Rep. No. 109–31, at 105–06 (2005).

¹¹ *Id.*

¹² 11 U.S.C. § 1506 (2013).

¹³ 11 U.S.C. § 101(35A) (2013).

rector of the PTO is required under section 7(b) to develop a website for small businesses that should include patent transparency information required under the bill whenever a patentee sues on a patent.

Sec. 8. Studies on Patent Transactions, Quality, and Examination. Section 8 mandates a number of concurrent studies. Subsection (a) requires a study on the secondary market oversight for patent transactions to promote transparency and ethical business practices and is due within 1 year of enactment of the bill. Subsection (b) requires a study on patents owned by the U.S. government and is due within 6 months of enactment of the bill. Subsection (c) requires a study on patent quality and access to the best information during examination. The GAO is also directed to evaluate the patent examination process at the USPTO and to assess the available technologies. The GAO study is due within 6 months of enactment of the bill. The manager's amendment includes a new subsection (d) which requires an additional study by the Administrative Office of the U.S. Courts to examine the feasibility of developing a pilot program for patent small claims proceedings.

Two additional studies were added during the markup. One imposes yet another obligation on the USPTO to study a very broadly defined "demand letter" and issue a report to Congress within 1 year of enactment of the bill. The other requires the GAO to produce a study within 6 months of the enactment of the bill on the quality of business method patents asserted in patent infringement lawsuits.

Sec. 9. Improvements and Technical Corrections to the Leahy-Smith America Invents Act. Section 9 makes several changes to patent law, many of which are not technical and would have a significant impact on patent system. A summary of these provisions follows:

Section 9(a) repeals section 145, which allows a *de novo* appeal of denial of a patent application by the USPTO to a district court. Currently, a patent applicant has the option of either appealing a decision by the USPTO denying a patent application directly to the Federal Circuit under 35 U.S.C. §141 or initiating an action against the USPTO in district court under 35 U.S.C. §145. The Federal Circuit reviews an appeal of a USPTO decision solely based on the record that was before the agency. In a district court proceeding, however, the applicant can introduce new evidence and subpoena witnesses. The Supreme Court recently affirmed the expansive breadth of evidence that a patent applicant may introduce in a § 145 proceeding.¹⁴

Section 9(b) deletes "or reasonably could have raised" from section 325(e)(2) in the AIA's Post Grant Review (PGR) procedure. The AIA established this new first window procedure to enable early challenge of patents. PGR is intended to weed out weak issued patents before they have an adverse effect on the market. Section 325(e)(2) of the AIA currently contains an estoppel provision that prohibits a participant in PGR from asserting claims "on any ground that the petitioner raised or reasonably could have raised during that post-grant review" in a subsequent civil action. The re-

¹⁴ See *Kappos v. Hyatt*, 566 U.S. ___, 132 S.Ct. 1690 (2012).

vision now estops a PGR participant from raising in a subsequent lawsuit only those claims the petitioner actually raised in the PGR.

Section 9 (c) eliminates the “Broadest Reasonable Interpretation” (BRI) standard and requires that claims of issued patents be construed in PGR and inter partes review (IPR) proceedings under the same standard used in district court. Patents before the district courts are presumed valid and subject to a “clear and convincing” standard of proof to establish validity. BRI is an administrative rule that the USPTO has used and the courts have sanctioned since the 1930’s. After enactment of the AIA, however, the USPTO issued a rulemaking proceeding to determine the rules of practice to implement the newly created IPR proceeding, the PGR proceeding, and the transitional post-grant review proceeding for covered business method patents (Section 18/CBM program). The final rule requires the USPTO to apply BRI to construe certain patent claims before the agency, including those in the new IPR and PGR proceedings.¹⁵ This subsection, in effect, repeals the agency rule-making and replaces the BRI standard with the same standard used in the district courts.

Section 9(d) codifies the judicial doctrine against double-patenting and applies it to patents issued after AIA under the first to file system. Current law prohibits two types of double patenting. One type is based on 35 U.S.C. §101, which has been construed to disallow multiple patents for the “same invention.” The other type is judicially created. The judicial doctrine against double patenting prevents a patentee from prolonging the life of a patent by rejecting claims in a second patent that are obvious variations from claims in a first patent. The provision codifies the concept that “unless two patents from the same inventor could have validly issued had they been sought by two different inventors, the two patents must be owned by the same entity, and must both terminate upon the earliest termination of either patent.”¹⁶

Section 9(e) of the manager’s amendment dispensed with the controversial expansion of the reach and duration of the transitional Section 18/CPM program included in the introduced version of H.R. 3309. The manager’s amendment, however, redefines and expands the scope of prior art under the transitional covered business method program, and retains the seemingly unencumbered authority of the Director to waive fees under this section.

Section 9(f) extends the life of certain patents if there are delays in the issuance of those patents. There are often delays during the patent examination process and Congress enacted 35 U.S.C. § 154(b)(1) to provide for an extension of a patent term for USPTO delays. Part B delay occurs when the USPTO fails to issue a patent within 3 years from the filing date of the patent application. For a “B” type delay there is an addition of one day for each day after the end of the 3-year period beginning on the date the patent application was filed. Judges on the U.S. District Court for the Eastern District of Virginia have disagreed about the meaning of section 154(b)(1)(B) and how the filing of a Request for Continued Examination (RCE) impacts the ability to accrue “B” type Patent Term

¹⁵ See Federal Register/Vol. 77, No. 157, Aug. 14, 2012.

¹⁶ Summary of 21C Position, at 11.

