

AMERICAN BAR ASSOCIATION  
SECTION OF INTELLECTUAL PROPERTY LAW

**2013 FALL COUNCIL MEETING**

Friday, November 8, 2013

Marriott O'Hare Hotel, Chicago, IL

**Innovation Act Task Force Resolutions and Reports**

Note that the resolutions have been through a series of friendly amendments and review processes before being brought to Council

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Resolution IATF 3-A

RESOLVED, the Section of Intellectual Property Law opposes, in principle, legislation that would impose heightened pleading requirements for patent infringement actions beyond those established by the Federal Rules of Civil Procedure and existing Supreme Court and Federal Circuit precedent.

FURTHER RESOLVED, the Section of Intellectual Property Law opposes, in principle, legislation that eliminates Form 18 in the Appendix to the Federal Rules of Civil Procedure.

FURTHER RESOLVED, the Section opposes the enactment of section 3(a) or 6(c) of H.R. 3309, 113<sup>th</sup> Congress, or similar legislation.

**To:** ABA IP Section Committee 106 (Patent Litigation) Voting Members

**From:** Keith Syverson (Ad hoc subcommittee chair)  
Lindsay Korotkin (Ad hoc subcommittee member)  
Lawrence Pope (Ad hoc subcommittee member)  
Anthony Patek (Ad hoc subcommittee member)

**CC:** Heath Hoglund (ABA IPL Patent Division Chair)  
Mike Winkler (ABA IPL Section Director)  
Paul Morico (ABA IPL—Committee 106 Chair)

**Date:** Nov. 1, 2013

**ABA COMMITTEE 106 AD HOC SUBCOMMITTEE  
REPORT & RECOMMENDATION  
SECTION 3(a) of H.R. 3309 (pleading requirements)**

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At the request of the leadership of ABA Committee 106—Patent Litigation, an *ad hoc* subcommittee was formed to provide a report and recommendation regarding Section 3(a) of H.R. 3309. This Bill is principally sponsored by Rep. Goodlatte and is entitled “Innovation Act.” The members of the *ad hoc* subcommittee are Keith Syverson (chair), Lindsay Korotkin, Lawrence Pope, and Anthony Patek.

**I. Summary of Proposed Legislation**

Section 3(a) of H.R. 3309 (the “Goodlatte Bill”) sets forth new pleading requirements for patent infringement allegations. These pleading requirements fall into three categories:

- 1) information commonly disclosed in current pleadings, but not statutorily required (*e.g.*, patents, standing),
- 2) disclosures commonly required significantly later in the proceeding by local patent rules as part of a patentee’s infringement contentions (*e.g.*, detailed infringement contentions), and
- 3) new disclosures, not currently required under common pleading standards or local patent rules (*e.g.*, identification of previously filed complaints asserting infringement of the patents-in-suit).

More specifically, the new pleading requirements are as follows:

**GOODLATTE “INNOVATION ACT” (H.R. 3309) – SECTION 3(a)**  
 **(“PLEADING REQUIREMENTS”)**

Disclosures Already in Current Pleading Standards	Local Patent Rule Disclosures That Will be Required in Pleadings	New Disclosures
<ol style="list-style-type: none"> <li>1. Identity of Asserted Patents</li> <li>2. A description of the right of the plaintiff to assert each patent (i.e., standing)</li> <li>3. Location of principal place of business</li> </ol>	<ol style="list-style-type: none"> <li>1. Identity of each claim asserted</li> <li>2. Identity of each accused instrumentality, including name, model number, etc.</li> <li>3. Where each element of each claim is found and whether infringement is literal or under DoE, direct or indirect</li> <li>4. If alleged infringement is indirect, a description of the direct infringement, the identity of direct infringer(s) if known, and how the acts of the defendant are contributing to or inducing infringement</li> <li>5. Description “<i>with detailed specificity, how the terms in each claim . . . correspond to the functionality of the accused instrumentality</i>”</li> </ol>	<ol style="list-style-type: none"> <li>1. A description of the right of the plaintiff to assert <i>each claim</i> of each patent</li> <li>2. A <i>description</i> of the principal place of business of the plaintiff (“description” implies more than mere location)</li> <li>3. A list of each complaint filed asserting infringement of the patent(s)</li> <li>4. Identification of each patent’s status as “essential” to a standard setting body and is subject to RAND licensing requirements</li> <li>5. Identification of any required information that is not disclosed, why it is not disclosed, and what efforts were made to obtain the information</li> </ol>

As written, the heightened pleading standards apply only to parties asserting patent infringement, either as a plaintiff or as a defendant counterclaimant. However, the Goodlatte Bill does not provide any corresponding heightened pleading standards for asserting non-infringement or invalidity in a complaint or counterclaim for Declaratory Judgment.<sup>1</sup>

**II. Relevant Existing ABA or Section Policy**

- No existing ABA policy. However, a proposal was presented to the council in August of 2013 in Response to a Goodlatte Draft Bill and S.1013, the Patent Abuse Reduction Act introduced by Sen. Cornyn. No action was taken.

**III. Taskforce Recommendation Section 3(a) of the Goodlatte Bill**

The taskforce opposes, in principle, legislatively mandated heightened pleading standards for patent infringement allegations. Further, the taskforce opposes the legislative elimination of Form 18, and thus proposes the following resolution:

RESOLVED, the Section of Intellectual Property Law opposes, in principle, legislation that would impose heightened pleading requirements for patent infringement actions beyond those

<sup>1</sup> See Goodlatte Bill at 2:19-3:1 (“a party alleging infringement shall include in the initial complaint, counterclaim, or cross-claim . . .”). This is noteworthy because just as local patent rules require the exchange of infringement contentions at an early stage, a defendant must disclosure corresponding invalidity contentions.

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established by the Federal Rules of Civil Procedure and existing Supreme Court and Federal Circuit precedent.

FURTHER RESOLVED, the Section of Intellectual Property Law opposes, in principle, legislation that eliminates Form 18 in the Appendix to the Federal Rules of Civil Procedure.

FURTHER RESOLVED, the Section opposes the enactment of section 3(a) or 6(c) of H.R. 3309, 113<sup>th</sup> Congress, or similar legislation.

**Summary of Position:** The Goodlatte Bill drastically increases a patentee’s pleading obligations beyond the requirements established by existing Supreme Court and Federal Circuit precedent without providing any real world benefit to justify the extra burden. This will particularly affect the ability of small entities to defend their patent rights. Patent pleading standards are in flux. Currently, the tension between Form 18 and the plausibility standard announced by the Supreme Court in *Iqbal* and *Twombly* is under study by the Judicial Branch. The Committee on Rules of Practice and Procedure of the Judicial Conference of the United States has recently published proposed rule changes that would effectively eliminate Form 18 and permit patent pleading requirements to develop organically. Additionally, on a fundamental level, the Goodlatte Bill’s heightened pleading requirements run counter to Rule 8’s mandate that a complaint need only provide a short and plain statement of the claim showing that the pleader is entitled to relief. Further, significant legislative changes to pleading standards may not be necessary because existing procedures such as local patent rules and discovery procedures permit courts to use their discretion to effectively manage patent litigation and protect the interests of both patentees and accused infringers. Lastly, the increased pleading standards are decidedly one-sided and all-but guarantee an explosion of motion practice, thereby increasing the cost of litigation.

- **Detailed Analysis:**

- a. Existing Precedent

Existing Federal Circuit precedent holds that a claim for *direct* patent infringement need only comply with the requirements of Form 18 as it exists today.<sup>2</sup> However, claims for indirect infringement are subject to the traditional pleading requirements set forth in *Iqbal*,<sup>3</sup> *Twombly*,<sup>4</sup> and their progeny.<sup>5</sup>

The Federal Circuit has held that “Rule 84, combined with the guidance from the Advisory Committee Note to the 1946 amendments of Rule 84, makes clear that a proper use of a form contained in the appendix of Forms effectively immunizes a claimant from attack regarding the sufficiency of the pleading.”<sup>6</sup> A complaint that satisfies Form 18 need only plead five basic elements: (1) an allegation of jurisdiction; (2) a statement that the plaintiff owns the patent; (3) a

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<sup>2</sup> See *Bill of Lading*, 681 F.3d at 1333-1334.

<sup>3</sup> *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 570, 127 S.Ct. 1955, 167 L.Ed.2d 929 (2007) (A complaint must plead “enough factual matter” that, when taken as true, “state[s] a claim to relief that is plausible on its face.”)

<sup>4</sup> *Ashcroft v. Iqbal*, 556 U.S. 662, 129 S.Ct. 1937, 173 L.Ed.2d 868 (2009).

<sup>5</sup> See *Bill of Lading*, 681 F.3d at 1336 (“The Forms are controlling only for causes of action for which there are sample pleadings”).

<sup>6</sup> *K-Tech Telecomms., Inc. v. Time Warner Cable, Inc.*, 714 F.3d 1277, 1283 (Fed. Cir. 2013).

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statement that defendant has been infringing the patent “by making, selling, and using [the device] embodying the patent”; (4) a statement that the plaintiff has given the defendant notice of its infringement; and (5) a demand for an injunction and damages. Notably, Form 18 does *not* require an allegation of the specific claims allegedly infringed, or an allegation of the specific elements of those claims that the defendant allegedly infringed. Lastly, the Federal Circuit has made clear that in the event of a conflict between the forms and *Twombly* and *Iqbal*, the forms control.

While the forms control, the Federal Circuit has made clear efforts to cabin the effects of Rule 84 and Form 18. Specifically, Form 18 only applies to direct infringement claims—indirect infringement claims are governed by the traditional plausibility standard. According to the Federal Circuit, a plausible claim of contributory infringement requires “among other things” that the plaintiff plead facts to allow an inference that the components sold or offered for sale have no substantial non-infringing uses. In addition, a plausible claim of inducement must support an inference that a defendant specifically intended customers to infringe the patent(s) and knew that its customers’ acts constituted infringement. However, the complaint need not explicitly identify a direct infringer.<sup>7</sup> Lastly, the Federal Circuit has emphasized that the touchstones of an analysis of Form 18-complaints are “notice and facial plausibility” and that the adequacy of the factual allegations depends greatly on the complexity of the asserted patent and the defendant’s allegedly infringing activities.

b. Existing Procedures Provide the Relief Sought

A growing number of jurisdictions have adopted local patent rules requiring the plaintiff to make many of the disclosures mandated by the Goodlatte Bill. Over twenty-five jurisdictions require a plaintiff to identify the asserted claims and include an infringement chart detailing how each element of the accused devices meet each element of the asserted claims. The timing of these disclosures varies between forty-five days after the answer to forty-five days after the case management conference. For example, Southern District of California Local Patent Rule 3.1 requires a plaintiff, within 14 days after the initial case management conference, to disclose, among other things: (a) each claim of each patent that is allegedly infringed; (b) each accused instrumentality; (c) a chart identifying specifically where each element of each asserted claim is found within the accused instrumentality.<sup>8</sup> Lastly, at least ten jurisdictions have adopted local patent rules requiring plaintiffs to produce all documents relating to the ownership of the asserted patents at the same time as they disclose infringement contentions.<sup>9</sup>

Further, to the extent local patent rules do not already provide the same type of disclosures mandated by the Goodlatte Bill, traditional discovery procedures afford district courts discretion to facilitate similar disclosures at an early stage in litigation. The rules governing case management and discovery provide federal courts with adequate tools to deal with any accused infringer’s needs for information on the infringement charge at an early stage. The local patent rules

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<sup>7</sup> *Bill of Lading*, 681. F.3d at 1336 (citations omitted) (holding that all that is required are facts sufficient to allow an inference that at least one direct infringer exists).

<sup>8</sup> See United States District Court for the Southern District of California Patent L.R. 3.1.

<sup>9</sup> See, e.g., Northern District of California Patent L.R. 3-2(d) (requiring the production of “[a]ll documents evidencing ownership of the patent rights by the party asserting patent infringement”); Northern District of Ohio Patent L.P.R. 3-2(d) (same); Northern District of Illinois Local Patent Rule 2.1(a)(4)(requiring the production of “all documents concerning ownership of the patent rights by the party asserting patent infringement”).

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discussed above provide one such example of the district court’s ability to exercise their discretion and develop flexible rules that can evolve as experience dictates without a further act of Congress.

c. Potential Problems with the Goodlatte Bill

The Goodlatte Bill’s heightened pleading standards are problematic for a variety of reasons. As an initial matter, the burden has not been justified by any offsetting benefit. There is no clear empirical evidence connecting existing infringement pleading standards with frivolous lawsuits.

Further, the Bill creates a very specific “patent exception” to the plausibility standards announced by the Supreme Court in *Iqbal* and *Twombly*. As the “plausibility” standard continues to evolve, the Federal Circuit will again have to navigate conflicting statutory pronouncements with Supreme Court precedent.<sup>10</sup> By legislatively mandating patent specific pleading standards, the Goodlatte Bill strips the courts of their ability to manage patent litigation effectively. As noted above, the courts have a plethora of tools to manage litigation: traditional discovery tactics, local patent rules, etc. District courts and the Federal Circuit have the hands-on experience with patent litigation to effectively resolve any problems or imbalances with the current pleading standards should they arise.

