

AMERICA INVENTS ACT

JUNE 1, 2011.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. SMITH of Texas, from the Committee on the Judiciary, submitted the following

R E P O R T

together with

DISSENTING VIEWS AND ADDITIONAL VIEWS

[To accompany H.R. 1249]

[Including cost estimate of the Congressional Budget Office]

The Committee on the Judiciary, to whom was referred the bill (H.R. 1249) to amend title 35, United States Code, to provide for patent reform, having considered the same, reports favorably thereon with an amendment and recommends that the bill as amended do pass.

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99-006

*Transitional program for covered business method patents*

A number of patent observers believe the issuance of poor business-method patents during the late 1990's through the early 2000's led to the patent "troll" lawsuits that compelled the Committee to launch the patent reform project 6 years ago. At the time, the USPTO lacked a sufficient number of examiners with expertise in the relevant art area. Compounding this problem, there was a dearth of available prior art to assist examiners as they reviewed business method applications. Critics also note that most countries do not grant patents for business methods.

The Act responds to the problem by creating a transitional program 1 year after enactment of the bill to implement a provisional post-grant proceeding for review of the validity of any business method patent. In contrast to the era of the late 1990's-early 2000's, examiners will review the best prior art available. A petition to initiate a review will not be granted unless the petitioner is first sued for infringement or is accused of infringement. The program otherwise generally functions on the same terms as other post-grant proceedings initiated pursuant to the bill. Any party may request a stay of a civil action if a related post-grant proceeding is granted. The program sunsets after 10 years, which ensures that patent holders cannot delay filing a lawsuit over a shorter time period to avoid reevaluation under the transitional program.

*Jurisdictional and procedural matters***a) State court jurisdiction and the US Court of Appeals for the Federal Circuit**

The US district courts area given original jurisdiction to hear patent cases,<sup>57</sup> while the US Court of Appeals for the Federal Circuit adjudicates all patent appeals.<sup>58</sup> The Supreme Court ruled in 2002,<sup>59</sup> however, that patent counterclaims do not give the Federal Circuit appellate jurisdiction over a case.

The Act clarifies the jurisdiction of the US district courts and stipulates that the US Court of Appeals for the Federal Circuit has jurisdiction over appeals involving *compulsory* patent counterclaims. The legislative history of this provision, which we reaffirm and adopt as our own, appears in the Committee Report accompanying H.R. 2955 from the 109th Congress,<sup>60</sup> which the Committee reported favorably to the House on April 5, 2006.

**b) Joinder**

The Act also addresses problems occasioned by the joinder of defendants (sometimes numbering in the dozens) who have tenuous connections to the underlying disputes in patent infringement suits.

The Act amends chapter 29 of the Patent Act by creating a new § 299 that addresses joinder under Rule 20 and consolidation of trials under Rule 42. Pursuant to the provision, parties who are accused infringers in most patent suits may be joined as defendants

<sup>57</sup> 28 USC § 1338.

<sup>58</sup> 28 USC § 1295.

<sup>59</sup> *Holmes Group, Inc., v. Vornado Air Circulation Systems, Inc.* 535 U.S. 826 (2002).

<sup>60</sup> H. Rep. 109-405.

*Section 15. Best Mode Requirement.*

This section amends § 282(b) by removing the failure to disclose the best mode under section 112 as a basis for canceling or holding either invalid or unenforceable a patent claim.

*Section 16. Marking.*

Subsection (a) addresses virtual marking. The provision allows a patent holder to satisfy the requirements of § 287 of the Patent Act by affixing to a patented article the word “patent” or the abbreviation “pat.” together with an Internet address that the public can access free of charge to determine the status of the patent. The USPTO is also instructed to submit a report to Congress on the effectiveness of virtual marking that is due no later than 3 years after the date of enactment.