Adjustment. Section 9(f) would amend § 154(b)(1)(B) to eliminate any patent term adjustment for “B delay” occurring after an applicant files a RCE. The section would make the change effective with regards to any “patent application or patent” pending on the Act’s date of enactment. This section would codify the USPTO’s current practice of excluding any time consumed by an RCE from the calculation of patent term adjustment under section 154(b)(1)(B). This change would overturn the November 1, 2012 decision in *Exelixis, Inc. v. Kappos I*¹⁷ and codify the January 28, 2013 decision in *Exelixis, Inc. v. Kappos II*.¹⁸

Section 9(g) clarifies Federal jurisdiction over cases in which a patent issue is not the primary issue in the case. This provision is presumed to be an attempt to override the Supreme Court decision in *Gunn v. Minton*¹⁹ in which the Court held that a legal malpractice claim did not “arise under” Federal patent law for purposes of section 1338(a). The Court applied a four-prong test: “federal jurisdiction over a state law claim will lie if a federal issue is: (1) necessarily raised, (2) actually disputed, (3) substantial, and (4) capable of resolution in federal court without disrupting the federal-state balance approved by Congress.” Although the Court found that the first two prongs were satisfied, jurisdiction was absent because the patent question “was not substantial in the relevant sense” and therefore the third prong was not satisfied. This subsection focuses on the third of the four prongs without relating it to the first two.

Section 9(h) extends the life of the patent pilot program from 10 to 20 years.

Section 9(i) makes a series of seven additional changes it classifies as “technical,” including one that extends the time limit for bringing disciplinary proceedings before the USPTO. Like several other technical changes, the rationale has never been explained and it does not appear to be supported by the USPTO.

Sec. 10. Effective date. Section 10 provides that unless otherwise specified in the bill, the provisions shall become effective on the date of enactment and apply to any patent issued or any case filed on or after the date of enactment.

CONCERNS WITH H.R. 3309

As noted above, we oppose the legislation for a number of reasons, including the rushed process; the failure to end USPTO fee diversion; the legislation’s limitations imposed on the patent civil justice system in a manner that will harm all patent holders, not just “trolls;” and its general disregard for our system of mutual respect for the prerogatives of a coequal branch of government by imposing unnecessary and overly prescriptive mandates on the Federal courts. The following is a more detailed description of these concerns.

¹⁷No. 1: 12cv96 (E.D. Va. Nov. 1, 2012).

¹⁸No. 1: 12cv574 (LMB/TRJ) (E.D. Va. Jan. 28, 2013).

¹⁹568 U.S. ____ (2013).

I. RUSHED AND UNFAIR LEGISLATIVE PROCESS

Legislation involving a subject matter as critical and sensitive as patent law should be reviewed and considered only under the most careful and deliberative process. The America Invents Act (AIA),²⁰ was signed into law by President Barrack Obama in 2011 which was the most comprehensive overhaul of the U.S. patent system since 1952.²¹ That legislation was the subject of numerous hearings over more than three Congresses.²²

Yet now, a little more than 2 years after the AIA was signed into law, and at a time when many important aspects of the new law are largely untested, we are again considering a significant patent overhaul. In this context, and given the stakes involved, it is all the more important that we proceed with caution and deliberation. This was the message strongly delivered to the Committee just a few weeks ago by David J. Kappos, the most recent Director of the USPTO:

At the outset of considering further changes to our patent system, we must recognize that the time constant of the patent system—the period between new patent application and court decision on patent infringement claim—is very long. Many years. As such, the impact of Congress’ very recent major changes to our patent system has barely begun to be felt. *In such long time constant situations, every engineering instinct and every leadership instinct tells me to proceed with caution.*

Moreover, in long time constant systems such as our patent system, over-correction is a major danger. By the time an over-correction is apparent, it will be years after the system is badly damaged. *And we are not tinkering with just any system here; we are reworking the greatest innovation engine the world has ever known, almost instantly after it has been significantly overhauled. If there were ever a case where caution is called for, this is it.*

Caution in turn calls for a deliberative process that takes the time to reach out and listen to all stakeholders, including those who will be the fastest ones off the mark. Many small innovators—today’s Edisons—have not had time to make their views heard. Others having various levels of

²⁰ Leahy-Smith America Invents Act, Pub. L. No. 112–29, 125 Stat. 285, (2011).

²¹ The White House, “President Obama Signs America Invents Act, Overhauling the Patent System to Stimulate Economic Growth, and Announces New Steps to Help Entrepreneurs Create Jobs” (Sept. 16, 2011).

²² The AIA was intended, in part, to provide American inventors and entrepreneurs with new or improved administrative alternatives to costly litigation regarding patent validity, freeing them to focus on innovation and job creation. Implementation of the various provisions of the AIA was staggered to allow the agency adequate time to comply with the new statutory mandates. “*America Invents Act: Effective Dates, United States Patent and Trademark Office (USPTO)*” (Oct. 5, 2011) http://www.uspto.gov/aia_implementation/aia-effective-dates.pdf. In addition to modifying USPTO practice and procedures to provide alternatives to litigation, the AIA also sought to address allegations of patent litigation abuse head-on. For example, a provision was hastily added to the bill just prior to the markup to discourage the improper joinder of multiple, unrelated defendants in a single suit. David O. Taylor, “*Patent Misjoinder*,” 88 N.Y.U. L. Rev. 652, 655–656 (2013). Companies argued that entities that do not manufacture any products would sue a large number of defendants in an inconvenient forum on distinct grounds of infringement. Section 299 of the AIA severely restricts this practice by imposing specific requirements that must be met before a court may allow numerous accused infringers to be sued together.

dependence on strong IP rights are just now beginning to consider the prospect of further changes to our patent system. *We need to allow these important stakeholders their time to participate.*

Caution also calls for us to ask: is the building on fire? Do we have an emergency that requires immediate action? No. The building is not on fire.²³

Unfortunately, in this case the Committee on the Judiciary has proceeded with undue haste and with a bill that goes well beyond the issue of patent “trolls” and well beyond even the patent law. We have only had a single legislative hearing, with a single panel of four witnesses a mere 1 month ago.²⁴ The Chair ignored a bipartisan request signed by six Members of the Committee seeking an additional hearing “to further study the text and impact”²⁵ of the legislation. Subcommittee markup was skipped and the bill proceeded to full committee where it was marked up for a single day. A deadline for floor amendments has been set by the Rules Committee on the very first day back after the Thanksgiving District Work period, making it difficult for Members of the full House to review the bill and the report and develop meaningful amendments. H.R. 3309 is scheduled for floor consideration the very first legislative week after markup. In essence, we are acting as if there is an emergency at a time when caution and deliberation are clearly required.

