



Legislative Briefing

BSA Analysis of H.R. 3309, the Innovation Act

Sec. 3. Patent Infringement Actions

1) Heightened initial pleading requirements — provides for enhanced initial pleading requirements that would require a patentee to identify the patents and claims infringed, and more specificity as to exactly how they are infringed.

***BSA Position:** BSA supports this section. Patent litigation is very technical by its nature, so it is important for defendants to be well informed as to the underlying basis for the lawsuit when it begins. This will help deter frivolous allegations by patentees that seek to take advantage of the unique complexity of patent litigation.*

2) §285 Fee Shifting — aligns fee shifting in patent cases with the standard that is used for awarding fees against the U.S. under the Equal Access to Justice Act (28 U.S.C. §2412(d)). The EAJA was enacted in 1980, and there is now a well-developed body of case law explaining what “substantially justified” means in the fee-shifting context. The standard is reasonably fair and predictable and is reliably enforced. The provision also allows for limited joinder of parties (ex: parent entity) to satisfy a fee-shifting award.

***BSA Position:** BSA supports this section.*

BSA believes that it is important for the legislative history to provide guidance explaining that if a patentee demands a large sum of money but only wins a small amount, the patentee should not be considered the prevailing party.

3) Joinder provision — allow courts to join parties that have an interest in the patent or patents at issue.

***BSA Position:** BSA believes this section should be removed and replaced with a discretionary bonding provision. BSA appreciates that this section has been added to ensure that litigants cannot skirt the strengthened fee-shifting language by using an unfunded shell company as the plaintiff that will file for bankruptcy if a court orders it to pay the other side’s attorney fees. BSA is concerned that this may have some severe unintended consequences. Our biggest concern is that this may raise constitutional issues because the provision creates standing for parties that would otherwise not have it. For example, parties that only have the right to sublicense a patent would automatically become plaintiffs under this section even though they*

clearly do not have standing to sue on their own. This would also be true for parties that have a direct financial interest but do not currently have a right to sue.

Furthermore, this section expressly excludes “a person whose sole financial interest in the patent or patents at issue is ownership of an equity interest in the party alleging infringement, unless such person also has the right or ability to influence, direct, or control the civil action.” The intent here likely is to exclude shareholders of a traditional company who may have some “equity” interest, but this language leaves the door wide open for LLC shell companies to be excluded — and they are exactly the entities we believe the language is trying to capture.

BSA believes a better approach would be replacing this provision with a discretionary bonding provision. Discretionary bonding would strengthen fee shifting section and alleviate the need for the Joinder section. Bonding is preferable because it creates up-front costs that would deter fly-by-night litigants. At the same time, BSA believes that judges should have latitude as to when a bond would be required. This will promote fairness in the system while deterring frivolous lawsuits.

4) Discovery in patent cases — gives courts ability to limit discovery until claim construction occurs.

BSA Position: *BSA supports this provision.*

Sec. 4. Transparency of Patent Ownership:

1) Upon filing the initial complaint the plaintiff is required to provide parties, the Court and the PTO with basic information about the patent (ex: ultimate parent entity, parties with a financial interest, etc.). Also requires the patentee to keep that information updated for the life of the patent.

BSA Position: *BSA members would like this provision to be stronger. Limiting the application of the provision to just patents that have been in litigation will have a positive, but minimal effect in promoting transparency throughout the patent system. We understand that patent holders would have to devote time and resources to update their disclosures to the PTO of their current portfolios, but we believe these are outweighed by the benefit to maintain a public record by the PTO of actual ownership of a patent. We believe a system could be developed that requires patentees to update assignee information at set period of times, e.g. payment of maintenance fees.*

Sec. 5. Customer-suit exception:

1) Allows a manufacturer to intervene in a suit against his customers, and allows the action to be stayed as to the customer, if both the manufacturer and customer agree. The goal is to allow a manufacturer/supplier to intervene and stay cases against downstream alleged infringers, provided that there is an adequate remedy against the intervener. The provision

accounts for indemnity agreements and help prevent gamesmanship. (Such suits tend to be coercive and are an abusive patent litigation tactic).

***BSA Position:** BSA supports the basic concept underlying this provision. BSA, however, has serious concerns on the breadth of the current language in the provision. As currently drafted, the provision will allow defendants to game the system by requiring the patentee to try only a part of the case in the manufacturer's lawsuit and then making them try the rest of the case in the subsequent customer suit (that was stayed during the manufacturer's suit). This would drastically delay the ability of patent holders to enforce legitimate patent claims. BSA has submitted proposed edits to Chairmen Leahy and Goodlatte that would alleviate these concerns but still protect end-users and customers).*

Sec. 6. Procedures and Practices to Implement and Recommendations to the Judicial Conference:

- 1) Requires the Judicial Conference to promulgate rules and procedures on core document discovery.
- 2) Case Management — provides for procedures to ensure initial disclosure and early case management conference practices in District Courts, to help identify any potentially case-dispositive issues.
- 3) Revision of form for filing a patent infringement case — includes eliminating Form 18 and allows for development of an updated form.
- 4) Protection of IP licenses in bankruptcy — ensures that U.S. law is followed and not foreign law, that IP licenses are not eliminated in bankruptcy. Section 365(n) of title 11 prevents a bankruptcy trustee from terminating licenses to patents and other intellectual-property of the debtor. When Congress enacted § 365(n) in 1989, it recognized that allowing patent and other IP licenses to be revoked in bankruptcy would be extremely disruptive to the economy and damaging both to patent owners and to licensing manufacturers. Manufacturers often invest billions of dollars in reliance on their right to practice a technology pursuant to a license. Allowing the license to be eliminated in bankruptcy would create commercial uncertainty and would undermine manufacturing investment.