Subsection (b) addresses false marking in the following ways: (1) Only the United States may sue for the qui tam penalty under the subsection. (2) A person who has suffered a competitive injury as a result of a violation may still bring a civil action in US district court for compensatory damages. (3) Persons or companies otherwise liable under § 292 (the false marking statute) are protected during a 3-year window beginning on the date the patent at issue expires. Beyond the 3-year window, persons or companies are also protected if they place the word “patent” or “patented”, the abbreviation “pat.”, or the patent number either on the article or through an Internet posting, consistent with the amendments in subsection (a).

*Section 17. Advice of Counsel.*

Section 17 creates a new § 298 of the Patent Act that states that the failure of an infringer to obtain the advice of counsel regarding any allegedly infringed patent, or the failure of the infringer to present such advice to the court or jury, may not be used to prove that the accused infringer willfully infringed the patent or that the infringer intended to induce infringement of the patent.

*Section 18. Transitional program for covered business method patents.*

Section 18 creates a transitional program to allow post-grant review of the validity of business method patents.

Under subsection (a), the Director is authorized to establish regulations governing the use of the new proceeding, which will be modeled after post-grant review as set forth in Section 6 (new Chapter 32 of the Patent Act). The proceeding is limited in certain respects. A petition cannot be accepted unless the petitioner or his real party in interest has been sued for infringement of the patent or has been charged with infringement. Nor can the petitioner or his real party in interest later assert invalidity before the ITC or a Federal court on a ground that was considered and resulted in a written decision by the agency in the course of a transitional proceeding.

The program takes effect 1 year following the date of enactment and applies to any covered business method patent issued before, on, or after the effective date, with the exception of a patent that satisfies the requirements of § 321(c) of the Patent Act as set forth in Section 6 of the bill. The program sunsets after 10 years.

Subsection (b) addresses requests for a stay of a civil action alleging infringement under § 281 of the Patent Act. A US district court shall decide to grant a stay based on prescribed criteria: (A) whether a stay (or denial thereof) will simplify the issues in question and streamline the trial; (B) whether discovery is complete and whether a trial date has been set; (C) whether a stay (or a denial thereof) would unduly prejudice the non-moving party or present a clear tactical advantage for the moving party; and (D) whether a stay (or the denial thereof) will reduce the burden of litigation on the parties and on the court. A party may seek an interlocutory appeal of the US district court's decision, which the Federal Circuit shall review to ensure consistent application of established precedent, and such review may be de novo.

Subsection (c) deems that in an action for infringement under § 281 of a covered business method patent, an automated teller machine ("ATM") shall not be considered a regular and established place of business for purposes of the patent venue statute.<sup>63</sup>

Subsection (d) defines "covered business method patent" as one 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 it does not include patents for technological inventions.

Finally, subsection (e) clarifies that nothing in Section 18 shall be construed as amending or interpreting categories of patent-eligible subject matter under § 101 of the Patent Act.

*Section 19. Jurisdiction and procedural matters.*

Subsection (a) through (d) enact the so-called *Holmes Group* fix (H.R. 2955, 109th Congress), which the House Judiciary Committee reported favorably in 2006. The Committee Report accompanying H.R. 2955 (House Rep. 109–407), which we reaffirm, explains the bill's reasons for abrogating *Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.*, 535 U.S. 826 (2002), and more fully precluding state court jurisdiction over patent legal claims.

Subsection (e) creates a new § 299 of the Patent Act that addresses joinder of accused infringers in patent actions or trials not involving certain drugs and biologics. Parties accused as defendants may be joined in one action as defendants or counterclaim defendants only if: (1) any right to relief is asserted against the parties jointly, severally, or in the alternative with respect to or arising out of the same transaction, occurrence, or series of transactions or occurrences relating to the making, using, importing into the United States, offering for sale, or selling of the same accused product or process; and (2) questions of fact common to all defendants or counterclaim defendants will arise in the action.

For purposes of subsection (e), accused infringers may not be joined based solely on allegations that they each have infringed the patent or patents in suit.

The changes set forth in Section 19 shall apply to any civil action commenced on or after the date of enactment of the Act.

<sup>63</sup> 28 USC § 1400(b).