²³ Statement of David J. Kappos before the Committee on the Judiciary, H.R. 3309 Innovation Act, Oct. 29, 2013 (emphasis added). In this regard, it is useful to note the AIA required the Government Accountability Office (GAO) to conduct a study of the litigation and litigation practices of these “non-practicing entities” or NPEs. The GAO study made some key observations about NPEs, more pejoratively referred to as “patent trolls,” who engage in abusive litigation tactics to enforce patents of dubious validity or patent portfolios purchased for the sole purpose of monetizing through licensing or litigation. U.S. Government Accountability Office, 2013, “Intellectual Property: Assessing Factors That Affect Patent Infringement Litigation Could Help Improve Patent Quality”, GAO-13-465, at 2-3, <http://www.gao.gov/assets/660/657103.pdf>. Chief among its observations was that who or what qualifies as a “patent troll” cannot be determined solely based on the entity’s characterization as a NPE. NPEs themselves defy precise definition and may include individual inventors who do not produce or have not yet produced a product associated with their patented invention; universities that partner with technology transfer companies; or research and development companies that license their patents to others in order to fund further research. NPEs may even consist of manufacturing or “operating companies” that claim infringement based upon patented products they no longer produce, or on patents for which they have never produced a product that uses the asserted invention. Due in part to this definition dilemma, the GAO’s analysis suggested that focusing on the identity of the patent holder to assess the nature and scope of litigation abuses is likely misplaced. *Id.*, at 45. Instead, the GAO thought it noteworthy that the vast majority of patent lawsuits regardless of the litigant, were based on software patents. Significantly, the GAO also found that, despite the arguments that abusive patent litigation by NPEs was pervasive, in fact, “companies that make products brought most of the lawsuits and that nonpracticing entities (NPE) brought about a fifth of all lawsuits.” *Id.*, inside cover of report, “What GAO Found”. Moreover, to the extent that there was an uptick in lawsuits by NPEs, the increase was likely a consequence of the AIA’s strict joinder provision which led to plaintiffs suing more defendants separately, or due to a rush to the courthouse by plaintiffs seeking to avoid the restrictive joinder provision before the AIA was signed into law. *Id.*, at 15. Finally, the GAO concluded that there was little difference in the rate of settlements of lawsuits whether brought by operating companies or NPEs. *Id.*, at 25.

²⁴ Although the Intellectual Property Subcommittee held a number of hearings to explore various aspects of the “patent troll” problem (Hearing on: “The International Trade Commission and Patent Disputes,” Wednesday 7/18/2012; Hearing on: “Abusive Patent Litigation: The Issues Impacting American Competitiveness and Job Creation at the International Trade Commission and Beyond,” Tuesday 4/16/2013; Hearing on: “Abusive Patent Litigation: The Impact on American Innovation & Jobs, and Potential Solutions,” Thursday 3/14/2013), the Committee held only a single legislative hearing on the proposed solutions consisting of a number of complex and overlapping measures that would affect procedures before both the courts and the USPTO.

²⁵ Letter from Representatives Doug Collins & John Conyers, Jr., et al., to Chairman Bob Goodlatte (Nov. 7, 2013).

II. FAILURE TO END PTO FEE DIVERSION

A critical threshold failing of H.R. 3309 is its failure to respond to the single most important problem facing our patent system today—the continuing diversion of patent fees. When the AIA was passed 2 years ago, there was consensus on both sides of the aisle that continuing fee diversion constituted a tax on innovation and undermined efforts of the USPTO to reduce its backlog. Unfortunately, loopholes in the final agreement and the onset of sequester have again resulted in user fees being diverted away from the USPTO.

The result is that nearly \$150 million in badly needed user fees have been diverted in Fiscal Year 2013. This loss is on top of the estimated \$1 billion in fees diverted over the last two decades.²⁶ 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.²⁷

There is widespread agreement by observers of the system and stakeholders that this is an unacceptable and harmful situation. Former PTO Director Kappos has testified:

Less than 2 years after the passage of the AIA and all the accompanying focus on USPTO fee diversion, we found ourselves again looking at an Agency having its lifeblood, the user fees that come with the work asked of USPTO by American innovators drained away. *I simply cannot overstate the destruction that is causing, as the work remains without funding to handle it, creating an innovation deficit that will require future generations of innovators to pay into the Agency again in hopes their fees are paid.* Nor will it be possible for the USPTO to accomplish the mandates of the AIA, much less the added responsibilities contemplated by parts of H.R. 3309, without access to the user fees calculated to meet those challenges.²⁸

Similarly, the Coalition for Twenty First Century Patent Reform has written that “The single most critical issue facing the U.S. Patent and Trademark Office (USPTO) is its inability to retain all of the fees paid by patent and trademark applicants and to use those fees to provide the services for which they were paid. Legislation to prevent USPTO user fees from being diverted or sequestered to support other government programs must be enacted.”²⁹ This view is shared by the Patent Office Professional Association,³⁰ the Amer-

²⁶ See Letter from Herbert C. Wamsley, Executive Director of the Intellectual Property Owners Association to Ranking Members John Conyers, Jr. and Mel Watt and Representatives Darrell Issa and Doug Collins, (Oct. 29, 2013) (on file with House Committee on the Judiciary Democratic staff).

²⁷ IPO Daily News for Friday, November 22, 2013, available at <http://www.ipo.org>.

²⁸ Statement of David J. Kappos, before the House Judiciary Committee, Hearing on H.R. 3309, Innovation Act., October 29, 2013 (emphasis added).

²⁹ Letter from 21C.

