



301 Patents Pending Changes- Recent Developments in Patent Litigation

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James Toupin

James Toupin is the general counsel of the United States Patent and Trademark Office.

Prior to the United States Patent and Trademark Office, he was appointed assistant general counsel for litigation of the United States International Trade Commission and subsequently to deputy general counsel. In those positions, he supervised defense of the Commission's actions in U.S. courts and international tribunals. The domestic court representation included defense of the Commission's determinations on patent and other intellectual property matters in the Federal Circuit and of the Commission's determinations in antidumping and countervailing duty investigations in the U.S. Court of International Trade and the Federal Circuit.

Mr. Toupin also assisted in the negotiations leading to the adoption of dispute settlement mechanisms in the U.S.-Canada Free Trade Agreement, the North American Free Trade Agreement (NAFTA) and the World Trade Organization Agreements, as well as in representation of the United States in proceedings in those fora. He has been a member of the advisory committee of the Court of International Trade, as well as of the judicial conference-organizing committees of the Court of Appeals for the Federal Circuit.

He is a member of the California and District of Columbia Bars.

James Toupin received his A.B. degree with distinction from Stanford University, and his J.D. degree from the Boalt Hall School of Law, University of California at Berkeley, where he was an editor of the law review.

In the Senate of the United States,*March 8, 2006.*

Resolved, That the bill from the House of Representatives (H.R. 683) entitled "An Act to amend the Trademark Act of 1946 with respect to dilution by blurring or tarnishment.", do pass with the following

AMENDMENT:

Strike out all after the enacting clause and insert:

1 **SECTION 1. SHORT TITLE.**

2 (a) *SHORT TITLE.*—*This Act may be cited as the*

3 *"Trademark Dilution Revision Act of 2006".*

(b) *REFERENCES.*—*Any reference in this Act to the Trademark Act of 1946 shall be a reference to the Act entitled "An Act to provide for the registration and protection of trademarks used in commerce, to carry out the provisions of certain international conventions, and for other purposes", approved July 5, 1946 (15 U.S.C. 1051 et seq.).*

SEC. 2. DILUTION BY BLURRING; DILUTION BY TARNISHMENT.

Section 43 of the Trademark Act of 1946 (15 U.S.C. 1125) is amended—

(1) *by striking subsection (c) and inserting the following:*

"(c) DILUTION BY BLURRING; DILUTION BY TARNISHMENT.—

"(1) INJUNCTIVE RELIEF.—Subject to the principles of equity, the owner of a famous mark that is distinctive, inherently or through acquired distinctiveness, shall be entitled to an injunction against another person who, at any time after the owner's mark has become famous, commences use of a mark or trade name in commerce that is likely to cause dilution by blurring or dilution by tarnishment of the famous mark, regardless of the presence or absence of actual or likely confusion, of competition, or of actual economic injury.

† HR 683 EAS

“(2) *DEFINITIONS.—(A) For purposes of paragraph (1), a mark is famous if it is widely recognized by the general consuming public of the United States as a designation of source of the goods or services of the mark’s owner. In determining whether a mark possesses the requisite degree of recognition, the court may consider all relevant factors, including the following:*

“(i) *The duration, extent, and geographic reach of advertising and publicity of the mark, whether advertised or publicized by the owner or third parties.*

“(ii) *The amount, volume, and geographic extent of sales of goods or services offered under the mark.*

“(iii) *The extent of actual recognition of the mark.*

“(iv) *Whether the mark was registered under the Act of March 3, 1881, or the Act of February 20, 1905, or on the principal register.*

“(B) *For purposes of paragraph (1), ‘dilution by blurring’ is association arising from the similarity between a mark or trade name and a famous mark that impairs the distinctiveness of the famous mark. In determining whether a mark or trade name is like-*

ly to cause dilution by blurring, the court may consider all relevant factors, including the following:

“(i) *The degree of similarity between the mark or trade name and the famous mark.*

“(ii) *The degree of inherent or acquired distinctiveness of the famous mark.*

“(iii) *The extent to which the owner of the famous mark is engaging in substantially exclusive use of the mark.*

“(iv) *The degree of recognition of the famous mark.*

“(v) *Whether the user of the mark or trade name intended to create an association with the famous mark.*

“(vi) *Any actual association between the mark or trade name and the famous mark.*

“(C) *For purposes of paragraph (1), ‘dilution by tarnishment’ is association arising from the similarity between a mark or trade name and a famous mark that harms the reputation of the famous mark.*

“(3) *EXCLUSIONS.—The following shall not be actionable as dilution by blurring or dilution by tarnishment under this subsection:*

“(A) *Any fair use, including a nominative or descriptive fair use, or facilitation of such fair*

use, of a famous mark by another person other than as a designation of source for the person's own goods or services, including use in connection with—

“(i) advertising or promotion that permits consumers to compare goods or services; or

“(ii) identifying and parodying, criticizing, or commenting upon the famous mark owner or the goods or services of the famous mark owner.