Further, there will be an explosion of litigation to determine the metes and bounds of what constitutes “detailed specificity” and the circumstances in which a party may fail to include certain aspects. For example, given how common motion practice is regarding the sufficiency of claim charts, it seems inevitable that there will be serial motions to dismiss every time a complaint is filed as the defendant(s) allege that the plaintiff has failed to supply a sufficient level of detail to satisfy the pleading requirements of § 281A. Even if some of these motions are justified, most will likely be dilatory and do little to move the case forward. This will only serve to further drive up the cost of litigation. In this regard, this motion practice around the sufficiency of the complaint will take place before the court has any familiarity with the case or the potential discovery burden. As many of the existing local rules wisely propose initial disclosure requirements are much better dealt with after a case management conference and in the context of reviewing the discovery plan mandated by FRCP 26.

Additionally, several of the Bill’s requirements are deceptively similar to existing pleading or disclosure requirements, but potentially require a higher level of detail. For example, patent complaints commonly include a statement of standing to assert the patent (*e.g.*, a statement of ownership or exclusive license) and an identification of the plaintiff’s principal place of business (*i.e.*, an address). Inexplicably, the Goodlatte Bill requires identification not only of standing to assert the patent, but “a description of the right of the party asserting infringement to assert . . . each patent *claim* identified [in the detailed infringement contentions].”<sup>11</sup> Furthermore, by requiring “a description of” the plaintiff’s principal place of business,<sup>12</sup> the proposed legislation could be construed to require a description of the activities performed at the principal place of business.

Similarly, the Goodlatte Bill requires not only claim charts as part of the patent infringement complaint, but further requires that the patentee describe, “*with detailed specificity*,

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<sup>10</sup> For example, there has been an ongoing struggle to interpret Supreme Court pleading standard precedent in light of Rule 84 and Form 18.

<sup>11</sup> Goodlatte Bill at 4:20-25.

<sup>12</sup> Goodlatte Bill at 5:1-2.



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*how the terms in each claim . . . correspond to the functionality of the accused instrumentality.”*<sup>13</sup> While the Goodlatte Bill’s language requiring infringement contentions (*i.e.*, §§ 281A(a)(5)(A)-(B)) generally parallels that of existing local patent rules in prominent patent jurisdictions, the requirement for a specific description of how “the *terms* in each claim” correspond to the accused instrumentalities is not required by the local rules until much later in the proceeding at the claim construction stage.<sup>14</sup> The Bill’s use of the word “terms” could be construed as requiring patent plaintiffs to include proposed claim constructions as part of the patent infringement complaint.

d. Rule 84 and Form 18 Should be Evaluated through Proper Channels

The Goodlatte Bill also legislatively eliminates Form 18.<sup>15</sup> While the Federal Circuit has expressed frustration with Rule 84 and the requirement that it must follow Form 18, the taskforce strongly believes that a legislative solution is not the proper approach. The Committee on Rules of Practice and Procedure of the Judicial Conference of the United States (“Committee”) recently published a Request for Comment on proposed amendments to the Federal Rules of Civil Procedure. Of particular importance to us here, the Committee recommends abrogating Rule 84 due, in part, to the “tension between the pleading forms and emerging pleading standards.”<sup>16</sup> Having the time and resources to adequately study the role the forms play in litigation—not just patent litigation—the Committee is in a far better position to weigh in on the continued legitimacy of Rule 84. For example, the Committee has been studying the effect the forms, including Form 18, have on the development of pleading standards for almost two years, and only recently published proposed rule change for comment.<sup>17</sup> The taskforce believes that any changes to Rule 84 or Form 18 should go through the usual channels—*i.e.*, through the Judicial Conference—without action by Congress.

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<sup>13</sup> Goodlatte Bill at 4:7-10 (proposed § 281A(a)(5)(C)).

<sup>14</sup> Compare *id.*, 4:1-6 (proposed §§ 281A(a)(5)(A)-(B) requiring identification of where each “element” is located in each Accused Instrumentality) with N.D. Cal. L. Pat. R. 3-1 (requiring description of where each “limitation” is present in the Accused Instrumentality); E.D. Tex. L. Pat. R. 3-1 (same), N.D. Ill. L. Pat. R. 2.2 (same).

<sup>15</sup> Goodlatte Bill at Section 6(c)(1) (“The Supreme Court, using existing resources, shall eliminate Form 18 in the Appendix to the Federal Rules of Civil Procedure”).

<sup>16</sup> Committee on Rules of Practice and Procedure of the Judicial Conference of the United States Request for Comment (“Request for Comment”) (August 2013), available at <http://www.uscourts.gov/uscourts/rules/preliminary-draft-proposed-amendments.pdf>.

<sup>17</sup> See Minutes of the Advisory Committee on Civil Rules, April 11-12, 2013, at p 219-255 (Memoranda regarding Rule 84 and discussing case law analyzing the forms, including Form 18).

*Innovation Act, Section 3(a) [enhanced pleading requirements]*  
**ABA IPL PATENT LITIGATION COMMITTEE VOTING MEMBER REPORT**

39 approve;  
4 do not approve;  
2 abstain

Approve

- |  |  |                                    |
|--|--|------------------------------------|
| 1. Orion Armon                           | 15. Lauren R Keller-<br>Katzenellenbogen | 28. Lawrence Pope                  |
| 2. Robert Michael<br>Asher               | 16. Arif A. Mahmood                      | 29. Alan G Ratliff                 |
| 3. Charles S Barquist                    | 17. John J Marshall                      | 30. Craig A Redinger               |
| 4. Matthew Kemp<br>Blackburn             | 18. Edward Michael<br>Mathias            | 31. Stephanie L<br>Roberts         |
| 5. Arnold B Calmann                      | 19. Robert Allison<br>Matthews Jr        | 32. Elizabeth Delgado<br>Rodriguez |
| 6. Brian C Carroll                       | 20. James G McEwen                       | 33. Harrie Samaras                 |
| 7. Frederick L<br>Cottrell III           | 21. Frederic Meeker                      | 34. Richard Stephen<br>Stockton    |
| 8. Kristopher Ryan<br>Davis              | 22. Adrian Mollo                         | 35. Marc K Temin                   |
| 9. Walter D Davis Jr                     | 23. Paul Richard<br>Morico               | 36. Roderick Manley<br>Thompson    |
| 10. David Dawsey                         | 24. Jonathan A<br>Muenkel                | 37. Donald Edward<br>Tiller        |
| 11. Catherine<br>Thompson<br>Dobrowitsky | 25. D Christopher<br>Ohly                | 38. Jeremy A Younkin               |
| 12. Robert E Freitas                     | 26. Anthony Jude<br>Patek                | 39. Steven McMahan<br>Zeller       |
| 13. Gary N Frischling                    | 27. Christopher<br>Ponder                |                                    |
| 14. Bryan W Jones                        |  |                                    |

Not Approve

- |                    |                     |
|--------------------|---------------------|
| 1. Jamil N Alibhai | 3. David L Marcus   |
| 2. Richard Gervase | 4. Jeffrey C Morgan |

## Abstain

1. Nathaniel Brandon Lipkus
2. William R Poynter

## Not Heard From

1. Dawn Rudenko Albert
2. Vincent J Allen
3. Elaine H Blais
4. Virginia L Carron
5. Priya Sinha Cloutier
6. Michael J Colitz III
7. Timothy Andrew Cook
8. Jennifer Ann Dukarski
9. Judie Dziezak
10. Stanley E Fisher
11. Ryan M Fountain
12. Nicole Dominique Galli
13. Herbert Davis Hart III
14. C Erik Hawes
15. Richard L Horwitz
16. Sharon A Israel
17. Willard Jones II
18. David Arthur Kalow
19. Kristopher Benjamin Kastens
20. Nicole Elizabeth Kopinski
21. Gasper J Larosa
22. Joshua Paul Larsen
23. Brandon J Mark
24. Thomas Morrow
25. Richard F O'Malley Jr
26. Brian Pandya
27. Donika Pentcheva Pentcheva
28. Sean Christian Platt
29. Tammy Pennington Rhodes
30. Jerry Allen Riedinger
31. Paul A Roberts
32. Nancy Lynn Schroeder
33. Qin Shi
34. J Mark Smith
35. Jason Charles Spiro
36. Richard Judson Stark
37. William Teoli
38. Stephen J Tytran
39. Stanton David Weinstein

Resolution IATF 3-C

RESOLVED, that the Section of Intellectual Property Law supports the continued necessary discretion to federal district courts in case management, including in matters relating to joinder of parties in patent cases under existing Section 299 of title 35 of the U.S. Code; and

FURTHER RESOLVED, the Section opposes, in principle, enactment of section 3(c) of H.R. 3309 (Innovation Action), 113th Congress, or similar legislation.

**To:** ABA IP Section Committee 106 (Patent Litigation) Voting Members

**From:** Parrish Freeman (Ad hoc subcommittee chair)  
Frederick L. Cottrell III (Ad hoc subcommittee member)  
C. Erik Hawes (Ad hoc subcommittee member)  
Elizabeth Brann (Ad hoc subcommittee member)

**CC:** Heath Hoglund (ABA IPL Patent Division Chair)  
Mike Winkler (ABA IPL Section Director)  
Paul Morico (ABA IPL—Committee 106 Chair)

**Date:** Nov. 1, 2013

**ABA COMMITTEE 106 *AD HOC* SUBCOMMITTEE  
REPORT & RECOMMENDATION  
SECTION 3(c) of H.R. 3309**

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**I. Introduction**

At the request of the leadership of ABA Committee 106—Patent Litigation, an *ad hoc* subcommittee was formed to provide a report and recommendation regarding Section 3(c) of H.R. 3309 (“the Bill”). The Bill is principally sponsored by Rep. Goodlatte and is entitled “Innovation Act.” The members of the *ad hoc* subcommittee are Parrish Freeman (chair), Frederick Cottrell, Erik Hawes, and Elizabeth Brann.

**II. Summary of Section 3(c)**

Section 3(c) of the Bill would amend the existing version of 35 U.S.C. § 299 by adding a new subsection (d) specifically governing joinder of “interested parties” in patent cases. Under § 299(d)(1), a court presiding over a patent case “shall” grant a defendant’s motion to join an “interested party,” but only “if such defending party shows that the party alleging infringement has no substantial interest in the patent or patents at issue other than asserting such patent claim in litigation.” Subsection (d)(2) creates exceptions if the proposed joinder is impractical because the party to be joined is not subject to service of process or the joinder would negatively affect venue or subject matter jurisdiction.

Subsection (d)(3) sets forth the definition of “interested party.” The first two portions of the definition ((A) an assignee or (B) one with the right to enforce or license the patent) add little, as they refer to persons that would almost always be joined as plaintiffs under the current law. The third portion (§ 299(d)(3)(C)) covers a person with “a direct financial interest in the patent or patents at issue, including the right to any part of an award of damages or any part of licensing revenue” – with two exceptions: (1) an attorney with a contingent fee agreement; and (2) one who holds an ownership interest in the plaintiff, *unless* that interest also comes with “the right or ability to influence, direct, or control the civil action.”

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REPORT & RECOMMENDATION  
SECTION 3(c) of H.R. 3309**

**II. Relevant Existing ABA or Section Policy**

The *ad hoc* subcommittee has reviewed the latest iterations of both the ABA’s Green Book (Ch. 13 as of 08/2012) and the IP Section’s Past Actions Book (4/16/2013) and finds no existing policy pertinent to the issue of joining non-parties as co-plaintiffs to a patent case

**III. Analysis and Recommendation Regarding Section 3(c)**

It appears the intent of Section 3(c) of the Bill is to require the forced joinder as co-plaintiffs those companies or entities “behind” the plaintiff patent assertion entities. The apparent concern is that many of these patent assertion entities are sole asset companies or LLCs (the sole assets being the patents). Since they have no assets, they have nothing to lose and are thus in effect insulated from exposure to adverse judgments, most commonly in the form of attorney fee and costs awards. Joinder would avoid this scenario by adding to the litigation the companies or entities that own interests in the LLCs and likely have assets to satisfy any monetary judgments against the plaintiffs. There may be other reasons behind Section 3(c) but this is the one most evident on the face of the Bill itself.

The task force opposes, in principle, a rule that requires a court to join as co-plaintiffs companies or entities “behind” the plaintiff patent assertion entities, and thus proposes the following resolution:

RESOLVED, that the Section of Intellectual Property supports the continued necessary discretion to federal district courts in case management, including in matters relating to joinder of parties in patent cases under existing Section 299 of title 35 of the U.S. Code; and

NOW THEREFORE, the Section opposes, in principle, enactment of section 3(c) of H.R. 3309 (Innovation Action), 113th Congress, or similar legislation.

- **substantial interest**

Under Section 3(c)’s proposed § 299(d)(1), a court “shall grant a motion” to join an interested party if the moving party can show that the party alleging infringement “has no substantial interest in the patent or patents at issue other than asserting such patent claim in litigation.” Here, the language “substantial interest” is problematic because it will likely prevent any part of Section 3(c) from ever being used. For example, a plaintiff in a patent case typically needs to be either the owner of the patent or, if the plaintiff is not the owner, an exclusive licensee with the right to bring patent infringement litigation. Thus, by definition, the necessary plaintiff will have a “substantial interest” in the patent in that it either owns the patent or is the exclusive licensee with the right to sue. Therefore, since in almost every case the plaintiff will already have a substantial interest in the patent, the initial provisions of the joinder section will

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SECTION 3(c) of H.R. 3309**

not be satisfied and the court will not be required to join “interested parties.” In other words, a court will never need to address the remaining provisions of the joinder section, including the identity of any “interested parties.”