³⁰ “The single most urgent problem facing the U.S. Patent System is not ‘patent trolls,’ it is stable and adequate funding for the USPTO.” Letter from POPA.

ican Intellectual Property Law Association,³¹ and the Innovation Alliance.³² Failure to include language ending PTO fee diversion once and for all belies any serious effort to reform and update the patent system.³³

III. THE LEGISLATION LIMITS THE RIGHTS OF ALL PATENT HOLDERS,
NOT JUST PATENT “TROLLS”

A. *The Bill’s Heightened Pleading Requirements Will Deny Legitimate Inventors Access to the Courts*

We oppose the heightened pleading requirements set forth in Section 3(a) because they will work an unfairness against patent holders across the board; are drafted in a one-sided manner; will prolong litigation; and the provision is unnecessary as the issue is already being dealt with by the courts.

First, the information required by the heightened pleading standard will in many cases create an unfairness since the information may not be available to the patent holder at the time of the filing.³⁴ It is for these reasons that so many key patent stakeholders oppose this provision of H.R. 3309. For example, PhRMA has written that the section “increases pleading requirements in a way that raises questions about the balance between having information available in pleadings and providing for the prompt and effective access to the courts by patent owners more broadly.”³⁵

The American Association for Justice has noted that “[t]he practical effect of this change is that many meritorious cases will face early dismissal because corporate defendants will simply refuse to provide the information necessary to plead the case.”³⁶ And in a similar vein, the Coalition for Twenty-First Century Patent Reform, representing many of the largest operating companies in America, has complained that “[t]he pleading requirements in proposed Sec. 281A go well beyond this concept of fair notice of the basis for the allegation of infringement and well beyond the requirements of Rule 11 of the Federal Rules of Civil Procedure.”³⁷ Likewise, several other key participants in the patent community have expressed serious concerns about the fairness and practicality

³¹ “Finally, and perhaps most importantly, AIPLA strongly believes that the single most important reform for improving the quality of patents is requiring a fully funded USPTO.” Letter from AIPLA.

³² “We have long supported ensuring that USPTO has full access to the fee revenue that it collects. No other change would more effectively enhance patent quality in the United States.” Letter from Innovation Alliance.

³³ Representatives Conyers and Watt, along with a bipartisan group of 10 additional Members have introduced legislation, H.R. 3349, the “Innovation Protection Act,” which would end the problem of fee diversion by creating a permanent funding mechanism to support the PTO. Unfortunately, when this language was offered at the Committee, it was rejected by the Majority in a party line vote.

³⁴ 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.

³⁵ PhRMA letter.

³⁶ AAJ letter.

³⁷ 21C letter.

of this provision, including the National Association of Patent Practitioners³⁸ and the higher education community.³⁹

Second, section 3(c), is drafted in a one sided manner in that, as the ABA notes, it applies “only to parties asserting patent infringement, either as a plaintiff or as a defendant counterclaimant [but] does not provide any corresponding heightened pleading standards for asserting non-infringement or invalidity in a complaint or counterclaim for Declaratory Judgment.”⁴⁰ Under this provision, a small inventor will be required to provide detailed information in their complaint, however, an alleged infringer does not bear the same burden to explain with specificity to that inventor why they believe they have not infringed the patent or why they believe the patent is invalid. As the Institute of Electronics Engineers has written, “[s]ince most patent infringement complaints draw a counter-claim of patent invalidity, any such counter-claim should also be pleaded with comparable particularity (e.g., citing applied prior art references to all claim terms) that would support the invalidity contention.”⁴¹

Third, although the stated goal of the legislation is to reduce and shorten litigation, the heightened pleading requirement may well have the opposite effect by fostering litigation over whether the patent owner has met the heightened pleading standard or had reasonable access to the required information if they admittedly did not comply.

Finally, as with many other provisions in section 3, it is not necessary for Congress to enact a statutory change, as this very matter is being addressed by the Federal judiciary already. Indeed, in the patent context, courts have addressed whether emerging pleading standards in the aftermath of the Supreme Court’s decisions in *Bell Atlantic v. Twombly*⁴² and *Ashcroft v. Iqbal*⁴³ override Form 18⁴⁴ of the Federal Rules of Civil Procedure.⁴⁵ Courts have also considered the interrelationship of Form 18, pleading requirements

³⁸ Letter from Priya Sinha Cloutier, Chair of The National Association of Patent Practitioners Government Affairs Committee to Representative Robert Goodlatte, Chairman of the House Committee on the Judiciary (Nov. 19, 2013).

³⁹ Letter from the Association of American Universities, American Council of Education, Association of American Medical Colleges, Association of Public and Land-grant Universities, Association of University Technology Managers, and Council on Governmental Relations to Representative Robert Goodlatte, Chairman of the House Committee on the Judiciary, and Representative John Conyers, Jr., Ranking Member of the House Committee on the Judiciary (Nov. 19, 2013).

⁴⁰ American Bar Association Section of Intellectual Property Law, 2013 Fall Council Meeting, Innovation Act Task Force Resolutions and Reports, at 5, Nov. 8, 2013.

⁴¹ Letter from Marc T. Apter, President of The Institute of Electrical and Electronics Engineers to Representative Robert Goodlatte, Chairman of the House Committee on the Judiciary, and Representative John Conyers, Jr., Ranking Member of the House Committee on the Judiciary (Nov. 19, 2013) (hereinafter IEEE-USA letter).

⁴² 550 U.S. 544 (2007).

⁴³ 556 U.S. 662 (2009).

⁴⁴ Fed. R. Civ. Pro. 84 provides: “The forms in the Appendix suffice under these rules and illustrate the simplicity and brevity that these rules contemplate.” Form 18 in the Appendix is the template for a complaint for patent infringement.