“(B) All forms of news reporting and news commentary.

“(C) Any noncommercial use of a mark.

“(4) BURDEN OF PROOF.—In a civil action for trade dress dilution under this Act for trade dress not registered on the principal register, the person who asserts trade dress protection has the burden of proving that—

“(A) the claimed trade dress, taken as a whole, is not functional and is famous; and

“(B) if the claimed trade dress includes any mark or marks registered on the principal register, the unregistered matter, taken as a whole,

is famous separate and apart from any fame of such registered marks.

“(5) ADDITIONAL REMEDIES.—In an action brought under this subsection, the owner of the famous mark shall be entitled to injunctive relief as set forth in section 34. The owner of the famous mark shall also be entitled to the remedies set forth in sections 35(a) and 36, subject to the discretion of the court and the principles of equity if—

“(A) the mark or trade name that is likely to cause dilution by blurring or dilution by tarnishment was first used in commerce by the person against whom the injunction is sought after the date of enactment of the Trademark Dilution Revision Act of 2006; and

“(B) in a claim arising under this subsection—

“(i) by reason of dilution by blurring, the person against whom the injunction is sought willfully intended to trade on the recognition of the famous mark; or

“(ii) by reason of dilution by tarnishment, the person against whom the injunction is sought willfully intended to harm the reputation of the famous mark.

“(6) OWNERSHIP OF VALID REGISTRATION A COMPLETE BAR TO ACTION.—The ownership by a person of a valid registration under the Act of March 3, 1881, or the Act of February 20, 1905, or on the principal register under this Act shall be a complete bar to an action against that person, with respect to that mark, that—

“(A)(i) is brought by another person under the common law or a statute of a State; and

“(ii) seeks to prevent dilution by blurring or dilution by tarnishment; or

“(B) asserts any claim of actual or likely damage or harm to the distinctiveness or reputation of a mark, label, or form of advertisement.

“(7) SAVINGS CLAUSE.—Nothing in this subsection shall be construed to impair, modify, or supersede the applicability of the patent laws of the United States.”; and

(2) in subsection (d)(1)(B)(i)(IX), by striking “(c)(1) of section 43” and inserting “(c)”.

SEC. 3. CONFORMING AMENDMENTS.

(a) MARKS REGISTRABLE ON THE PRINCIPAL REGISTER.—Section 2(f) of the Trademark Act of 1946 (15 U.S.C. 1052(f)) is amended—

(1) by striking the last two sentences; and

(2) by adding at the end the following: “A mark which would be likely to cause dilution by blurring or dilution by tarnishment under section 43(c), may be refused registration only pursuant to a proceeding brought under section 13. A registration for a mark which would be likely to cause dilution by blurring or dilution by tarnishment under section 43(c), may be canceled pursuant to a proceeding brought under either section 14 or section 24.”.

(b) OPPOSITION.—Section 13(a) of the Trademark Act of 1946 (15 U.S.C. 1063(a)) is amended in the first sentence by striking “as a result of dilution” and inserting “the registration of any mark which would be likely to cause dilution by blurring or dilution by tarnishment”.

(c) CANCELLATION.—Section 14 of the Trademark Act of 1946 (15 U.S.C. 1064) is amended, in the matter preceding paragraph (1) by striking “, including as a result of dilution under section 43(c),” and inserting “, including as a result of a likelihood of dilution by blurring or dilution by tarnishment under section 43(c),”.

(d) MARKS FOR THE SUPPLEMENTAL REGISTER.—The second sentence of section 24 of the Trademark Act of 1946 (15 U.S.C. 1092) is amended to read as follows:

“Whenever any person believes that such person is or will be damaged by the registration of a mark on the supplemental register—

“(1) for which the effective filing date is after the date on which such person’s mark became famous and which would be likely to cause dilution by blurring or dilution by tarnishment under section 43(c); or

“(2) on grounds other than dilution by blurring or dilution by tarnishment, such person may at any time, upon payment of the prescribed fee and the filing of a petition stating the ground therefor, apply to the Director to cancel such registration.”.