- **interested parties**

Regarding Section 3(c)’s proposed § 299(d)(3), the *ad hoc* subcommittee notes that subsections (A) and (B) seem superfluous in that they refer to parties that would almost always be included as plaintiffs at the outset of the litigation. In other words, an assignee of the patent or a party having the right to enforce the patent would probably need to be named as the party plaintiffs at the outset of litigation. Thus, perhaps the only section under “interested parties” that could actually force the naming of an additional party is subsection (C), which refers to persons having a “direct financial interest in the patent or patents at issue.” However, this definition of persons having such an interest expressly excludes (1) legal counsel retained on a contingency fee basis and (2) “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 has the right or ability to influence, direct or control the civil action.”

The problematic language here is “unless such person has the right or ability to influence, direct or control the civil action.” It seems likely that such an analysis could become fact intensive with early discovery, briefing and a hearing needed on whether certain persons meet the definition and should therefore be joined. This would add to the litigation costs for both sides.

Some on the *ad hoc* subcommittee are concerned that there is the potential here to force a corporate veil-piercing without inquiry into whether the applicable state law test for piercing has been satisfied. The concern is that Section 3(c) appears to summarily impute the acts of the business entity upon certain of its principals or owners, such as corporate parents, and in doing so ignores the separate existence of the business entity. This seems to stand in direct conflict with various statutory schemes in place in most states. In the view of some on the *ad hoc* subcommittee, this apparent conflict and any policy concerns implicated would seem to warrant further discussion.

#### **IV. Conclusion**

In conclusion, the goal of allowing a defendant recourse against the real party in interest in non-practicing entity suits is understandable. However, Section 3(c) as worded does not implement this goal. For the reasons stated above, the *ad hoc* subcommittee recommends not endorsing or otherwise supporting Section 3(c) of the Bill as presently written.

*Innovation Act, Section 3(c) [joinder of interested parties]*  
**ABA IPL PATENT LITIGATION COMMITTEE VOTING MEMBER REPORT**

40 approve;  
3 do not approve;  
2 abstain

Approve

- |                                    |                                |                                 |
|------------------------------------|--------------------------------|---------------------------------|
| 1. Paul Richard Morico             | 14. Gary N Frischling          | 28. Sean Christian Platt        |
| 2. Matthew Kemp Blackburn          | 15. Richard Gervase            | 29. Lawrence Pope               |
| 3. Orion Armon                     | 16. Sharon A Israel            | 30. William R Poynter           |
| 4. Robert Michael Asher            | 17. David L Marcus             | 31. Alan G Ratliff              |
| 5. Charles S Barquist              | 18. John J Marshall            | 32. Craig A Redinger            |
| 6. Brian C Carroll                 | 19. Edward Michael Mathias     | 33. Stephanie L Roberts         |
| 7. Frederick L Cottrell III        | 20. Robert Allison Matthews Jr | 34. Elizabeth Delgado Rodriguez |
| 8. Kristopher Ryan Davis           | 21. James G McEwen             | 35. Harrie Samaras              |
| 9. Walter D Davis Jr               | 22. Frederic Meeker            | 36. Richard Stephen Stockton    |
| 10. David Dawsey                   | 23. Adrian Mollo               | 37. Marc K Temin                |
| 11. Catherine Thompson Dobrowitsky | 24. Jonathan A Muenkel         | 38. Donald Edward Tiller        |
| 12. Judie Dziezak                  | 25. D Christopher Ohly         | 39. Jeremy A Younkin            |
| 13. Robert E Freitas               | 26. Brian Pandya               | 40. Steven McMahon Zeller       |
|                                    | 27. Anthony Jude Patek         |                                 |

Not Approve

- |                    |                                     |                             |
|--------------------|-------------------------------------|-----------------------------|
| 1. Jamil N Alibhai | 2. Lauren R Keller-Katzenellenbogen | 3. Roderick Manley Thompson |
|--------------------|-------------------------------------|-----------------------------|

Abstain



1. Nicole Dominique  
Galli

2. Nathaniel Brandon  
Lipkus

Not Heard From

1. Dawn Rudenko  
Albert

18. Kristopher  
Benjamin Kastens

35. Jason Charles  
Spiro

2. Vincent J Allen

19. Nicole Elizabeth  
Kopinski

36. Richard Judson  
Stark

3. Elaine H Blais

20. Gasper J Larosa

37. William Teoli

4. Arnold B Calmann

21. Joshua Paul Larsen

38. Stephen J Tytran

5. Virginia L Carron

22. Arif A. Mahmood

39. Stanton David  
Weinstein

6. Priya Sinha  
Cloutier

23. Brandon J Mark

7. Michael J Colitz  
III

24. Jeffrey C Morgan

25. Thomas Morrow

8. Timothy Andrew  
Cook

26. Richard F  
O'Malley Jr

9. Jennifer Ann  
Dukarski

27. Donika Pentcheva  
Pentcheva

10. Stanley E Fisher

28. Christopher  
Ponder

11. Ryan M Fountain

29. Tammy  
Pennington  
Rhodes

12. Herbert Davis  
Hart III

30. Jerry Allen  
Riedinger

13. C Erik Hawes

31. Paul A Roberts

14. Richard L  
Horwitz

32. Nancy Lynn  
Schroeder

15. Bryan W Jones

16. Willard Jones II

33. Qin Shi

17. David Arthur  
Kalow

34. J Mark Smith

Resolution IAFT3-D

RESOLVED, that the Section of Intellectual Property Law supports, in principle, the judicial rulemaking process set forth in the Rules Enabling Act for the development of procedural rules and rules for case management for federal courts, including in patent related cases.

FURTHER RESOLVED, that the Section supports continued extension of necessary discretion to federal district courts in scheduling and case management, including in matters relating to discovery in patent cases.

FURTHER RESOLVED, that the Section opposes the enactment of section 3(d) of H.R. 3309, 113<sup>th</sup> Congress, or similar legislation.

**To:** ABA IP Section Committee 106 (Patent Litigation) Voting Members

**From:** Cynthia Rigsby (Ad hoc subcommittee chair)  
Sadaf Abdullah (Ad hoc subcommittee member)  
John Presper (Ad hoc subcommittee member)  
Stephen Y. Chow (Ad hoc subcommittee member)

**CC:** Heath Hoglund (ABA IPL Patent Division Chair)  
Mike Winkler (ABA IPL Section Director)  
Paul Morico (ABA IPL—Committee 106 Chair)

**Date:** Nov. 1, 2013

**ABA COMMITTEE 106 AD HOC SUBCOMMITTEE  
REPORT & RECOMMENDATION  
SECTION 3(d) of H.R. 3309 (discovery limits)**

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At the request of the leadership of ABA Committee 106—Patent Litigation, an *ad hoc* subcommittee was formed to provide a report and recommendation regarding Section 3(d) of H.R. 3309. This Bill is principally sponsored by Rep. Goodlatte and is entitled “Innovation Act.” The members of the *ad hoc* subcommittee are Cynthia Rigsby (chair), Sadaf Abdullah, John Presper, and Stephen Y. Chow.

**I. Summary of Legislative Position**

Section 3(d) of the Innovation Act would alter discovery in district court patent litigation as follows:

- If the court determines that claim construction is required, “until such ruling is issued” discovery is limited to “information necessary for the court to determine the meaning of the terms used in the patent claim, including any interpretation of those terms used to support the claim of infringement.”
- The scope of discovery may be expanded “[i]f, under any provision of Federal law ... resolution within a specified period of time of a civil action arising under any Act of Congress relating to patents will necessarily affect the rights of a party with respect to the patent ....”
- Limited additional discovery may be allowed if necessary to resolve motions properly raised before a *Markman* ruling.

**GOODLATTE “INNOVATION ACT” (H.R. 3309) – SECTION 3(d)**  
 **(“DISCOVERY LIMITS”)**

**II. Relevant Existing ABA or Section Policy**

There are no resolutions or policies directly on point with the claim construction discovery sequencing described in Section 3(d) of the Innovation Act.

The closest resolutions or policies include past actions (1) that signal a reluctance to infringe upon the case management discretion of trial courts in claim construction, and (2) that approve of bifurcation of discovery in one specific instance -- relating to allegations of willful infringement and opinions of counsel. The resolutions are reproduced here:

[1] Section favors, in principle, the adoption of procedural guidelines that, without unduly infringing upon the case management discretion of trial courts, promote uniformity and consistency in trial courts’ (1) resolution of the issue of claim construction and (2) use of materials or advisors to understand the relevant art.<sup>1</sup>

[2] Section favors in principle the bifurcation of discovery regarding the issue of willful patent infringement based on a privileged opinion of counsel and, specifically, favors the bifurcation of discovery directly related to such an opinion or related opinions until after a finding of liability, allowing a brief hiatus after such finding (e.g., 30-60 days) to conduct expedited discovery concerning any such opinion or related opinions.<sup>2</sup>

The second of these is only very remotely related to the issue presented here, given the significant distinction between what may amount to a significant stay of all other discovery pending the resolution of claim construction as compared to a stay of discovery on a much more discrete issue.

**III. Task Force Recommendation Regarding Legislative Provision**

*A. Current Treatment of Claim Construction Discovery*

(1) Decision on the Need for Claim Construction and Relationship to Other Discovery Provisions

The Goodlatte proposal limits discovery to discovery necessary for claim construction “if the court determines” that claim construction is required. As an initial matter, it will be important to understand how and when such a determination would be made by the courts, and how this rule would work in conjunction with Federal Rule of Civil Procedure 26(a) and other rules (local or otherwise) that trigger the start of discovery and have required early production of certain categories of documents. Often the issue of whether or not claim construction is needed is itself decided as part of claim construction (with one party arguing

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<sup>1</sup> Past Action Book, at 44. 266 (Passed 2001 AR614-R601-1; Retained 2011).

<sup>2</sup> Past Action Book, at 49. 270 (Passed 1996 AR421-R-601-5; Readopted 2007).

**GOODLATTE “INNOVATION ACT” (H.R. 3309) – SECTION 3(d)**  
 **(“DISCOVERY LIMITS”)**

plain meaning and the other opposing). A significant amount of discovery could be concluded before a judge even determines that claim construction is necessary in a particular case. Conversely, a judge or district could impose local rules presupposing the need for claim construction in every patent case, and preventing early discovery practice.

(2) Discovery “Necessary for the Court” to Determine Claim Construction

To assess the Goodlatte proposal, it is also important to consider what discovery is “necessary” for claim construction under existing precedent. While the rules set forth in *Phillips v. AWH* seem to present some guiding principles, there are still strong differences of opinion as to what is “necessary.” Thus, this provision, if adopted, might mean very different things, depending on the district, judge, or particular case.

In *Phillips v. AWH*, the Federal Circuit considered the types of sources a court could rely upon when construing claims, and identified six primary sources: patent claims, specification, prosecution history, expert/inventor testimony, dictionaries, and treaties.<sup>3</sup> In certain jurisdictions, local patent rules provide for a “claim construction discovery” period, distinct from general fact or expert discovery.<sup>4</sup> While it is not clear from the rules themselves, courts appear to view claim construction discovery in the context of the categories of evidence relayed in *Phillips*.<sup>5</sup> For example, N.D. Cal. Patent L.R. 4-4 includes “any depositions” but does not specify the limits on subject matter. Arguably, the *Phillips* sources require almost no discovery other than the depositions of the inventor(s) and opposing experts or persons of ordinary skill in the art (which may be subject to other Rule 26 restrictions).<sup>6</sup> In this context, it is important to note that the Goodlatte proposal may increase discovery costs in some instances by necessitating multiple depositions of the same individuals, with initial depositions limited to claim constructions, and later depositions addressing all remaining issues.

There remains great debate as to what extent discovery about accused products should be relevant to claim construction. In *Wilson Sporting Goods Co. v. Hillerich & Bradsby Co.*, the Federal Circuit reiterated that “claims may not be construed with reference to the accused device” (citations omitted), but went on to hold that this rule “does not forbid awareness of the accused product or process to supply the parameters and scope of the infringement analysis, including its claim construction component.”<sup>7</sup> It vacated and remanded a district court’s claim construction ruling that had been made without any “evidence on record about the accused devices.”<sup>8</sup>

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<sup>3</sup> 415 F. 3d 1303 (Fed. Cir. 2005).

<sup>4</sup> See, e.g., Local Rules of Practice for Patent Cases before the United States District Court for the Northern District of California, 4-4 (“...the parties shall complete all discovery relating to claim construction...”).

<sup>5</sup> See, e.g., *U.S. Ethernet Innovations LLC v. Acer Inc.*, 2011 U.S. Dist. LEXIS 73935, 2011 WL 2690158, at \*16-17 (N.D. Cal. July 8, 2011).

<sup>6</sup> Others might argue that statements in the inventor and alleged-infringer’s documents concerning the claim terms might inform how a person of ordinary skill in the art would understand the term, requiring some specific document discovery as well.