⁴⁵ In *McZeal v. Sprint Nextel Corp.*, 501 F.3d 1354 (Fed. Cir. 2007), the Federal Circuit considered whether the bare allegations of the predecessor to Form 18, Form 16, were sufficient post-*Twombly*. The Court approved of the Form as sufficient for pleading direct infringement by a pro se litigant. *See*, 501 F. 3d at 1357. Courts have split about whether *McZeal*, decided before *Iqbal* and in the context of a direct infringement claim asserted by a pro se litigant, is valid post-*Iqbal* in other patent contexts. *See, e.g., Ingeniador, LLC v. Interwoven*, 874 F. Supp. 2d 56 (2012).

for claims other than direct infringement,⁴⁶ counterclaims,⁴⁷ and affirmative defenses⁴⁸ after *Twombly* and *Iqbal*. The Judicial Conference of the United States has issued its request under the Rules Enabling Act⁴⁹ for comments to its proposed amendments to Federal Rules of Civil Procedure, including revision of forms and discovery rules.⁵⁰

B. The Bill's Fee Shifting Standard Will Favor Wealthy Parties and will Chill Potential Meritorious Claims

We oppose section 3(b)'s fee shifting requirement because it will favor wealthy corporate parties over individual inventors; is drafted in an over-broad manner to apply in beyond patent infringement actions; deprives courts of discretion; and is unnecessary as the issue is under consideration by the Federal courts. The related enforcement provision allowing for expanded joinder in fee shifting cases—section 3(c)—also raises a host of problematic issues of law and equity.

Our first concern is that fee-shifting always favors the party with greater financial resources, and thus could chill potential meritorious claims. Enacting a mandatory regime into our patent law would not only work an unfairness to independent inventors, it would constitute a very unfortunate precedent in our civil justice system generally. This concern was articulated by the American Association for Justice: “A ‘loser pays’ provision will deter patent holders from pursuing meritorious patent infringement claims and protects institutional defendants with enormous resources who can use the risk of fee shifting to force inventors into accepting unfair settlements or dismissing their legitimate claims.”⁵¹

Make no mistake, this provision is not a modest or temperate step, instead of requiring that fees be shifted in exceptional cases as set forth in current law, this provision would create a presumption of fee shifting in every single case, not just cases involving so-called “trolls,” with the burden of establishing that fees should not be imposed borne by the non-prevailing party. The dangerous na-

⁴⁶ See, e.g., *Selex Commc'ns, Inc. v. Google Inc.*, No. 1:09-CV-2927-TWT, 2012 WL 1681824, at 4, 6 n.3 (N.D. Ga. May 11, 2012) (requiring specific facts to support a theory of joint infringement on ground that Form 18 provides sufficient complaint only for direct patent infringement, and observing that complaint may also support a claim for indirect infringement); *DR Sys., Inc. v. Avreo, Inc.*, No. 11-CV-0932 BEN (WVG), 2012 WL 1068995, at 1 (S.D. Cal. Mar. 29, 2012) (noting that “because Form 18 does not address induced infringement or contributory infringement, the heightened pleading standard of *Twombly* and *Iqbal* apply to allegations of induced infringement and contributory infringement.” (citations omitted)).

⁴⁷ See, e.g., *Memory Control Enter., LLC v. Edmunds.com, Inc.*, No. CV 11-7658 PA (Jcx), 2012 WL 681765, at 2–3 (C.D. Cal. Feb. 8, 2012) (finding *Twombly/Iqbal* applicable to counterclaims for patent invalidity, even though infringement claims need only comply with Form 18 under Rule 84, in part because “[j]ust as

Twombly and *Iqbal* did not rewrite the Federal Rules of Civil Procedure—thus, Rule 84 still applies, and Form 18 still suffices—a court cannot write into the Federal Rules a form for a claim for declaratory judgment of patent invalidity.”).

⁴⁸ See, e.g., *Tyco Fire Prods. LP v. Victaulic Co.*, 777 F. Supp. 2d 893 (E.D. Pa. 2011) (concluding that while patent counterclaim subject to *Twombly*'s plausibility standard, the affirmative defense must only provide fair notice of the issue).

⁴⁹ 28 U.S.C. § 2071–2077.

⁵⁰ Preliminary Draft of Proposed Amendments to the Federal Rules of Bankruptcy and Civil Procedure: Request for Comment (Aug. 15, 2013), available at <http://www.uscourts.gov/uscourts/rules/preliminary-draft-proposed-amendments.pdf>.

An amendment offered by Rep. Jeffries during markup would have mandated pleading parity to ensure that the exchange of information in litigation was balanced and that specificity requirements applied to all parties in a dispute. The Chairman opposed the amendment which was defeated by a vote of 12–23.

⁵¹ AAJ Letter.

ture of this provision was highlighted by a recent article by the American Enterprise Institute which noted:

By shifting the burden of proof onto the losing party, it will require courts to examine the justification of each and every case . . . it won't just be patent trolls who pay at times, but at times the legitimate companies who occasionally are found to infringe PAE patents . . . [O]ur unique justice system, dedicated as it is to allowing every American person and company its 'day in court' would be immutably changed in the area of patent litigation. We'd be one step closer to adopting the loser-pays model.⁵²

In this regard, we would dispute the Majority's assertion that section 3(b) is fairly based on the Equal Access to Justice Act.⁵³ EAJA was developed as a means to allow private citizens to obtain legal fees when they prevail in litigation against the U.S. government, not to serve as a model for fee shifting in private lawsuits. Further, although the bill purports to align itself with EAJA, the fees and expenses scheme established by that Act is far more complex and balanced than section 3(b). For example, EAJA permits the court "in its discretion [to] reduce . . . or deny an award, to the extent that the prevailing party . . . engaged in conduct which unduly and unreasonably protracted the final resolution of the matter in controversy."⁵⁴ No such balance or flexibility for the court is provided in this bill.⁵⁵

Third, section 3(b) is drafted in an overly broad manner. The higher education community has noted that the language is so broad that it could potentially apply "to any civil action in which any party asserts a claim for relief arising under any Act of Congress relating to patents. That scope sweeps in over 25 statutes containing patent law clauses, including the Space Act, the Atomic Energy Act, the Non-Nuclear R&D Act as well as all titles of the omnibus bills in which the Bayh-Dole Act and amendments became law. The breadth of the proposed amendment will impair parties' ordinary enforcement procedures and litigation activities outside the scope of abusive patent litigation."⁵⁶ BIO opposes the fee-shifting provision for similar reasons, writing that it permits "parties to seek reimbursement of their litigation costs from other parties

⁵² Patent troll legislation: a closer look (pt. 2)—fee shifting, Tech Policy Daily, November 26, 2013 (emphasis added).