(e) DEFINITIONS.—Section 45 of the Trademark Act of 1946 (15 U.S.C. 1127) is amended by striking the definition relating to the term “dilution”.

Attest:

Syllabus

NOTE: Where it is feasible, a syllabus (headnote) will be released, as is being done in connection with this case, at the time the opinion is issued. The syllabus constitutes no part of the opinion of the Court but has been prepared by the Reporter of Decisions for the convenience of the reader. See *United States v. Detroit Timber & Lumber Co.*, 200 U. S. 321, 337.

SUPREME COURT OF THE UNITED STATES

Syllabus

EBAY INC. ET AL. *v.* MERCEXCHANGE, L. L. C.

CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR
THE FEDERAL CIRCUIT

No. 05–130. Argued March 29, 2006—Decided May 15, 2006

Petitioners operate popular Internet Web sites that allow private sellers to list goods they wish to sell. Respondent sought to license its business method patent to petitioners, but no agreement was reached. In respondent’s subsequent patent infringement suit, a jury found that its patent was valid, that petitioners had infringed the patent, and that damages were appropriate. However, the District Court denied respondent’s motion for permanent injunctive relief. In reversing, the Federal Circuit applied its “general rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances.” 401 F. 3d 1323, 1339.

Held: The traditional four-factor test applied by courts of equity when considering whether to award permanent injunctive relief to a prevailing plaintiff applies to disputes arising under the Patent Act. That test requires a plaintiff to demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available at law are inadequate to compensate for that injury; (3) that considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction. The decision to grant or deny such relief is an act of equitable discretion by the district court, reviewable on appeal for abuse of discretion. These principles apply with equal force to Patent Act disputes. “[A] major departure from the long tradition of equity practice should not be lightly implied.” *Weinberger v. Romero-Barcelo*, 456 U. S. 305, 320. Nothing in the Act indicates such a departure. Pp. 2–6.

401 F. 3d 1323, vacated and remanded.

THOMAS, J., delivered the opinion for a unanimous Court. ROBERTS,

Opinion of the Court

NOTICE: This opinion is subject to formal revision before publication in the preliminary print of the United States Reports. Readers are requested to notify the Reporter of Decisions, Supreme Court of the United States, Washington, D. C. 20543, of any typographical or other formal errors, in order that corrections may be made before the preliminary print goes to press.

SUPREME COURT OF THE UNITED STATES

No. 05-130

EBAY INC., ET AL., PETITIONERS *v.*
MERCExchange, L. L. C.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF
APPEALS FOR THE FEDERAL CIRCUIT

[May 15, 2006]

JUSTICE THOMAS delivered the opinion of the Court.

Ordinarily, a federal court considering whether to award permanent injunctive relief to a prevailing plaintiff applies the four-factor test historically employed by courts of equity. Petitioners eBay Inc. and Half.com, Inc., argue that this traditional test applies to disputes arising under the Patent Act. We agree and, accordingly, vacate the judgment of the Court of Appeals.

I

Petitioner eBay operates a popular Internet Web site that allows private sellers to list goods they wish to sell, either through an auction or at a fixed price. Petitioner Half.com, now a wholly owned subsidiary of eBay, operates a similar Web site. Respondent MercExchange, L. L. C., holds a number of patents, including a business method patent for an electronic market designed to facilitate the sale of goods between private individuals by establishing a central authority to promote trust among participants. See U. S. Patent No. 5,845,265. MercExchange sought to license its patent to eBay and Half.com, as it had previously done with other companies, but the

Syllabus

C. J., filed a concurring opinion, in which SCALIA and GINSBURG, JJ., joined. KENNEDY, J., filed a concurring opinion, in which STEVENS, SOUTER, and BREYER, JJ., joined.

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parties failed to reach an agreement. MercExchange subsequently filed a patent infringement suit against eBay and Half.com in the United States District Court for the Eastern District of Virginia. A jury found that MercExchange's patent was valid, that eBay and Half.com had infringed that patent, and that an award of damages was appropriate.¹

Following the jury verdict, the District Court denied MercExchange's motion for permanent injunctive relief. 275 F. Supp. 2d 695 (2003). The Court of Appeals for the Federal Circuit reversed, applying its "general rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances." 401 F. 3d 1323, 1339 (2005). We granted certiorari to determine the appropriateness of this general rule. 546 U. S. ____ (2005).