<sup>7</sup> 442 F.3d 1322, 1330-1331 (Fed. Cir. 2006).

<sup>8</sup> *Id.*

**GOODLATTE “INNOVATION ACT” (H.R. 3309) – SECTION 3(d)**  
 **(“DISCOVERY LIMITS”)**

Similarly, some judges consider a fully developed factual context a pre-requisite to an efficient claim construction proceeding.<sup>9</sup> This approach comes closer to pre-*Markman* practice in which claims were often construed in jury instructions *after* proof of the relevant art and the level of ordinary skill in the art<sup>10</sup> – which post-*Markman* judges and counsel feel constrained to the “four corners” of the prosecution and only resort to “extrinsic evidence” sparingly.

The *Phillips* categories can probably safely be considered to be “necessary for claim construction.” But given the language in *Wilson Sporting Goods* and the preference shown by some judges to have a full factual understanding prior to claim construction, it is entirely unclear whether, under the Goodlatte proposal, litigants will be permitted to seek discovery relating to accused products and processes and surrounding technology. Thus, the provision may result in a significant amount of motion practice to determine the parameters of the proposed rule. There is no reason to expect that a bright line rule will develop.

(3) The Timing of Claim Construction Proceedings in the Case Schedule

There exists a great difference in practice among the district courts as to when claim construction occurs in a particular case. While some members of the Committee see great benefit in standardizing this practice and in completing claim construction earlier, and in advance of summary judgment, it is unclear that the Goodlatte proposal should or could accomplish such a result.

Fed. R. Civ. P. 16 gives a district court broad discretion to set the schedule for a case, including deadlines for proceedings specific to patent cases.<sup>11</sup> Even jurisdictions that have adopted local patent rules often specify that the rules are a default and may be modified by the court as needed.<sup>12</sup> Nevertheless, depending on the presence or absence of local patent rules in a particular jurisdiction, a patent case typically proceeds in one of three ways.

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<sup>9</sup> See, e.g., *Financeware*, 2011 U.S. Dist. LEXIS 140608, at \*10 (at a later claim construction “the Court will be presented with a comprehensive factual background and focused arguments, facilitating informed and efficient claim construction” while an earlier proceeding would “deprive both the Court and the parties of information that could inform claim construction”).

<sup>10</sup> Compare Section 9(c) adding new 35 U.S.C. § 316(a)(14) [Inter Partes Review]: “(A) each claim of a patent shall be construed as such claim would be in a civil action to invalidate a patent under section 282(b), including construing each claim of the patent in accordance with the ordinary and customary meaning of such claim as understood by one of ordinary skill in the art and the prosecution history pertaining to the patent . . .”

<sup>11</sup> See also *Vivid Techs. v. Am. Sci. & Eng’g.*, 200 F.3d 795, 803 (Fed. Cir. 1999) (refusing to prescribe a preferred claim construction schedule, citing the district court’s “broad powers of case management, including the power to limit discovery . . . and adjust discovery as appropriate to each phase of litigation”).

<sup>12</sup> See, e.g., Rules of Practice for Patent Cases before the Eastern District of Texas, 1-2 (“The Court may accelerate, extend, eliminate, or modify the obligations or deadlines set forth in these Patent Rules based on the circumstances of any particular case. . .”); Local Patent Rules for the United States District Court for the District of New Jersey, 1.3 (“The Court may modify the obligations or deadlines set forth in these Local Patent Rules based on the circumstances of any particular case. . .”).

**GOODLATTE “INNOVATION ACT” (H.R. 3309) – SECTION 3(d)**  
 **(“DISCOVERY LIMITS”)**

First, in jurisdictions with local patent rules, the case schedule will typically follow the order and rough timeline of deadlines presented in the default rules. However, because the local patent rules are not uniform for all jurisdictions that have adopted them, the resulting schedule for discovery and claim construction still varies from jurisdiction to jurisdiction (and often from case to case). For example, in the Eastern District of Texas, the initial exchange of terms to be construed by the parties begins approximately 45 days after the Initial Scheduling (Fed. R. Civ. P. 16) Conference with the Court. In contrast, in the District of New Jersey, the claim construction proceedings under the local rules (for non-Hatch-Waxman Act cases) begin approximately 87 days after the Initial Scheduling Conference. In most cases, fact discovery proceeds in parallel with the deadlines set by the local patent rules.

Second, for jurisdictions where no local patent rules have been adopted, litigants often propose deadlines for claim construction in the course of preparing a proposed schedule in advance of the initial Fed. R. Civ. P. 16 Conference. In such a situation, the timing of the proceedings is variable, although the claim construction hearing is frequently set for prior to the close of fact discovery and in advance of deadlines for motions for summary judgment. Here, also, in a typical case, fact discovery is conducted prior to and/or in parallel with claim construction proceedings. Indeed, some courts prefer to hold claim construction hearings toward the end of fact discovery, because by then “the parties will have acquired a full understanding of the issues and terms in dispute and will be well-equipped to articulate their positions.”<sup>13</sup>

Finally, some Courts construe claims only in conjunction with summary judgment motions (usually at the completion of all discovery), requiring parties to draft such motions in the alternative, and with the litigants only learning the results of the claim constructions (and whether the terms will be construed at all) at the time of the summary judgment decision.

(4) The Timing of Claim Construction Rulings

While the timing of claim construction negotiations, briefing, and hearings may often be ascertained by reference to a case schedule or a court’s particular preference, the timing of a court’s *ruling* remains unpredictable, which has significant implications for ensuing proceedings of the case. Anecdotally, many practitioners are aware of cases in which a court ruled merely a week after the claim construction hearing, while in other cases the judge took months and even years to decide the issues.

Cases with deadlines keyed off of the date of the ruling, including many cases operating under local patent rules, in essence, have no deadlines until the court’s ruling issues. Currently, however, litigants may continue to engage in fact discovery while the parties await the ruling. If all discovery in the case is entirely stayed until the judge rules, the resulting delay in the case may affect the parties’ ability to achieve a resolution in the case.

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<sup>13</sup> *Financeware, Inc. v. UBS Fin. Servs.*, 2011 U.S. Dist. LEXIS 140608, at \*9-10 (S.D.N.Y. December 7, 2011).

**GOODLATTE “INNOVATION ACT” (H.R. 3309) – SECTION 3(d)**  
 **(“DISCOVERY LIMITS”)**

Cases with deadlines set on dates certain are currently able to continue toward a resolution, albeit with the litigants expending extra resources and time preparing their case under alternate claim constructions until the court rules. However, the Goodlatte proposal would halt these cases as well, with parties being barred from discovery until a claim construction ruling issues.

*B. Recommendation and Proposed Resolution*

The task force opposes, in principle, a rule that, upon a court’s determination that claim construction is necessary, limits discovery to information necessary for that claim construction, until a claim construction ruling and thus proposes the following resolution:

RESOLVED, that the Section of Intellectual Property supports, in principle, the judicial rulemaking process set forth in the Rules Enabling Act for the development of procedural rules and rules for case management for federal courts, including in patent related cases.

FURTHER RESOLVED, The Section supports continued extension of necessary discretion to federal district courts in scheduling and case management, including in matters relating to discovery in patent cases.

NOW THEREFORE, the Section opposes the enactment of section 3(d) of H.R. 3309, 113th Congress, or similar legislation.

There is far too much uncertainty in how this provision would be implemented and whether it would accomplish any desirable objective. The only certainty appears to be that the proposal would create further delay in the resolution of patent litigations.

It is unclear when and how judicial determinations of the need for claim construction would be made, and how the delay in any decision would affect typical early discovery practice. Further, limiting discovery to information necessary for claim construction may add an unnecessary layer of litigation as to what is “necessary” while eliminating what some committee members view as the early salutary role of current discovery practice giving the parties information to filter out claim issues and even the case. As reviewed in subsection III(A)(2) *supra*, there are many arguments as to what discovery might be necessary generally and in a particular case. Some committee members feel strongly that having more rather than less information available to the courts in the claim construction process will only improve the result.

As reviewed in subsection III(A)(3) *supra*, current practice varies widely as to when claim construction decisions are made and the procedural (including discovery) steps before such construction, in accordance with the case management power of the district court recognized in *Vivid Technologies, Inc. v. American Science & Engineering, Inc.*<sup>14</sup> Particularly applicable

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<sup>14</sup> 200 F.3d at 803-04, quoted at note 3 *supra*.



**GOODLATTE “INNOVATION ACT” (H.R. 3309) – SECTION 3(d)**  
 **(“DISCOVERY LIMITS”)**

here, the *Vivid Technologies* court noted: “[t]he stage at which the claims are construed may vary with the issues, their complexity, the potentially dispositive nature of the construction, and other considerations of the particular case.”<sup>15</sup> Whether Congress can legislate to constrain the district court’s management of a patent case to construction of claims before general discovery may well invoke a constitutional question of separation of powers.<sup>16</sup> In any event, consistent with Resolution AR614-R601-1, note 1 *supra*, avoiding “unduly infringing upon the case management discretion of trial courts,” the task force sees no benefit in the Goodlatte proposal that would justify withdrawing the management of discovery from the discretion of the trial court.

Finally, as reviewed in subsection III(A)(4) *supra*, the suspension of discovery pending claim construction will move the remaining (and currently parallel) discovery to after the indefinite date of a claim construction decision. Although some cases may be disposed of by summary judgment thereby avoiding some of the currently parallel discovery, typically at least infringement discovery must be had before such summary judgment is allowed. Indeed, a plaintiff that might stipulate to non-infringement and seek appeal after an adverse claim construction decision would still need to obtain some information on the accused products. The clear result in every case, meritorious or not, will be delay. The additional delay is an imposition on justice. Thus, especially where any perceived benefit is far from certain, the Committee opposes the Goodlatte proposal.

The Committee believes this recommendation is consistent with prior policy.

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<sup>15</sup> *Id.* at 803.

<sup>16</sup> Compare Section 6 requiring the Judicial Conference to consider a new framework of “core documentary evidence” where documentary evidence is distinguished from “electronic communications”. While purporting to give the judicial branch some flexibility, this mandate departs from the still-evolving (to match business practices) equal dignity of documents and electronically stored information (ESI) exemplified in current Fed. R. Civ. P. 34, with particular, practical rules for production of ESI to a legislative remedy for allegedly “asymmetric” e-mail discovery without recognition that the patent hold-up artist, unlike a class-action plaintiff, has no desire to plow through mountains of near-duplicative e-mails that a large defendant has the unique means to sort, analyze and cull.

*Innovation Act, Section 3(d) [discovery limitations]*  
**ABA IPL PATENT LITIGATION COMMITTEE VOTING MEMBER REPORT**

36 approve;  
8 do not approve;  
3 abstain

**Approve**

- |                                  |                                      |                                 |
|----------------------------------|--------------------------------------|---------------------------------|
| 1. Paul Richard Morico           | 12. Ryan M Fountain                  | 25. Anthony Jude Patek          |
| 2. Matthew Kemp Blackburn        | 13. Robert E Freitas                 | 26. Lawrence Pope               |
| 3. Orion Armon                   | 14. Gary N Frischling                | 27. Alan G Ratliff              |
| 4. Robert Michael Asher          | 15. Lauren R Keller-Katzenellenbogen | 28. Craig A Redinger            |
| 5. Charles S Barquist            | 16. John J Marshall                  | 29. Stephanie L Roberts         |
| 6. Brian C Carroll               | 17. Edward Michael Mathias           | 30. Elizabeth Delgado Rodriguez |
| 7. Frederick L Cottrell III      | 18. Robert Allison Matthews Jr       | 31. Harrie Samaras              |
| 8. Kristopher Ryan Davis         | 19. James G McEwen                   | 32. Richard Stephen Stockton    |
| 9. Walter D Davis Jr             | 20. Frederic Meeker                  | 33. Marc K Temin                |
| 10. David Dawsey                 | 21. Adrian Mollo                     | 34. Donald Edward Tiller        |
| 11. Catherine Thompson Dobrowsky | 22. Jonathan A Muenkel               | 35. Jeremy A Younkin            |
|                                  | 23. D Christopher Ohly               | 36. Steven McMahon Zeller       |
|                                  | 24. Brian Pandya                     |                                 |

**Not Approve**

- |                    |                             |                             |
|--------------------|-----------------------------|-----------------------------|
| 1. Jamil N Alibhai | 4. Nathaniel Brandon Lipkus | 7. Christopher Ponder       |
| 2. Richard Gervase | 5. David L Marcus           | 8. Roderick Manley Thompson |
| 3. C Erik Hawes    | 6. Jeffrey C Morgan         |                             |

### **Abstain**

1. Nicole Dominique Galli
2. Nicole Elizabeth Kopinski
3. William R Poynter

### **Not Heard From**

1. Dawn Rudenko Albert
2. Vincent J Allen
3. Elaine H Blais
4. Arnold B Calmann
5. Virginia L Carron
6. Priya Sinha Cloutier
7. Michael J Colitz III
8. Timothy Andrew Cook
9. Jennifer Ann Dukarski
10. Judie Dziezak
11. Stanley E Fisher
12. Herbert Davis Hart III
13. Richard L Horwitz
14. Sharon A Israel
15. Bryan W Jones
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18. Kristopher Benjamin Kastens
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20. Joshua Paul Larsen
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22. Brandon J Mark
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24. Richard F O'Malley Jr
25. Donika Pentcheva Pentcheva
26. Sean Christian Platt
27. Tammy Pennington Rhodes
28. Jerry Allen Riedinger
29. Paul A Roberts
30. Nancy Lynn Schroeder
31. Qin Shi
32. J Mark Smith
33. Jason Charles Spiro
34. Richard Judson Stark
35. William Teoli
36. Stephen J Tytran
37. Stanton David Weinstein

Resolution AITF4-1

RESOLVED, that the Section of Intellectual Property Law supports, in principle, the disclosure of timely and relevant real party-in-interest information to a court and any parties where a patent is asserted in civil litigation during the pendency of such litigation;

FURTHER RESOLVED, that the Section supports disclosing the assignee of a patent, any entity with right to enforce the patent, and the ultimate parent entity, however, the Section opposes mandatory disclosure of any entity having a financial interest in a patent and any entity with a right to sublicense a patent, and opposes mandatory on-going submission of real party-in-interest information to the USPTO by all patent applicants and owners where a patent is not subject to civil litigation.