⁵³ See Section By Section, Innovation Act, available at <http://judiciary.house.gov/news/2013/10232013%20Section%20by%20Section%20Patent%20Bill.pdf>.

⁵⁴ 28 U.S.C. § 2412(d)(1)(c).

⁵⁵ During the markup, Ranking Member Melvin Watt offered an amendment that would have restored judicial discretion to the determination whether to shift fees by modifying the underlying statute to permit shifting in "appropriate" as opposed to "exceptional" cases. The amendment failed by a vote of 12–23. Mr. Jeffries offered an amendment that retains the mandatory character of the provision, but lowers the standard of justification from "substantially justified" to "reasonably justified" for the nonprevailing party's position in the case. The amendment passed by a vote of 36–2. Ranking Member Watt then offered an amendment that would more accurately align itself with EAJA and permit judges to consider the behavior of both the prevailing and nonprevailing parties in determining whether to depart from the American rule. Ranking Member Watt's amendment would have allowed the court "in its discretion [to] reduce . . . or deny an award, to the extent that the prevailing party . . . engaged in conduct which unduly and unreasonably protracted the final resolution of the matter in controversy." The amendment failed by a vote of 17–21.

⁵⁶ Statement from the Higher Education Community on H.R. 3309, The Innovation Act, at 1, Nov. 8, 2013 (hereinafter Universities' letter) (on file with Committee on the Judiciary Democratic staff).

under a vaguely-defined and potentially broad set of patent-related cases.”⁵⁷ The inclusion of language in the managers amendment defining a non-prevailing party as one who offers a “covenant not to sue” may have the effect of increasing litigation, with the Coalition for Twenty First Century Patent Reform noting the provision may also have the unintended effect of discouraging early settlement and prolonging costly discovery.⁵⁸

Fourth, the fee shifting provision is again wholly unnecessary because both the Supreme Court and the Federal Circuit are preparing to rule on litigation concerning the phrase “exceptional cases.” The Supreme Court has granted certiorari in two cases that focus on fee shifting in patent cases.⁵⁹ The Court of Appeals for the Federal Circuit, which is the appellate court for patent cases, is also preparing to issue an opinion in a case on fee shifting in patent cases.⁶⁰

Finally, we would also note that the joinder provision included in section 3(c) in order to help enforce the fee shifting provision raises a host of potential additional concerns. Among other things, it is drafted in a one-way manner that benefits alleged infringers. Deep pocketed defendants would be guaranteed satisfaction of fee awards but small companies, startups, and independent inventors would not be similarly protected when they prevail as plaintiffs against defendant infringers that hide their assets, file for bankruptcy, or otherwise evade payment of fee awards. This provision also raises constitutional concerns because it creates standing for parties that would otherwise not have it. In other words, a defendant may join a third-party at the end of the case for purposes of fee shifting, but the third-party had no standing to assert or defend themselves during the course of the legal proceedings. The joinder provision may allow defendants to “bring higher education institutions and their inventors, non-profit technology transfer organizations associated with those institutions, federal laboratories, and federal agencies within the fee-shifting purview.”⁶¹ Defendants already have other avenues to join plaintiffs, including Federal Rules of Civil Procedure 19 and 20. As a result, a broad range of patent stakeholders, including 21C,⁶² AIPLA,⁶³ and BIO,⁶⁴ have raised concerns with this new joinder provision.

C. The Bill’s Discovery Limitations Will Prolong Litigation and Increase Costs

The legislation’s limitations on discovery prior to holding hearings to construe patent claims and determine their scope set forth in section 3(d) are objectionable because they will delay litigation

⁵⁷ Letter from James C. Greenwood, President and CEO of the Biotechnology Industry Organization to Representative Robert Goodlatte, Chairman of the House Committee on the Judiciary (Nov. 14, 2013) (hereinafter BIO letter).

⁵⁸ Summary of 21C Position, at 3–4.

⁵⁹ See *Highmark v. Allcare Health Management*, No. 12–1163 (cert. granted); *Octane Fitness v. Icon Health & Fitness Inc.*, No. 12–1184 (cert. granted); *Sidense Corp. v. Kilopass Tech., Inc.*, No. 13–1193 (Fed. Cir. argued Oct. 9, 2013).

⁶⁰ See *Sidense Corp. v. Kilopass Tech., Inc.*, No. 13–1193 (Fed. Cir. argued Oct. 9, 2013).

⁶¹ Universities’ letter, at 2.

⁶² Summary of 21C Position, at 5.

⁶³ AIPLA letter.

⁶⁴ BIO letter.

and lead to greater expenses for the parties and can be more properly dealt with by the courts.