II

According to well-established principles of equity, a plaintiff seeking a permanent injunction must satisfy a four-factor test before a court may grant such relief. A plaintiff must demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction. See, e.g., *Weinberger v. Romero-Barcelo*, 456 U. S. 305, 311–313 (1982); *Amoco Production Co. v. Gambell*, 480 U. S. 531, 542 (1987). The decision to grant or deny permanent injunctive relief is an act of equitable discretion by the district court, reviewable on appeal for abuse of discretion. See, e.g., *Romero-*

¹EBay and Half.com continue to challenge the validity of MercExchange's patent in proceedings pending before the United States Patent and Trademark Office.

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Barcelo, 456 U. S., at 320.

These familiar principles apply with equal force to disputes arising under the Patent Act. As this Court has long recognized, "a major departure from the long tradition of equity practice should not be lightly implied." *Ibid.*; see also *Amoco, supra*, at 542. Nothing in the Patent Act indicates that Congress intended such a departure. To the contrary, the Patent Act expressly provides that injunctions "may" issue "in accordance with the principles of equity." 35 U. S. C. §283.²

To be sure, the Patent Act also declares that "patents shall have the attributes of personal property," §261, including "the right to exclude others from making, using, offering for sale, or selling the invention," §154(a)(1). According to the Court of Appeals, this statutory right to exclude alone justifies its general rule in favor of permanent injunctive relief. 401 F. 3d, at 1338. But the creation of a right is distinct from the provision of remedies for violations of that right. Indeed, the Patent Act itself indicates that patents shall have the attributes of personal property "[s]ubject to the provisions of this title," 35 U. S. C. §261, including, presumably, the provision that injunctive relief "may" issue only "in accordance with the principles of equity," §283.

This approach is consistent with our treatment of injunctions under the Copyright Act. Like a patent owner, a copyright holder possesses "the right to exclude others from using his property." *Fox Film Corp. v. Doyal*, 286 U. S. 123, 127 (1932); see also *id.*, at 127–128 ("A copyright, like a patent, is at once the equivalent given by the public for benefits bestowed by the genius and meditations

²Section 283 provides that "[t]he several courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable."

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and skill of individuals, and the incentive to further efforts for the same important objects” (internal quotation marks omitted)). Like the Patent Act, the Copyright Act provides that courts “may” grant injunctive relief “on such terms as it may deem reasonable to prevent or restrain infringement of a copyright.” 17 U. S. C. §502(a). And as in our decision today, this Court has consistently rejected invitations to replace traditional equitable considerations with a rule that an injunction automatically follows a determination that a copyright has been infringed. See, e.g., *New York Times Co. v. Tasini*, 533 U. S. 483, 505 (2001) (citing *Campbell v. Acuff-Rose Music, Inc.*, 510 U. S. 569, 578, n. 10 (1994)); *Dun v. Lumbermen’s Credit Assn.*, 209 U. S. 20, 23–24 (1908).

Neither the District Court nor the Court of Appeals below fairly applied these traditional equitable principles in deciding respondent’s motion for a permanent injunction. Although the District Court recited the traditional four-factor test, 275 F. Supp. 2d, at 711, it appeared to adopt certain expansive principles suggesting that injunctive relief could not issue in a broad swath of cases. Most notably, it concluded that a “plaintiff’s willingness to license its patents” and “its lack of commercial activity in practicing the patents” would be sufficient to establish that the patent holder would not suffer irreparable harm if an injunction did not issue. *Id.*, at 712. But traditional equitable principles do not permit such broad classifications. For example, some patent holders, such as university researchers or self-made inventors, might reasonably prefer to license their patents, rather than undertake efforts to secure the financing necessary to bring their works to market themselves. Such patent holders may be able to satisfy the traditional four-factor test, and we see no basis for categorically denying them the opportunity to do so. To the extent that the District Court adopted such a categorical rule, then, its analysis cannot be squared

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with the principles of equity adopted by Congress. The court’s categorical rule is also in tension with *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U. S. 405, 422–430 (1908), which rejected the contention that a court of equity has no jurisdiction to grant injunctive relief to a patent holder who has unreasonably declined to use the patent.