## REAL-PARTY-IN-INTEREST TASK FORCE

Subject. INNOVATION ACT DUTY TO DISCLOSE REAL-PARTY-IN-INTEREST INFORMATION AND THE PROPER ROLE OF THE FTC TO INVESTIGATE ABUSIVE COMMERCIAL PRACTICES

### PROPOSED RESOLUTIONS:

RESOLVED, that the Section of Intellectual Property Law supports in principle the disclosure of timely and relevant real party-in-interest information to a court and any parties where a patent is asserted in civil litigation during the pendency of such litigation;

NOW THEREFORE, the Section supports disclosing the assignee of a patent, any entity with right to enforce the patent, and the ultimate parent entity, however, the Section opposes mandatory disclosure of any entity having a financial interest in a patent and any entity with a right to sublicense a patent, and opposes mandatory on-going submission of real party-in-interest information to the USPTO by all patent applicants and owners where a patent is not subject to civil litigation.

RESOLVED, that the Section of Intellectual Property Law supports in principle that where there is abuse in enforcement or threatened enforcement of a patent, there should be a public investigation into the real party-in-interest information, that the FTC is the appropriate agency to conduct such an investigation, that the Patent and Trademark Office is not the appropriate agency to conduct such an investigation, and that such an investigation should be opened by the FTC only upon a showing by a complainant that there has been an abuse.

Past Action. None.

Discussion.

### **1. Duty to Disclose Real-Party-in-Interest Information**

The current debate on the costs imposed on businesses by Patent Assertion Entities (PAEs) using abusive litigation tactics has resulted in several legislative proposals. The ABA IPL supports, in principle, all reasonable measures increasing transparency in the patent system to the benefit of the public. The ABA IPL, however, is opposed to overly broad measures, which will harm all patent owners with little impact on abusive litigation behavior.

H.R. 3309, the Innovation Act, introduced by Rep. Goodlatte, seeks to increase transparency in patent ownership by requiring a plaintiff upon filing of an initial complaint to disclose real-party-in-interest information (RPI) to the USPTO, the court, and the adverse party. Requiring a plaintiff to notify the courts and the adverse party of the identity of the patent owner(s) serves both public interests and the interests of justice. The reasonable need for information of patent ownership when a patent is asserted, however, should be strictly limited to the information relevant to the proceeding during its pendency. While H.R. 3309 appropriately limits the initial duty of disclosure of RPI to the filing of a complaint, the proposed legislation creates an on-going duty for the patent owner as to the asserted patent to disclose RPI to the

USPTO within 90 days of any change for the term of the patent. H.R. 3309 additionally imposes a duty to disclose information, which is unlikely to be relevant to a legal action. Specifically, the requirement to publicly disclose financial interests will significantly harm business interests in keeping licensing transactions confidential (for example, the percentage of licensing revenues owed to one or more inventors under the patent). Instead, the ABA IPL supports, in principle, limiting the disclosure obligation under H.R. 3309 upon the filing of an initial complaint to disclosure of the “Ultimate Parent Entity” as defined under 16 C.F.R. § 801.1(a)(3), which reads:

**Ultimate parent entity.** The term ultimate parent entity means an entity which is not controlled by any other entity.

Examples:

1. If corporation A holds 100 percent of the stock of subsidiary B, and B holds 75 percent of the stock of its subsidiary C, corporation A is the ultimate parent entity, since it controls subsidiary B directly and subsidiary C indirectly, and since it is the entity within the person which is not controlled by any other entity.
2. If corporation A is controlled by natural person D, natural person D is the ultimate parent entity.
3. P and Q are the ultimate parent entities within persons “P” and “Q.” If P and Q each own 50 percent of the voting securities of R, then P and Q are both ultimate parents of R, and R is part of both persons “P” and “Q.”

No arguments have been presented why other information that may be relevant to the proceeding, including financial interests in the patent, cannot be appropriately obtained in the course of discovery under the current rules. Financial interests are often confidential information. A mandatory disclosure requirement may therefore harm businesses interests by limiting the ability to create value through licensing transactions. Therefore, while H.R. 3309 provides a workable starting point for a mechanism effecting timely disclosure of relevant RPI, the proposed language will impose significant burdens on all patent owners.

The ABA IPLs position is consistent with the testimony of Robert Armitage before the House Judiciary Committee and the position taken by the Intellectual Property Owners Association. Mr. Armitage stated that RPI disclosure is important, but only where timely and relevant:

Patent rights best serve the public interest when they operate as property rights – and the ownership of the property rights is fully transparent. Requirements to promptly disclose information on which the identity of other interested parties in the asserted patent can be determined by the accused infringer may also serve the interests of justice, at least in situations where they are of potential relevance to the rights or defense the accused infringer might assert.<sup>1</sup>

Similarly, the IPO supports disclosure of RPI, including any ultimate parent entities, when filing an initial complaint, but opposes disclosure of non-ownership interests, financial interests, and an on-going mandatory duty to disclose RPI to the USPTO.

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<sup>1</sup> *Improving the Patent System to Promote American Innovation and Competitiveness: Hearing on H.R. 3309 Before the H. Comm. on the Judiciary*, 113th Cong. (2013) (statement of Robert A. Armitage).

## **2. The FTC is the Appropriate Agency to Conduct Investigations in Real-Party-in-Interest Information**

The ABA IPL supports in principle public investigations into RPI where a patent is being abused. The ABA IPL believes the FTC is the appropriate agency to conduct investigations into RPI, because the FTC possesses the knowledge and resources to conduct such investigations. Investigations into RPI are outside the purview of the USPTO, and the Office currently does not have the institutional resources or expertise to conduct investigations into RPI of patent owners engaging in abusive practices. Justice is therefore better served where the FTC is the agency conducting a public investigation of RPI.

Additionally, the Federal Trade Commission recently commenced the process to conduct a study of PAEs under 15 U.S.C. § 48, section 6(b). The proposed study was published October 3, 2013 in the Federal Register (78 Fed. Reg. 192 at 61352), allowing public comments until December 2, 2013. The proposed study follows an FTC workshop on PAE activity and the call by Senator Klobuchar and Representative Lipinski for a Section 6(b) study. Section 6(b) empowers the Commission to require the filing of special reports or answers in writing to specific questions to obtain information about "the organization, business, conduct, practices, management, and relation to other corporations, partnerships, and individuals" of the entities to whom the inquiry is addressed.

The PAE study is intended to provide the empirical data, which as noted above, is not currently available to lawmakers. The FTC plans to send information requests to 25 PAEs as well as 15 other entities in the wireless communications sector, including manufacturing firms, other non-practicing entities, and organizations engaged in licensing. The study will focus on the following areas: (1) how PAEs organize their corporate legal structure, including parent and subsidiary entities; (2) what types of patents PAEs hold, and how they organize their holdings; (3) how PAEs acquire patents, and how they compensate prior patent owners; (4) how PAEs engage in assertion activity (i.e. demand, litigation, and licensing behavior); (5) the cost of assertion activities to PAEs; and (6) how much PAEs earn through assertion activities.

The study will enhance the quality of information on how PAEs behave and how their entities structured, without broad public disclosure of otherwise confidential information. The study will therefore provide valuable information for policy and legislative action and improve the basis upon which any decisions on new legislation are made. Patent reform has always been addressed carefully, and only after substantial public debate. The ABA IPL therefore supports, in principle, that lawmakers proceed with caution until this new data is available from the FTC. The fast pace of current legislative action requiring broad disclosure of RPI, which would impact all patent owners, would likely benefit immensely from careful analysis of the results of the FTC study.

## Resolution IATF-5

RESOLVED, that the Section of Intellectual Property Law supports, in principle, staying of a suit against a customer of a product or process for infringement of a patent involving that product or process under circumstances in which:

- (1) the covered customer is a retailer or a service provider (collectively, the “covered customer”);
- (2) the covered manufacturer and the covered customer consent in writing to the stay;
- (3) the covered manufacturer is a party to the action or to a separate action involving the same patent or patents related to the same covered product or process;
- (4) the covered customer agrees to be bound by any judgment entered against the covered manufacturer to the same extent that the covered manufacturer may be bound with respect to issues that the covered manufacturer and the covered customer have in common; and
- (5) the covered customer has not altered or incorporated the good or service received by the covered manufacturer into another good or service.

FURTHER RESOLVED, the Section opposes the enactment of section 5 of H.R. 3309, 113<sup>th</sup> Congress as currently written, however, the Section would support legislation limited to retailers reselling goods or services provided by another.



**ABA IPL SECTION – TRIAL AND APPELLATE RULES AND PROCEDURES COMMITTEE**

**Report and Resolution on Section 6 of H.R. 3309**

**RESOLUTION**

RESOLVED, that the Section of Intellectual Property Law supports, in principle, the staying of customer suits by amending Title 35 of the U.S.C. to add § 296 “Stay of Action against Customer,” as proposed in H.R. 3309 or similar legislation.

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## **REPORT**

The Section of Intellectual Property Law recommends that Council approve this Resolution, which would create and provide policy in support of staying of customer suits by amending Title 35 of the U.S.C. to add § 296 “Stay of Action against Customers” as proposed in H.R. 3309.

### **I. Relevant Existing ABA or Section Policy**

There is no existing ABA or Section Policy directly or indirectly on point as to supporting or opposing allowing courts to stay.

## **BACKGROUND**

### **II. Summary of Proposed Legislative Provision**

Currently pending in the 113<sup>th</sup> Congress is Section 5 of H.R. 3309 (“The Innovation Act”). Section 5 of H.R. 3309 would amend Title 35 to add § 296, “Stay of action against customer.”<sup>1</sup> As amended § 296 would provide a customer-suit exception in patent suits. The exception would allow a manufacturer to intervene in a suit against its customers, and allows the action to be stayed as to the customer, if both the manufacturer and customer agree.

As proposed, Section 5 of the Innovation Action states that in any civil action relating to patents, the court shall grant a motion to stay at least the portion of the action against a covered customer of a patent involving a covered product or process if the following requirements are met<sup>2</sup>:

- (1) The covered manufacturer and the covered customer consent in writing to the stay.
- (2) The covered manufacturer is a party to the action or to a separate action involving the same patent or patents related to the same covered product or process.
- (3) The covered customer agrees to be bound by any judgment entered against the covered manufacturer to the same extent that the covered manufacturer may be bound with respect to issues that the covered manufacturer and the covered customer have in common.
- (4) The motion is filed after the first pleading in the action and not later than 120 days after service of the first pleading in the action that specifically identifies—
  - (A) the covered product or process as a basis for the alleged infringement of the patent by the covered customer; and
  - (B) how the covered product or process is alleged to infringe the patent.

Section 5 of H.R. 3309 is intended to address the situation in which a patent plaintiff has, for tactical reasons, decided to sue a party who does not make the allegedly infringing article but rather simply sells to consumers what it buys from the manufacturer. Stated differently, the suit

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<sup>1</sup> There is a § 296 presently in existence, “Liability of States, instrumentalities of States, and State officials for infringement of patents,” consisting of subsections (a) and (b). H.R. 3309 does not acknowledge this fact or otherwise address the fate of the current version of § 296.

<sup>2</sup> H.R. Discussion Draft; 113<sup>th</sup> Congress, 1<sup>st</sup> Session; “The Innovation Act”

is against the customer, not the manufacturer. H.R. 3309 recognizes that this situation may arise in two different contexts. The patent plaintiff may have co-pending suits against the manufacturer and one or more customers, or the patent plaintiff may have opted to sue only customers, without involving the manufacturer.

To address the latter situation, § 296(a) allows a “covered manufacturer” to move to intervene in the customer suit, and directs that “the court shall grant [the] motion.” A “covered manufacturer” is “a person that manufactures or supplies, or causes the manufacture or supply of, a covered product or process or a relevant part of such product or process.” (§ 296(f)(2).) Under § 296(a), if the covered manufacturer is a party to the action, or is a party to a separate action involving the same patent (and commenced no more than four months after service of the first pleading), the customer can move the court to stay the action (as against the customer), and “the court shall grant [the] motion...”