First, the discovery provision is likely to extend litigation and increase costs.⁶⁵ Numerous participants in the patent system, including many large patent holders have stated that the provision will be harmful and counterproductive. For example, PhRMA has written section 3(d) will “impose restrictions on discovery that could serve to delay ultimate resolution of patent litigation and increase costs.”⁶⁶ Similarly, BIO asserts the legislation creates “opportunities for systematic delays in patent litigation by inviting piecemeal discovery and adjudication that would push back a determination of patent infringement liability until much later in the case.”⁶⁷ The Coalition for Twenty-First Century Patent Reform agrees that “under proposed sec. 299A, discovery that might otherwise be undertaken concurrently . . . will be postponed, thus delaying trial while the postponed discovery is completed, delaying the resolution of all patent cases. Such an . . . approach would be less efficient and likely more costly . . . The Innovation Act’s approach to patent case discovery reflects a narrow and one-sided view of patent litigation, in essence legislating that each case be managed in the manner that a defendant in an action brought by a non-practicing entity would seek to have the case managed. This unbalanced and inflexible approach to all cases is reflected in the automatic stay of discovery pending claim construction.”⁶⁸ The IP Law section of the ABA concurs, writing, the subsection will “further delay the resolution of patent litigation.”⁶⁹

Second, these new limitations on discovery ignore the role of the courts in setting proper discovery time lines. It was recently opposed by Judicial Conference’s Court Administration and Case Management Committee. In particular, they oppose this provision because it unnecessarily removes judicial discretion in setting discovery.

The mandatory nature of the discovery limitation ignores the fact that Federal courts with the most experience and skill in managing patent infringement cases have adopted local rules that specify the timing and scope of discovery, but none have adopted rules automatically staying discovery pending claim construction.⁷⁰ The Judicial Conference shares this concern and also observed that the proposed change will create confusion in relation to the local rules the patent pilot courts have developed to manage discovery. The Federal Circuit is also dealing with the precise issue of potentially excessive discovery cost, as their Advisory Council released a Model Order Regarding E-Discovery in Patent Cases to strike a “balance between the value of discovery and its costs.”⁷¹ Of note is that the

⁶⁵ Further, the provision’s rigidity in restricting judicial discretion only in cases with a statutory deadline (specifically including cases where a pharmaceutical company submits an abbreviated application for approval of a new drug), “when necessary to resolve a motion properly raised,” or “as necessary to prevent the manifest injustice” could also lead to the loss of evidence as witness recollection can fade over time, documents may be lost or destroyed, and witnesses may become unavailable.

⁶⁶ PhRMA letter.

⁶⁷ BIO letter.

⁶⁸ 21C letter.

⁶⁹ American Bar Association Section of Intellectual Property Law, at 24.

⁷⁰ Summary of 21C Position, at 6.

⁷¹ See Federal Circuit Advisory Council’s Model Order Limiting E-Discovery, *available at* http://www.ca9.uscourts.gov/images/stories/announcements/Ediscovery_Model_Order.pdf.

Model Order Regarding E-Discovery specifies that both abusive or “disproportionate” requests and “nonresponsive or dilatory discovery tactics” are relevant factors for “cost-shifting considerations.”⁷²

IV. THE MANDATE ON THE COURTS WILL UNDERMINE THE FEDERAL JUDICIARY

We oppose section 6 of H.R. 3309, dictating that the Federal judiciary adopt a series of new rules and judicial changes, because the provision undermines the judiciary by intruding on the cherished principle of comity between coequal branches of government and ignores the very real expertise the courts are able to bring to the issue of developing rules and procedures for patent cases.

First, the very idea of Congress dictating procedures to the Federal courts is an anathema to our system of government. As a matter of fact, the Obama Administration took a strong stand against such a mandate on November 12 when they opposed the H.R. 2655, Lawsuit Abuse Reduction Act, which would have also overridden the Rules Enabling Act.⁷³ We believe the Administration’s objections to LARA are applicable here, namely that the Innovation Act “would circumvent the usual procedure for amending the Federal Rules of Civil Procedure . . . raise the amount and cost of civil litigation and provide more opportunity for unnecessary delay and harassment . . . could chill meritorious claims by deterring worthy plaintiffs from challenging existing laws or seeking novel interpretations of them . . . [and] is an attempt to amend the rules directly, over the objections of the Judicial Conference.”

This is also why Section 6 is so strongly opposed by the Federal judiciary and the American Bar Association. The Committee on Rules of Practice and Procedure of the Judicial Conference wrote to the Committee that “legislation that mandates the contents of the Federal rules contravenes the longstanding Judicial Conference policy opposing direct amendment of the Federal rules by legislation instead of through the deliberative process Congress established in the Rules Enabling Act. . . . We worry that this kind of approach will undermine rather than further, the development of sound rules and practices.”⁷⁴

The ABA also objects, writing “Our primary concerns regard provisions of the bill that call for Congress, rather than the courts, to establish certain rules of procedure for the Federal courts, thereby circumventing a rule making process that has served our justice system for almost 80 years . . . This unhealthy precedent could prompt calls to Congress to provide special rules of procedure in still other areas of the law, leading to the balkanization in the administration of justice—precisely the opposite result that the Rules Enabling Act process was designed by Congress to avoid.”⁷⁵

Second, Congress’ historic deference to the courts on matters involving judicial rules and procedures is not some arcane notion. It is based on the reality that the courts are far better equipped and

⁷² See *id.*, at 6 ¶ 3.

⁷³ See Statement of Administration Policy, H.R. 2655, the Lawsuit Abuse Reduction Act, available at

⁷⁴ Judicial Conference Letter.

⁷⁵ ABA letter.

less partial in making these intricate determinations. As the AIPLA wrote: “We fear that . . . these [changes] would intrude on the established role of the Judicial Conference and would overly restrict the traditional discretion of district court judges to manage their cases. In this regard, AIPLA is concerned that the bill will mandate inflexible rules, many of which have unintended consequences including impeding access to the courts, and we further believe that the Judicial Conference in its own discretion is in a better position to work with the district courts to institute appropriate case management rules.”⁷⁶

In this regard, the Rules Enabling Act provides for a deliberative process for the Judicial Conference to amend court rules and allows input from interested parties, including the public and Congress. Recently, the Judicial Conference issued a request for comments to its proposed amendments to the Federal rules, including revision of forms and discovery rules.⁷⁷ Before the proposed amendments become final, Congress has the authority to reject, modify, or defer any final rule. Yet, this legislation ignores that reasonable process. A far more appropriate and traditional means of indicating Congress’ interest in a rule making matter include describing specific concerns in a committee report.