In reversing the District Court, the Court of Appeals departed in the opposite direction from the four-factor test. The court articulated a “general rule,” unique to patent disputes, “that a permanent injunction will issue once infringement and validity have been adjudged.” 401 F. 3d, at 1338. The court further indicated that injunctions should be denied only in the “unusual” case, under “exceptional circumstances” and “in rare instances . . . to protect the public interest.” *Id.*, at 1338–1339. Just as the District Court erred in its categorical denial of injunctive relief, the Court of Appeals erred in its categorical grant of such relief. Cf. *Roche Products v. Bolar Pharmaceutical Co.*, 733 F. 2d 858, 865 (CA Fed 1984) (recognizing the “considerable discretion” district courts have “in determining whether the facts of a situation require it to issue an injunction”).

Because we conclude that neither court below correctly applied the traditional four-factor framework that governs the award of injunctive relief, we vacate the judgment of the Court of Appeals, so that the District Court may apply that framework in the first instance. In doing so, we take no position on whether permanent injunctive relief should or should not issue in this particular case, or indeed in any number of other disputes arising under the Patent Act. We hold only that the decision whether to grant or deny injunctive relief rests within the equitable discretion of the district courts, and that such discretion must be exercised consistent with traditional principles of equity, in patent disputes no less than in other cases governed by such standards.

ROBERTS, C. J., concurring

SUPREME COURT OF THE UNITED STATES

No. 05–130

EBAY INC., ET AL., PETITIONERS *v.*
MERCExchange, L. L. C.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF
APPEALS FOR THE FEDERAL CIRCUIT

[May 15, 2006]

CHIEF JUSTICE ROBERTS, with whom JUSTICE SCALIA
and JUSTICE GINSBURG join, concurring.

I agree with the Court's holding that "the decision whether to grant or deny injunctive relief rests within the equitable discretion of the district courts, and that such discretion must be exercised consistent with traditional principles of equity, in patent disputes no less than in other cases governed by such standards," *ante*, at 5, and I join the opinion of the Court. That opinion rightly rests on the proposition that "a major departure from the long tradition of equity practice should not be lightly implied." *Weinberger v. Romero-Barcelo*, 456 U. S. 305, 320 (1982); see *ante*, at 3.

From at least the early 19th century, courts have granted injunctive relief upon a finding of infringement in the vast majority of patent cases. This "long tradition of equity practice" is not surprising, given the difficulty of protecting a right to *exclude* through monetary remedies that allow an infringer to *use* an invention against the patentee's wishes—a difficulty that often implicates the first two factors of the traditional four-factor test. This historical practice, as the Court holds, does not *entitle* a patentee to a permanent injunction or justify a *general rule* that such injunctions should issue. The Federal Circuit itself so recognized in *Roche Products, Inc. v. Bolar Pharma-*

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Accordingly, we vacate the judgment of the Court of Appeals, and remand for further proceedings consistent with this opinion.

It is so ordered.

KENNEDY, J., concurring

SUPREME COURT OF THE UNITED STATES

No. 05–130

EBAY INC., ET AL., PETITIONERS *v.*
MERCExchange, L. L. C.ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF
APPEALS FOR THE FEDERAL CIRCUIT

[May 15, 2006]

JUSTICE KENNEDY, with whom JUSTICE STEVENS,
JUSTICE SOUTER, and JUSTICE BREYER join, concurring.

The Court is correct, in my view, to hold that courts should apply the well-established, four-factor test—without resort to categorical rules—in deciding whether to grant injunctive relief in patent cases. THE CHIEF JUSTICE is also correct that history may be instructive in applying this test. *Ante*, at 1–2 (concurring opinion). The traditional practice of issuing injunctions against patent infringers, however, does not seem to rest on “the difficulty of protecting a right to *exclude* through monetary remedies that allow an infringer to *use* an invention against the patentee’s wishes.” *Ante*, at 1 (ROBERTS, C. J., concurring). Both the terms of the Patent Act and the traditional view of injunctive relief accept that the existence of a right to exclude does not dictate the remedy for a violation of that right. *Ante*, at 3–4 (opinion of the Court). To the extent earlier cases establish a pattern of granting an injunction against patent infringers almost as a matter of course, this pattern simply illustrates the result of the four-factor test in the contexts then prevalent. The lesson of the historical practice, therefore, is most helpful and instructive when the circumstances of a case bear substantial parallels to litigation the courts have confronted before.