The goal of the customer suit exception is to allow a manufacturer/supplier to intervene and stay cases against downstream alleged infringers provided that there is an adequate remedy against the intervenor. The provision accounts for indemnity agreements, and helps prevent gamesmanship as such suits tend to be coercive and are an abusive patent litigation tactic. David Kappos, the last Under Secretary of Commerce for Intellectual Property and Director of the USPTO provided noteworthy commentary on the reasons behind the need for Section 5 of H.R. 3309.<sup>3</sup> Furthermore, “as currently written the stay provision permits all parties in the product channel downstream of the first component part maker to escape infringement liability, including large commercial actors such as manufacturers combining procured components into value-added completed devices, as well as assemblers, and others not operating in the roles of ‘mere retailers’ or ‘mere end users,’ and certainly not operating in the roles of ‘mom and pop shops.’”<sup>4</sup> While Kappos’ supports the customer suit exception, Kappos urges that the definitions of covered customer and manufacturer should be defined with specificity so as to, “avoid significantly disrupting settled relationships between many commercial suppliers and their commercial customers, with parties jockeying for more or less indemnity coverage than is otherwise obtainable under existing contract law.”<sup>5</sup>

While Kappos supports this provision, he has expressed concern regarding the definition of “covered customer” in the proposed customer suit exception. For example, the customer suit exception must be careful not to create a scenario by which the patentee must prove direct infringement as a prerequisite to showing indirect infringement, without having access to the

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<sup>3</sup>Statement of David Kappos before the Committee on Judiciary. October 29, 2013. These provisions “offering protection for innocent end-users and retailers of products and services from patent infringement claims represents good policy. Too often these parties become pawns in patent infringement disputes properly brought between patentees and product manufacturers or service providers. Substantial litigation resources can be saved for many parties by enabling innocents to stay patent infringement claims against them where manufacturers and service providers are willing and able to step in and handle claims.”

<sup>4</sup> *Id.* at 7.

<sup>5</sup> *Id.*

information needed to make out its case for direct infringement.<sup>6</sup> Lastly, parties will have negotiated different license agreements that will affect defenses to infringement, or will have been put on notice at a different time than the other, and thus, are rarely in precisely the same position and will find themselves involved in more, not less litigation.<sup>7</sup> Kappos stated “[t]o avoid this result, more clarity will be needed around binding parties to litigation outcomes of others.”

### **TASK FORCE RECOMMENDATION**

The Task Force supports legislation intended to focus patent disputes on the merits. The stay provisions of H.R. 3309 would further that goal by removing or diminishing the ability of patent plaintiffs to artificially increase the settlement incentive on manufacturers by suing their customers. The amended joinder provision will foster the goal of keeping patent suits focused on the merits by dissuading plaintiffs from pursuing baseless claims.

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<sup>6</sup> According to the Kappos testimony, effort will be needed to avoid creating a donut hole in the patent law where a downstream party (a “covered customer”) is the direct infringer of a legitimate patents claim, while the upstream “covered manufacturer” is an indirect infringer.

<sup>7</sup> *Id.* at 7.

## Resolution AITF6

RESOLVED, that the Section of Intellectual Property Law opposes, in principle, legislation that requires the Judicial Conference to promulgate rules and procedures relating to “core” document discovery in patent litigation actions.

FURTHER RESOLVED, that the Section of Intellectual Property Law opposes, in principle, legislation that requires the Judicial Conference to promulgate rules relating to fee shifting for non-“core” document discovery in patent litigation actions.

FURTHER RESOLVED, that the Section of Intellectual Property Law opposes, in principle, legislation that requires the Judicial Conference to promulgate procedures for early case management conferences in District Courts in patent litigation actions.

FURTHER RESOLVED, that the Section of Intellectual Property Law opposes, in principle, legislation that requires the Judicial Conference to eliminate and/or amend Form 18 in the Appendix to the Federal Rules of Civil Procedure.

FURTHER RESOLVED, that the Section of Intellectual Property Law supports, in principle, legislation that amends Section 1520(a) of Title 11 of the United States Code, to provide for the protection of IP licenses during bankruptcy and prevents a bankruptcy trustee from terminating licenses to patents and other intellectual property of the debtor.

FURTHER RESOLVED, the Section of Intellectual Property Law opposes, in principle, Sections 6(a)-6(c) of H.R. 3309 and supports, in principle, the enactment of Section 6(d) of H.R. 3309.

**ABA IPL SECTION – TRIAL AND APPELLATE RULES AND PROCEDURES COMMITTEE**

**Report and Resolution on Section 6 of H.R. 3309**

**RESOLUTION**

RESOLVED, the Section of Intellectual Property Law opposes, in principle, Section 6(a) of H.R. 3309 or similar legislation that requires the Judicial Conference to promulgate rules and procedures relating to “core” document discovery in patent litigation actions.

FURTHER RESOLVED, the Section of Intellectual Property Law opposes, in principle, Section 6(a) of H.R. 3309 or similar legislation that requires the Judicial Conference to promulgate rules relating to fee shifting for non-“core” document discovery in patent litigation actions.

FURTHER RESOLVED, the Section of Intellectual Property Law opposes, in principle, Section 6(b) of H.R. 3309 or similar legislation that requires the Judicial Conference to promulgate procedures for early case management conferences in District Courts in patent litigation actions.

FURTHER RESOLVED, the Section of Intellectual Property Law opposes, in principle, Section 6(c) of H.R. 3309 or similar legislation that requires the Judicial Conference to eliminate and/or amend Form 18 in the Appendix to the Federal Rules of Civil Procedure.

FURTHER RESOLVED, the Section of Intellectual Property Law supports, in principle, Section 6(d) of H.R. 3309 or similar legislation that amends Section 1520(a) of Title 11 of the United States Code, which provides for the protection of IP licenses during bankruptcy and prevents a bankruptcy trustee from terminating licenses to patents and other intellectual property of the debtor.

NOW THEREFORE, the Section of Intellectual Property Law opposes, in principle, Sections 6(a)-6(c) of H.R. 3309 and supports, in principle, Section 6(d) of H.R. 3309.

## REPORT

The Section of Intellectual Property Law recommends that Council approve these Resolutions, which oppose Congress' directive to the Judicial Conference to promulgate rules and procedures relating to "core" document discovery in patent litigation actions; to promulgate rules relating to fee shifting for non-"core" document discovery in patent litigation actions; to promulgate procedures for early case management conferences in District Courts in patent litigation actions; and to eliminate and/or amend Form 18 in the Appendix to the Federal Rules of Civil Procedure, and support the amendment of Section 1520(a) of Title 11 of the United States Code to provide protection of IP licenses during bankruptcy.

### **I. Relevant Policy:**

#### Relevant ABA-Wide Policy

1. Civil Discovery Standards. Approved. 99 A1 08 Litigation, Standards amended in August 2004 as they relate to electronic discovery. 04A103B
2. Federal Rules of Civil Procedure. Urge Congress to defer consideration of proposed amendments to Rules 26, 30,31,33 and 37 (relating to disclosure) of the Federal Rules of Civil Procedure to permit completion of the local district experimentation plans and the assessment of the impact of those programs mandated by the Civil Justice Reform Act of 1990, and to allow time to analyze the major changes proposed in the pending amendments to the Civil Rules within the framework of the CJRA. 6/93BOG 2.6
3. Federal Rules of Civil Procedure. Urge Congress to reject amendments to Rule 26 (a) of the Federal Rules of Civil Procedure approved by the Judicial Conference of the United States, Advisory Committee on Civil Rules, requiring disclosure of discovery materials without specific written requests. 93A117B
4. Pretrial Discovery. Make recommendations, with certain understandings, with respect to the imposition of limits on pretrial discovery in civil cases and whether additional discovery should be permitted based on market incentives, including the placing of appropriate limitations on pretrial discovery, not permitting additional discovery beyond limits determined by the court to be reasonable, and authority of the judicial officer entering a protective order to condition particular discovery upon the discovering party's payment in whole or in part of the expenses incurred by the person from whom the discovery is sought. 92M120B
5. Uniform Rules Relating to the Discovery of Electronically Stored Information Act. Approves the Uniform Rules Relating to the Discovery of Electronically Stored Information Act, promulgated in 2007 as an appropriate Act for those States desiring to adopt the specific substantive law suggested therein. 08MI10A

6. ABA “Green Book” description of Resolution 109C Adopted by the House of Delegates at the 2005 Midyear Meeting

Supports the judicial rulemaking process set forth in the Federal Rules Enabling Act and opposes those portions of the proposed "Lawsuit Abuse Reduction Act" of the 108th Congress (H.R. 4571) or other similar legislation that would circumvent that process. Opposes enactment of any Congressional legislation that would violate principles of federalism by (1) imposing the provisions of Rule 11 of the Federal Rules of Civil Procedure upon any civil action filed in a state or territorial court; or (2) imposing venue designation rules or provisions upon a personal injury claim filed in a state or territorial court. Supports the current version of Rule 11, which became effective December 1, 1993, as a proven and effective means of discouraging dilatory motions practice and frivolous claims and defenses. Opposes enactment of any Congressional legislation that would: (1) change the current version of Rule 11 for the purpose of imposing mandatory sanctions and removing its current provisions that encourage attorneys to correct, modify or withdraw pleadings or motions; (2) impose any form of mandatory suspension due to prior violations of Rule 11; or (3) extend Rule 11 to problematic discovery motions, requests, responses or non-responses that are subject to Rule 26 (g) or Rule 37. 05M109C

Relevant Section Policy

1. 270 (Passed by Council 09/20/2011)

RESOLVED, the Section of Intellectual Property Law favors in principle that the U.S. International Trade Commission place reasonable limits on the scope and form of electronic discovery available in proceedings instituted under Section 337 of the Tariff Act of 1930, such as would serve the interests of justice, and

NOW THEREFORE, the Section favors the promulgation of regulations by the Commission that would reasonably limit, as to scope and form, electronic discovery in such proceedings.

2. 1000 (Passed 2006-R601-1)

Section approves, in principle, the proposed amendments to the Federal Rules of Civil Procedure respecting the discovery of electronically stored documents and information, which proposed amendments (a) were approved by the Judicial Conference of the United States on September 20, 2005, and (b) were promulgated by the Supreme Court and will go into effect on December 1, 2006, unless Congress intervenes, and Specifically, supports approval of the proposed amendments of:

(1) Fed. R. Civ. P. 16 (Pretrial Conferences; Scheduling; Management) that would alert the court to the possible need to address the handling of discovery of electronically stored information early in the litigation if such discovery is expected to occur, and to incorporate provisions in the scheduling order that reflect any agreements that may minimize the risk of waiver of privilege or work-product protection;



(2) Fed. R. Civ. P. 26(f) (General Provisions Governing Discovery; Duty of Disclosure) that would require that parties must discuss during the discovery-planning conference any issues relating to the disclosure and discovery of electronically stored information, including the form of production, also discuss issues relating to the preservation of electronically stored information and other information, and also discuss whether the parties can agree to production on terms that protect against privilege waiver;

(3) Fed. R. Civ. P. 26(b)(2)(C) providing that a party need not provide electronically stored information in response to a discovery request if the information is not reasonably accessible, except that the court may order its production, with or without conditions, if the requesting party shows good cause; . . . .

## **II. Background of Section 6 of H.R. 3309**

Section 6 of H.R. 3309, the “Innovation Act,” includes recommendations to the Judicial Conference relating to rules and procedures to implement in order to streamline discovery in patent infringement cases.

### **Section 6(a) – Judicial Conference Rules and Procedures on Discovery Burdens and Costs**

Section 6(a) of H.R. 3309 requires the Judicial Conference to promulgate rules and procedures on core document discovery for patent litigation. This section provides that the Judicial Conference shall develop rules to address the asymmetries in discovery burdens and costs in civil actions arising in patent infringement cases.

This section provides that each party must provide core documentary evidence and that each party shall be responsible for the costs of producing such evidence. Core documentary evidence includes: documents relating to the conception, reduction to practice, and application for the patents at issue; documents sufficient to show the operation of the product or process identified in the complaint as infringing; documents relating to potentially invalidating prior art; documents relating to any licensing or transfer of rights of the patents at issue; documents sufficient to show the profit attributable to the claimed invention of the patent; documents relating to any knowledge by the accused infringer of the patents at issue prior to the filing date of the complaint; documents relating to any licensing term or pricing commitment that the patents may be subject to by any agency or standard setting body; and document sufficient to show any marking or notice of the patents. Core documentary evidence does not include source code.

This section includes provisions for electronic communications. If the parties determine that discovery of electronic communication is necessary, the parties may request electronic communications after the exchange of initial disclosures and the core documentary evidence. Any request for the production of electronic communication must be specific and must not be a general request for the production of information relating to a product or a business. Each request must identify the custodian of the information, the search terms, and a time frame. A party may not submit production requests to more than 5 custodians unless the parties jointly agree to modify the number of production requests without leave of court. The court may

consider requests for up to 5 additional custodians based on a showing of a distinct need based on the size, complexity and issues of the case. If a party requests discovery of electronic communication from additional custodians, the requesting party must bear all reasonable costs caused by the additional discovery.

This section also allows for additional document discovery. However, the party seeking the additional document production must bear the reasonable costs, including reasonable attorneys' fees of the additional document discovery. Unless the parties agree otherwise, a party may not be permitted additional document discovery unless a bond or other security is posted in an amount to cover the expected costs of the additional document discovery. This section also provides that a court may determine that additional document discovery is excessive, irrelevant, or otherwise abusive and may set limits on the additional document discovery.