Though our fundamental concern with section 6 is that it undermines the independence of the Judiciary, it is important to note that section 6 includes two unrelated substantive amendments to the Bankruptcy Code. Section 6(d) of the Innovation Act makes two significant amendments to the Bankruptcy Code, first by requiring that U.S. law be applied to patent licenses in international bankruptcy cases, whether or not it should apply to that license, and second by requiring bankruptcy trustees to perform certain duties under trademark licenses even where it has no assets or ability to do so. Both of these changes are strongly opposed by the National Bankruptcy Conference, a leading group of non-partisan bankruptcy legal experts.

The first change is an attempt to pre-empt an appeal currently pending in the 4th Circuit Court of Appeals.⁷⁸ The issue before the court is whether the U.S. bankruptcy court erred in ruling that Bankruptcy Code section 365(n) may be applied to a German insolvency proceeding to constrain the application of German law. Given the gravity of this issue and its international ramifications, the United States filed an *amicus* brief in that case.

The second change regarding the treatment of trademarks is also significant because it could result in an impossibility, i.e., requiring a debtor that essentially has gone out of business to perform certain affirmative duties, even where there are no assets available to fund the execution of such duties. In effect, section 6(d) imposes an affirmative duty on a debtor-licensor that has rejected a license contract to monitor and control the quality of the licensed product or service.⁷⁹ This provision would apply to all types of bankruptcy,

⁷⁶ AIPLA letter.

⁷⁷ See Preliminary Draft of Proposed Amendments to the Federal Rules of Bankruptcy and Civil Procedure: Request for Comment (Aug. 15, 2013), available at <http://www.uscourts.gov/uscourts/rules/preliminary-draft-proposed-amendments.pdf>.

⁷⁸ *In re Qimonda AG*, 462 B.R. 165 (Bankr. E.D. Va. 2011) [give subsequent history].

⁷⁹ This provision would apply to all types of bankruptcy cases, that is, liquidating chapter 7 cases, reorganizing chapter 11 cases, and transnational chapter 15 bankruptcy cases. For exam-

including a chapter 7 case where the debtor has gone out of business, but would nonetheless be required to perform certain duties with respect to this form of trademark. As with the other aspect of section 6(d), this provision has nothing to do with the issue of abusive patent litigation. Obviously, careful consideration of the implications of a change is necessary if we are to avoid unintended consequences. Although we believe the issues presented by section 6(d) are worthy of further consideration, in the absence of any substantive analysis or deliberative process of these issues, we cannot support them.

There are numerous other provision in the bill which like the bankruptcy amendments are also unrelated to the issues of patent “trolls”, yet they somehow made there way into the legislation. For example, section 9(a) repeals section 145 of the patent law, granting patent owners the right to a de novo review of the denial of a patent application.⁸⁰ Section 9 (i) for some reason extends the time period for bringing judicial discipline proceedings, even though we understand the PTO does not need this authority, as they can use tolling agreements if time is running out in a disciplinary matter. These are just two examples, but the legislation includes numerous so-called “technical changes” which clearly warrant further vetting.

CONCLUSION

We have stated repeatedly that we are willing to work with the Majority and any and all stakeholders and interested parties to develop a fair process to consider common sense solutions that would improve the patent system and respond to the problems posed by asymmetries in the patent litigation system. That is why we all voted for a Democratic Substitute that would have pursued such a reasonable legislative route.⁸¹ We also strongly believe that any serious reform of the patent laws must include once and for all an end to fee diversion from the USPTO to ensure adequate hiring, proper training of examiners, and sustained patent quality. How-

ple, in a chapter 7 case where the debtor has ceased to exist because it has gone out of business, this provision would require the bankruptcy trustee to perform certain duties even where there are no assets available to fund the execution of such duties.

⁸⁰ Currently, the patent applicant has an option to appeal an adverse decision by the USPTO on their patent application directly to the Federal Circuit under 35 U.S.C. § 141 or to initiate an action against the USPTO in district court under 35 U.S.C. § 145. While the scope of review on appeal to Federal Circuit is narrowly based upon the record that was before the USPTO, the district court considers the denial de novo. Therefore, proceedings before the district court may consider new evidence and subpoena witnesses that were unavailable or unwilling to appear before the USPTO. The Supreme Court in *Kappos v. Hyatt* recently affirmed the expansive breadth of evidence that a patent applicant may introduce in a § 145. There the USPTO argued that a district court should only admit new evidence if the patent applicant had no reasonable opportunity to present it to the USPTO during its consideration of the application. The USPTO also argued that even when new evidence was permitted to be introduced, the district court should consider that evidence along with the findings of the agency under a deferential standard of review. The Supreme Court rejected both arguments finding instead that an applicant in a § 145 proceeding was limited only by the Federal Rules of Evidence and the Federal Rules of Civil Procedure with respect to new evidence that could be introduced and that the district court’s determinations of disputed questions of fact based on new evidence would be de novo.

⁸¹ At the markup, Democratic Members of the Committee overwhelmingly supported a substitute that responded to the real problems of patent abuse without upsetting the entire patent law system. In addition to including provisions concerning real parties in interest, customer stays, and small business assistance, the substitute, offered by Ranking Members Conyers and Watt, included a revolving fund to end fee diversion, required a study on the practice of deceptive demand letters and a report with tailored recommendations on changes to laws and regulations that would deter the use of those letters. Unfortunately, the substitute failed 13–17 on a nearly party line vote. We believe that the substitute provides a better baseline legislative approach from which to begin to address abusive tactics by the “patent trolls.”

ever, we are unwilling to support changes that go well beyond the problems of patent “trolls,” would create an imbalance in the patent system skewed in favor of big corporate interests, negatively impact all patent owners thereby undermining innovation, and would encroach on our longstanding deference to the prerogatives of the Judiciary. For these reasons, we dissent from H.R. 3309.

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MELVIN L. WATT.
SHEILA JACKSON LEE.
HENRY C. “HANK” JOHNSON, JR.