***BSA Position:** BSA supports this section. BSA appreciates the Chairman's work in strengthening this section from the original discussion draft. We believe that the provision gives adequate guidance to the Judicial Conference that efficient discovery rules will be promulgated.*

Sec. 7. Small Business Education, Outreach, and Information Access:

- 1) PTO educational resources and outreach programs for small business concerns arising from patent infringement and abusive patent litigation practices.

2) Develop PTO website to include patent transparency information.

BSA Position: *BSA supports this section.*

Sec. 8. Studies on Patent Transactions, Quality, and Examination:

1) Study on secondary market oversight for patent transactions to promote transparency and ethical business practices.

2) Study on patents owned by the U.S. government.

3) Study on patent quality and access to the best information during examination.

BSA Position: *BSA supports this section.*

Sec. 9. Improvements and Technical Corrections to the Leahy-Smith America Invents Act:

1) Section 145 — with the AIA in place, section 145 is no longer needed. Every entity who could pursue a section 145 to have new evidence considered can accomplish the same consideration administratively through a continuation application.

BSA Position: *BSA supports this section.*

2) Post-Grant Review technical amendment — estoppel fix (“issues raised”), ensures that we promote high quality patents going forward and that PGR functions effectively.

BSA Position: *BSA supports this section.*

3) Post-Grant and Inter Partes claim construction — ensures that claims of issued patents be construed as a matter of law in post-grant and inter partes review, since the proceedings are an adjudication of the validity of issued patent claims and not a reexamination of the claims of an issued patent. Ensures that the proceedings are implemented in line with Congressional intent, and brings consistency to PTO proceedings, which uses judicial claim construction in reexaminations where the claims are no longer permitted to be freely amended. Provision ensures that PTO considers prosecution history, prior statements, etc. to help reach proper claim construction.

BSA Position: *BSA opposes this section. BSA members believe this section will HELP — not hurt trolls. This limits the ability for the public to challenge invalid patents in both inter partes and post-grant review proceedings. It will also undermine 100 years of Patent Office practice. This tradition exists for at least the following reasons: 1) because the PTO has an expertise that district courts do not; 2) patents are presumed valid in a district court but not at the PTO; and 3) patentees have the option of adding new claims in post-grant and inter partes, but they do not have this option in a district court litigation. At the same time, we*

support the ancillary concept in the provision that it is appropriate for the PTO to consider a district court's claim construction.

4) Prior art in cases of double patenting — codifies the double-patenting doctrine and applies it to first to file patents, controlling the effects of exceptions to prior art that permit a patentee to obtain multiple patents for what is basically the same invention and then sell those patents to different parties, requiring others to obtain multiple licenses from multiple parties to practice the invention.

BSA Position: *BSA is neutral on this section*

5) Business Method Patent Reviews — codifies PTO's current practices that are in line with AIA legislative intent, and eliminates the opportunity for gamesmanship by applying the program to all first to invent patents. Clarifies several aspects of the definition of "covered business method patent," codifying the interpretation of the words "practice, administration, or management of a financial product or service" to that adopted by the PTAB decision in *SAP v. Versata*.

BSA Position: *BSA opposes this section and we respectfully recommend that the Chairman remove the proposed changes to Section 18. We support the Chairman's goal of weeding out invalid business method patents that should never have issued, but we are concerned that the Chairman's proposed amendments could exacerbate the uncertainties that currently exist with current program.*

As an initial matter, changing the law is premature. The program was supposed to be a pilot program. It is only a year old and has only produced one final decision applying the new statute. The outcome of a single case (especially when it is the first of its kind) does not provide any reasoned basis for determining whether the Program will be successful or to assess either the positive or the negative consequences of providing this specialized proceeding. At a minimum, we would urge the Chairman to wait until there is a developed record upon which to determine the relative benefits and risks of the CBM Program before seeking to expand it to additional areas of technology or change the sunset.

The program discriminates against one field of technology over another, which is against 200 years of tradition in United States patent law. Congress has consistently taken the view that patents in all fields of technology should be subject to the same rules and requirements, and that it is inappropriate to single out a particular industry or field of technology for discriminatory treatment under U.S. patent law.

The American Invents Act established two low cost programs to challenge questionable patents (post-grant and inter partes review) that cover all patented technologies. These programs are permanent, non-discriminatory, and are being widely used. By contrast the CBM provision of the AIA was meant to be temporary

and limited, to address a narrow set of patents in the financial services area. This narrow scope should be maintained.

5) Clarification of limits on patent term adjustment — provision clarifies that no “B delay” patent-term adjustment (PTA) may be awarded for any of the time accrued after an applicant has restarted prosecution by filing an RCE (request for continued examination). If not corrected would allow indefinite PTA for RCEs that are filed after three years of prosecution.

BSA Position: BSA is neutral on this section.