This section also provides that the initial disclosures will include when the discovery of core documentary evidence should be completed, whether additional document discovery will be sought, any issues about infringement, invalidity, or damages that, if resolved before the additional discovery commences might simplify or streamline the case, including the identification of any terms or phrases that need to be constructed by the court and whether early construction of those terms will be helpful.

The Framers of the Constitution provided an independent judiciary, separate from legislative and executive branches of the government. As stated in *Stern v. Marshall*, the Framers believed that it was essential the “judiciary remain truly distinct from both the legislature and the executive, and thus designed Article II to impose certain basic limitations that the other branches of government may not transgress.” 131 S.Ct. 2594, 2609 (1977). The Rules Enabling Act provides that the Supreme Court may amend rules, including the Federal Rules of Civil Procedure and the Federal Rules of Evidence. The Supreme Court has the authority to amend its own rules and provide patent specific rules.

The task force supports the development of phased discovery in patent litigations, including the initial production of “core documentary evidence,” followed by “additional discovery.” Dividing the discovery process into phases is supported by many jurisdictions and organizations. For example, the Federal Circuit Advisory Council’s Model Order requires parties to exchange initial disclosures about the core issues of the case before being allowed to seek discovery of electronic communications. However, the task force *opposes* Congress’ mandate of these rules.

The task force opposes the compulsory cost shifting for “additional discovery” (i.e., all non-core discovery) under §6(a)(C)(ii) of H.R. 3309. First, a mandatory bond or other security to cover non-core discovery costs, simply exchanges one problem for another. While attempting to rebalance certain inequities caused by the proliferation of electronic discovery (and associated costs), mandatory cost shifting would cause asymmetries in discovery for many parties, particularly as “core documentary evidence” is narrowly defined.<sup>1</sup> For example, larger, more well-funded parties, would have an advantage, in both seeking and producing relevant

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<sup>1</sup> For example, marketing materials, although essential to establishing damages, are not identified as “core” evidence.

materials. In addition, current Federal Rule of Civil Procedure 26 protects against discovery abuses. For example, upon a showing of good cause, a court may issue a protective order to protect a party from abusive discovery, limit discovery based on the proportionality test, and shift discovery costs as warranted. Although historically, most courts have been reluctant to employ Rule 26 to shift costs, a growing number of courts are imposing cost-sharing.

In sum, the task force supports rules to streamline patent litigation, including rules, to limit discovery in patent litigation, such as limits on electronic discovery and the disclosure of documents without discovery requests. However, the task force *opposes* Congress' mandate of these rules. This is consistent with prior ABA policy, including that described in Resolution 109C adopted in 2005 by the House of Delegates.

### **Section 6(b) – Judicial Conference Patent Case Management**

Section 6(b) of H.R. 3309 also provides procedures for initial disclosures and early case management conferences in District Courts to help identify any potentially case-dispositive issues. This section provides that the Judicial Conference will develop case management procedures that will identify potential dispositive issues of the case and focus on early summary judgment motions when resolutions of the issues may lead to expedited disposition of the case.

Similar to the provisions in Section 6(a), the task force *opposes* Congress' mandate that the Judicial Committee enact rules in contravention of the Rules Enabling Act, as enumerated in Section 6(b) of H.R. 3309. While the task force supports procedures that streamline patent cases, such as identifying potentially case-dispositive issues at an early point in a litigation and rules for initial disclosures, the task force opposes Congress' mandate of these rules.

### **Section 6(c) – Revision of Form for Patent Infringement**

Section 6 of H.R. 3309 eliminates Form 18 and allows for the development of an updated form. This section eliminates Form 18 in the Appendix to the Federal Rules of Civil Procedure, which provides a template for a complaint for patent infringement. This section also provides that the Supreme Court may prescribe a new form or forms setting out model allegations of patent infringement that notify accused infringers of the asserted claim or claims, the products or services accused of infringement, and the plaintiff's theory for how each accused product or service meets each limitation of each asserted claim.

Under the Rules Enabling Act, the Supreme Court has the authority to change the rules, including the Rules of Civil Procedure. This provision of H.R. 3309 is in contravention to the Rules Enabling Act. Similar to the discussion above with respect to 6(a), Congress should allow the Supreme Court to determine whether to change its rules, including Form 18 in the Appendix of the Federal Rules of Civil Procedure, rather than dictating that the Supreme Court make changes to its rules. The task force opposes a provision, such as Section 6(c) of H.R. 3309 that eliminates and/or amends Form 18 in the Appendix of the Federal Rules of Civil Procedure.

### **Section 6(d) – Protection of Intellectual Property Licenses in Bankruptcy**

Section 6 of H.R. 3309 provides protection of IP licenses in bankruptcy. This section provides that U.S. law is followed rather than foreign law, such that IP licenses are not eliminated during bankruptcy.

Section 365(n) of Title 11 prevents a bankruptcy trustee from terminating licenses to patents and other intellectual property of a debtor. When Congress enacted Section 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 to both patent owners and licensees. Manufacturers often invest great amounts of money in the manufacture of products that are covered by a license in reliance on that right to practice the intellectual property. Allowing a license to be eliminated in bankruptcy would create a commercial uncertainty and would undermine the investments in intellectual property and manufacturing.

The task force *supports* legislation, such as Section 6(d) of H.R. 3309, that amends section 1520(a) of Title 11 to protect IP licenses in bankruptcy.

Resolution AITF9-C

RESOLVED, the Section of Intellectual Property Law opposes, in principle, changing the claim construction standard for Post Grant Review and Inter Partes Review proceedings, as authorized in chapters 31 and 32 of title 35, United States Code, from a broadest reasonable interpretation standard to the standard that would be applied in a civil action to invalidate the patent claim in question.

FURTHER RESOLVED, the Section opposes the enactment of section 9 (c) of H.R. 3309, 113<sup>th</sup> Congress, or similar legislation.

## ABA-IPL PATENT LEGISLATION COMMITTEE

Janet Hendrickson, Chair; Kimberly Parke, Vice- Chair

Scope of committee: Pending federal legislation relating to U.S. patent laws or affecting U.S. patent rights, including, whenever appropriate, working in cooperation and collaboration with other relevant committees.

### **Resolution AITF9-C - Claim Construction Standard for Post Grant Review and *Inter Partes* Review**

RESOLVED, the Section of Intellectual Property Law opposes in principle changing the claim construction standard for Post Grant Review and Inter Partes Review proceedings, as authorized in chapters 31 and 32 of title 35, United States Code, from a broadest reasonable interpretation standard to the standard that would be applied in a civil action to invalidate the patent claim in question.

NOW THEREFORE, the Section opposes the enactment of section 9 (c) of H.R. 3309, 113<sup>th</sup> Congress, or similar legislation.

### **Past Action**

This position is in opposition to the position adopted and presented to the USPTO by the “Gang of Six” in the Comments and Proposed Regulations of the Committee Appointed by the ABA-IPL, AIPLA and IPO Relating to Post-Grant Review, Inter Partes Review and Covered Business Method Patent Transitional Proceedings Under the Leahy-Smith America Invents Act.

### **Discussion**

Currently, a broadest reasonable interpretation (BRI) standard for claim construction is used for post grant review (PGR) and *Inter Partes* Review (IPR). Proposed Section 9(c) would change the standard from BRI to require "each claim of a patent shall be construed as such claim would be in a civil action to invalidate a patent under section 282(b), including construing each claim of the patent in accordance with the ordinary and customary meaning of such claim as understood by one of ordinary skill in the art and the prosecution history pertaining to the patent." The civil action claim construction standard is considered to be a more rigorous claim interpretation approach as provided in *Phillips v. AWH Corp.*, 415 F.3d 1303, 1315-17 (Fed. Cir. 2005).

When the USPTO promulgated rules to implement the post grant proceedings the Office issued rules requiring BRI be used as the claim construction standard for PGR and IPR. USPTO Director David Kappos published the following comments about the decision to employ the BRI claim construction standard at the PTO.

Recently it has been suggested that the Office use the district court’s higher standard, construing claims more narrowly so as to preserve their validity in implementing the new America Invents Act (AIA) *inter partes* and post grant

review proceedings. Unfortunately, this change would not be workable or appropriate. Employing a district court approach to claim construction in the new proceedings would impair the efficient operation of the Office and result in facially inconsistent results, as well as constitute bad policy for our country's IP system.

As alluded to above, patent claims serve an important public notice function. An essential purpose of the broadest reasonable claim interpretation standard in the amendment process is to encourage an inventor to fashion clear, unambiguous claims. Patent owners in *inter partes* and post grant reviews will be afforded opportunities to amend their claims commensurate with their contribution to the art. Only through the use of the broadest reasonable claim interpretation standard can the Office ensure that uncertainties of claim scope are removed by the inventor. In contrast, patents before a district court are presumed valid with a heightened "clear and convincing" standard of proof to demonstrate invalidity. Consistent with this heightened presumption of validity—and as there is no opportunity to amend and resolve ambiguities—district courts construe claims to uphold validity. The Office however, is not so limited in its approach to claim interpretation, given its authority to amend patent claims.

Some have expressed a concern that applying the broadest reasonable interpretation standard to *inter partes* and post grant reviews could lead to double standards between ongoing patent litigation and the Office's reviews. The AIA however, addresses this concern. Specifically, the AIA imposes limitations on a petitioner's ability to file a review when there is ongoing district court litigation, while providing time limits for the Office to complete its reviews. By placing limits on the filing and completion of the reviews, and encouraging coordination between the Office and district courts, the AIA provides improved mechanisms to avoid conflicts.

On the other hand, inconsistent results would become a major issue if the Office adopted a standard of claim construction other than the broadest reasonable interpretation for post-grant reviews. Specifically, the AIA contemplates that there will be multiple proceedings in the Office, and thus requires the Office to establish rules concerning the relationships between the various proceedings. For example, there may be an *inter partes* review of a patent that is also subject to an *ex parte* reexamination, where the patent is part of a family of co-pending applications all employing the same claim terminology. Major difficulties would arise where the Office is handling multiple proceedings with different claim construction standards applicable. In this world, the same amendment made in an *inter partes* review and a pending application could result in an allowance in one case and a rejection in the other. Or, the introduction of narrower language in a pending application and broader language in an *inter partes* review could result in an allowance of the broader language and a rejection of the narrower language. Clearly, these examples and many others would produce bizarre results, unhelpful to patentees, applicants, the public, and the system.

To avoid the potential of having distinct alternative claim constructions for a claim term arising in the various proceedings before the Office and the inconsistent results flowing therefrom, the Office has chosen to continue to employ a single standard, the broadest reasonable interpretation standard, for proceedings before the Office. Continued use of the broadest reasonable claim interpretation will ensure the Office serves the patent community and makes full use of its resources in processing patent claims efficiently, effectively and consistently.<sup>1</sup>

While during recent hearings for H.R. 3309, Mr. Kappos pulled back from this strong support of using BRI as the claim construction standard, his previous testimony provides many of the reasons that one could support BRI as the correct claim construction standard. Many believe that BRI is also the correct standard because BRI is most closely aligned with the policy considerations of having a forum that provides an efficient means of challenging overly broad patents.

Others take the opposite view. The view is that after a patent issues, the same claim construction standard should be used in all forums (e.g., Federal Courts, PGR/IPR, ITC, etc.). The differences between prosecution and post-grant proceedings give rise to such a position. For example, unlike *ex parte* prosecution of original patent applications having myriad opportunities for claim amendments, reexamination, post-grant review, and *inter partes* review only allow for limited options for claim amendments and confirmation of claims. Additionally, it could be considered that post-grant proceedings are harder on the patent owner than the challenger, thus, the claim construction standard used in PGR and IPR ought to be consistent with amendment philosophy, understanding that the opportunities for amendment in these procedures is severely limited and thus, use the civil action standard of *Phillips*. Further, the Office through the Board of Patent Appeals and Interferences have carved out other exceptions in post-issuance proceedings where BRI is not used because the right of amendment does not exist. These are at least some reasons why the BRI claim construction standard used during prosecution of the application might not be applicable to PGR and IPR.

## Conclusion

On balance, when considering the various positions, the Section opposes changing the claim construction standard from the broadest reasonable interpretation standard for the reasons stated above.

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<sup>1</sup> David Kappos, June 19, 2012, *Ensuring Quality Inter Partes and Post Grant Reviews*, [http://www.uspto.gov/blog/director/entry/ensuring\\_quality\\_inter\\_partes\\_and](http://www.uspto.gov/blog/director/entry/ensuring_quality_inter_partes_and) (last visited October 31, 2013).



**Resolution AITF9-C – Claim Construction in PGR/IPR (12 approve, 9 do not approve, 3 abstain)**

**Approve**

Fred Cottrell  
Heath Hoglund  
Jeff Sheldon  
Kim Jessum  
Larry Pope  
Adrian Mollo  
Kim Parke  
Rivka Monheit  
Robert Matthews  
Ryan Fountain  
Steven Shurtz  
Janet Hendrickson

**Do Not Approve**

Elaine Blais  
Harold Burstyn  
Sharon Israel  
Jim McEwen  
Elizabeth Rodriguez  
Ryan Schermerhorn  
Steven Tytran  
Steve Caltrider  
David Korn

**Abstain**

Donika Pentcheva  
David Metzger  
Chuck Hauff

**Not Heard From**

David Boundy  
Christopher Alan Bullard  
Arnold B Calmann  
Timothy Andrew Cook  
Jason F Cotter  
David Dawsey  
C Erik Hawes  
Richard Gervase  
Willard Jones  
Joshua Paul Larsen  
Tammy Pennington Rhodes  
Matthew Schruers  
Len Smith  
Malaika Tyson  
Macharri Vorndran-Jones  
Stanton David Weinstein  
Maxim Waldbaum  
David Yee

## Resolution AITF9-E

RESOLVED, that the Section of Intellectual Property Law opposes, in principle, the expansion of subject matter eligible for review in the transitional post-grant review proceedings established pursuant to section 18 of the America Invents Act for review of the validity of covered business patents .

FURTHER RESOLVED, that the Section opposes, in principle, the repeal of the sunset provision in the America Invents Act that terminates the Transitional Program For Covered Business Method Patents (CBMP) eight (8) years after its initiation.

FURTHER RESOLVED, that the Section opposes, in principle, the enactment of a mandate that language of the America Invents Act relating to the eligibility of a patent claim for review under the CBMP Program be prospectively construed consistently with an earlier decision of an administrative tribunal interpreting that language.

FURTHER RESOLVED, the Section opposed the enactment of section 9 (e) of H.R. 3309, 113<sup>th</sup> Congress, or similar legislation.

## ABA-IPL PATENT LEGISLATION COMMITTEE

Janet Hendrickson, Chair; Kimberly Parke, Vice-Chair

Scope of committee: Pending federal legislation relating to U.S. patent laws or affecting U.S. patent rights, including, whenever appropriate, working in cooperation and collaboration with other relevant committees.

### **Patent Legislation Resolution AITF9-E - Business Method Patent Reviews**

RESOLVED, That the Section of Intellectual Property Law opposes in principle the expansion of subject matter eligible for review in the transitional post-grant review proceedings established pursuant to section 18 of the America Invents Act for review of the validity of covered business patents .

FURTHER RESOLVED, That the Section opposes in principle the repeal of the sunset provision in the America Invents Act that terminates the Transitional Program For Covered Business Method Patents (CBMP) eight years after its initiation.

FURTHER RESOLVED, That the Section opposes in principle the enactment of a mandate that language of the America Invents Act relating to the eligibility of a patent claim for review under the CBMP Program be prospectively construed consistently with an earlier decision of an administrative tribunal interpreting that language.

NOW THEREFORE, the Section opposed the enactment of section 9 (e) of H.R. 3309, 113<sup>th</sup> Congress, or similar legislation.

In part, Section 9(e) follows.

#### **LIMITATION TO FIRST-TO-INVENT PATENTS.—**

Section 18(a)(2) of the Leahy-Smith America Invents Act is amended by striking “shall not apply to a patent described in section 6(f)(2)(A) of this Act during the period in which a petition for post-grant review of that patent would satisfy the requirements of section 321(c) of title 35, United States Code” and inserting “shall not apply to a patent that is described in section 3(n)(1) of this Act (but is not described in section 3(n)(2) of this Act)”.

#### **(B) REPEAL OF SUNSET.—**

Section 18(a) of the Leahy-Smith America Invents Act (35 U.S.C. 321 note) is amended by striking paragraph (3).

#### **(2) DEFINITION; CLARIFICATION.—**

(A) DEFINITION.—For purposes of section 18(d) of the Leahy-Smith America Invents Act, the words “used in the practice, administration, or management of a financial product or service” shall be construed consistently with the institution decision of the Patent Trial and Appeal Board of the United States Patent and Trademark Office in *SAP America, Inc. v. Versata Dev. Group, Inc.*, CBM2012–00001, Paper 36 (January 9, 2013).

## **Past Action.**

232 (Passed 2001 AR926-R757-1) **Retained 2011**

Section opposes, in principle, to any legislative, judicial, or administrative action that would result in discriminatory treatment of patent applications based on the field of invention, including different requirements for patentability, different criteria for publication, different opportunities for third parties to challenge patentability, or different requirements to disclose the extent to which the applicant searched for prior art for business method-related inventions.

## **Discussion.**

Consistent with past action, the Section does not support any legislative, judicial, or administrative action that treats patents or patent applications differently based on the specific subject matter. Further, there has been no data published to support the finding that the patents that would be covered in any expansion suffered from the deficiency of prior art not being readily available to the USPTO provided as a reason for section 18 of the America Invents Act. Thus, the Section does not favor the expansion of covered business method patent reviews as proposed by the Innovation Act in Section 9(d).

The legislative intent of the America Invents Act (“AIA”) section 18 (not codified in Title 35) is to give the USPTO a second chance to examine business method patents related to the financial services and products, which were granted subsequent to the Federal Circuit’s 1998 decision in *State Street Bank and Trust Co. v. Signature Financial Group, Inc.*<sup>1</sup> but prior to the line of cases starting with the Supreme Court’s decision in *Bilski v. Kappos*.<sup>2</sup> Section 18 was authored by Senators Schumer and Kyl to target business method patents issued after *State Street*, which held business methods patent eligible under 35 U.S.C. § 101 if producing a “useful, concrete, and tangible result. . . . even if the useful result is expressed numbers, such as price, profit, percentage, cost, or loss.”<sup>3</sup> *State Street* led to a marked increase in applications for business method patents and the USPTO granting business method patents more widely by incorporating *State Street* into the Manual of Patent Examining Procedure. Further, the quality of some business method patents granted post *State Street* have been questioned due to inadequate consideration of prior art.

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<sup>1</sup> 149 F.3d 1368 (Fed. Cir. 1998).

<sup>2</sup> 130 S.Ct. 3218 (2010). See 157 Cong. Rec. S1363 (statement of Sen. Schumer).

<sup>3</sup> *State Street*, 149 F.3d at 1375.

The Supreme Court’s decision in *Bilski* narrowed the subject matter eligibility of business method patents by affirming the Federal Circuit’s own reversal of the “useful, concrete, and tangible result” test articulated in *State Street*. *Bilski* stopped short of finding business methods as ineligible subject matter *per se*, but did not articulate a specific treatment of business methods, instead focusing on the traditional exceptions to statutory subject matter: laws of nature, physical phenomena, and abstract ideas. Nevertheless, some business method patents granted by the USPTO in the time period between *State Street* and *Bilski* are likely invalid under current law.

The Covered Business Method Review under AIA section 18 is therefore intended as a mechanism to avoid litigation of patents that are allegedly invalid under current law and may have been examined without taking into account certain relevant prior art.<sup>4</sup> CBM review permits review by the Patent Trials and Appeals Board (PTAB) in a procedure similar to Post Grant Review, which is otherwise not available to patents filed prior to March 16, 2013. CBM review may be initiated for any patent filed prior to March 16, 2013 by a party (or privy or real party in interest) that has been sued for patent infringement in a civil action. CBM review is temporary and set to expire September 16, 2020. While statements made by Senator Schumer evidence a general disagreement with business methods as constituting patent eligible subject matter *per se* under 35 U.S.C. § 101,<sup>5</sup> the CBM review under AIA section 18 is limited to “patent that claims a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service, except that the term does not include patents for technological inventions.”

A patent is ineligible for CBM review as a technological invention if “the claimed subject matter as a whole recites a technological feature that is novel and unobvious over the prior art; and solves a technical problem using a technical solution.”<sup>6</sup> The definition of “financial product or service” is less clear. The definition is interpreted broadly to include activities “financial in nature, incidental to financial activity or complimentary to a financial activity.”<sup>7</sup> The PTAB has also interpreted the definition in accordance with the legislative

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<sup>4</sup> 157 Cong. Rec. S1363, March 8, 2011 (statement of Sen. Schumer; 157 Cong. Rec. S5436–37, Sept. 8, 2011 (statement of Sen. Schumer).

<sup>5</sup> See 157 Cong. Rec. S1053, March 1, 2011 (“Business methods patents are anathema to the protection the patent system provides because they apply not to novel products or services but to abstract and common concepts of how to do business.”) (statement of Sen. Schumer); 157 Cong. Rec. S5436, Sept. 8, 2011 (“Business method patents are a real problem. They should never have been patented to begin with.”).

<sup>6</sup> 37 C.F.R. § 42.301(b)

<sup>7</sup> 77 Fed. Reg. 157 at 48735, Aug. 14, 2012.

history:

The plain meaning of ‘financial product or service’ demonstrates that section 18 is not limited to the financial services industry. At its most basic, a financial product is an agreement between two parties stipulating movements of money or other consideration now or in the future.<sup>8</sup>

Additionally, the definition is not limited to patents for products or services of the financial services industry and includes patents falling outside Class 705 (data processing: financial, business practice, management, or cost/price determination).<sup>9</sup>

CBM review occurs in two stages. First, the review will only be instituted if it is more likely than not that at least one claims challenged is unpatentable under sections 101, 102, 103, and 112.<sup>10</sup> The claims are not presumed to be valid and are interpreted according the “broadest reasonable interpretation” standard<sup>11</sup> as opposed to the *Phillips* standard used in a civil action in which the claims are presumed to be valid and the words of a claim “are generally given their ordinary and customary meaning” as understood by a person of ordinary skill in the art in question at the time of the invention.<sup>12</sup> If the review is instituted, sequenced discovery is taken and the patentee is permitted the opportunity to amend the claims prior to an oral hearing before the PTAB. The process must be completed within one year of the CBM review being instituted.

Thirty-five petitions for CBM review had been filed of August 30, 2013. The first petition was filed on the first day CBM review became available by SAP America Inc. against Versata Development Group. The petition was the first CBM review instituted, resulting in invalidation of Versata’s patent in June 2013.<sup>13</sup> A rehearing was denied by the PTAB in September 2013 and Versata is expected to appeal to the Federal Circuit.

Finally, it is relevant to consider the case law on business method and software related patents following the enactment of the America Invents Act. The Supreme Court has decided two cases related to subject matter eligibility under 35 U.S.C. § 101 since 2011: *Mayo v. Prometheus* and *Association for Molecular Pathology v. Myriad*. In light of its decision in *Mayo* the Supreme Court remanded *WildTangent v. Ultramercial* to the Federal Circuit for

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<sup>8</sup> SAP America v. Versata Dev. Group, CBM2012-00001, Jan. 9, 2013 (citing 157 Cong. Rec. S5432 (daily ed. Sept. 8, 2011) (statement of Sen. Schumer).

<sup>9</sup> *Id.* at 48736.

<sup>10</sup> 35 U.S.C. § 324(a). *See also* SAP America v. Versata Dev. Group, CBM2012-00001, Jan. 9, 2013 (instituting first CBM review under AIA section 18).

<sup>11</sup> 37 C.F.R. 42.300(b).

<sup>12</sup> *Phillips v. AWH Corp.*, 415 F.3d 1303, 1312–13 (Fed. Cir. 2005).

<sup>13</sup> SAP America, Inc. v. Versata Dev. Group, 107 U.S.P.Q.2d 1097 (Patent Tr. & App. Bd. 2013).

reconsideration whether the patent claimed ineligible subject matter under section 101. The Federal Circuit upheld computer-based method patent as not manifestly abstract. Petition for certiorari has been filed. Additionally, petition for certiorari has been filed in the recent *en banc* plurality decision by the Federal Circuit in *CLS Bank v. Alice Corp.* in which the judges failed to agree on test to determine a subject matter eligibility test of computer-based method claims. It is quite clear that the judges on the Federal Circuit do not agree on a standard for determining subject matter eligibility for business methods and software related patents and therefore widely anticipated that the Supreme Court will grant cert again address business method subject matter eligibility in either *WildTangent* or *CLS Bank*.

### **Conclusion**

On balance, the Section opposes any legislative action that institutes discriminatory treatment of patents or patent applications based on particular subject matter.

### **Resolution AITF9-E – Expansion of CBM Review (16 approve, 5 do not approve, 2 abstain)**

#### **Approve**

Fred Cottrell  
Donika Pentcheva  
Heath Hogle  
Sharon Israel  
Kim Jessum  
Larry Pope  
Jim McEwen  
Adrian Mollo  
Kim Parke  
Rivka Monheit  
Robert Matthews  
Ryan Fountain  
Steven Shurtz  
Steven Tytran  
Steve Caltrider  
Janet Hendrickson  
David Korn

#### **Do Not Approve**

Elaine Blais  
Harold Burstyn  
Jeff Sheldon  
Elizabeth Rodriguez  
Ryan Schermerhorn

#### **Abstain**

David Metzger  
Chuck Hauff

#### **Not Heard From**

David Boundy  
Christopher Alan Bullard  
Arnold B Calmann  
Timothy Andrew Cook

Jason F Cotter  
David Dawsey  
C Erik Hawes  
Richard Gervase  
Willard Jones  
Joshua Paul Larsen  
Tammy Pennington Rhodes  
Matthew Schruers  
Len Smith  
Malaika Tyson  
Macharri Vorndran-Jones  
Stanton David Weinstein  
Maxim Waldbaum  
David Yee