ROBERTS, C. J., concurring

ceutical Co., 733 F. 2d 858, 865–867 (1984). At the same time, there is a difference between exercising equitable discretion pursuant to the established four-factor test and writing on an entirely clean slate. “Discretion is not whim, and limiting discretion according to legal standards helps promote the basic principle of justice that like cases should be decided alike.” *Martin v. Franklin Capital Corp.*, 546 U. S. ___, ___ (2005) (slip op., at 6). When it comes to discerning and applying those standards, in this area as others, “a page of history is worth a volume of logic.” *New York Trust Co. v. Eisner*, 256 U. S. 345, 349 (1921) (opinion for the Court by Holmes, J.).

KENNEDY, J., concurring

In cases now arising trial courts should bear in mind that in many instances the nature of the patent being enforced and the economic function of the patent holder present considerations quite unlike earlier cases. An industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees. See FTC, To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy, ch. 3, pp. 38–39 (Oct. 2003), available at <http://www.ftc.gov/os/2003/10/innovationrpt.pdf> (as visited May 11, 2006, and available in Clerk of Court's case file). For these firms, an injunction, and the potentially serious sanctions arising from its violation, can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent. See *ibid.* When the patented invention is but a small component of the product the companies seek to produce and the threat of an injunction is employed simply for undue leverage in negotiations, legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest. In addition injunctive relief may have different consequences for the burgeoning number of patents over business methods, which were not of much economic and legal significance in earlier times. The potential vagueness and suspect validity of some of these patents may affect the calculus under the four-factor test.

The equitable discretion over injunctions, granted by the Patent Act, is well suited to allow courts to adapt to the rapid technological and legal developments in the patent system. For these reasons it should be recognized that district courts must determine whether past practice fits the circumstances of the cases before them. With these observations, I join the opinion of the Court.

109TH CONGRESS
1ST SESSION

H. R. 2795

To amend title 35, United States Code, relating to the procurement, enforcement, and validity of patents.

IN THE HOUSE OF REPRESENTATIVES

JUNE 8, 2005

Mr. SMITH of Texas (for himself, Mr. BERMAN, Mr. GOODLATTE, Mr. BOUCHER, Ms. ZOE LOFGREN of California, Mr. CANNON, Mr. SCHIFF, Mr. ISSA, Mr. CONYERS, and Mr. COBLE) introduced the following bill; which was referred to the Committee on the Judiciary

A BILL

To amend title 35, United States Code, relating to the procurement, enforcement, and validity of patents.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE; TABLE OF CONTENTS.**

4 (a) SHORT TITLE.—This Act may be cited as the
5 “Patent Reform Act of 2005”.

6 (b) TABLE OF CONTENTS.—The table of contents of
7 this Act is as follows:

- Sec. 1. Short title; table of contents.
- Sec. 2. Reference to title 35, United States Code.
- Sec. 3. Right of the first inventor to file.
- Sec. 4. Right to a patent.
- Sec. 5. Duty of candor.

- Sec. 6. Right of the inventor to obtain damages.
- Sec. 7. Injunctions.
- Sec. 8. Continuation applications.
- Sec. 9. Post-grant procedures and other quality enhancements.
- Sec. 10. Submissions by third parties.
- Sec. 11. Applicability; transitional provisions.

1 **SEC. 2. REFERENCE TO TITLE 35, UNITED STATES CODE.**

2 Whenever in this Act a section or other provision is
 3 amended or repealed, that amendment or repeal shall be
 4 considered to be made to that section or other provision
 5 of title 35, United States Code.

6 **SEC. 3. RIGHT OF THE FIRST INVENTOR TO FILE.**

7 (a) DEFINITIONS.—Section 100 is amended by add-
 8 ing at the end the following:

9 “(f) The term ‘inventor’ means the individual or, if
 10 a joint invention, the individuals collectively who invented
 11 or discovered the subject matter of the invention.

12 “(g) The terms ‘joint inventor’ and ‘coinventor’ mean
 13 any one of the individuals who invented or discovered the
 14 subject matter of a joint invention.

15 “(h) The ‘effective filing date’ of a claimed invention
 16 is—

17 “(1) the filing date of the patent or the applica-
 18 tion for patent containing the claim to the invention;
 19 or

20 “(2) if the patent or application for patent is
 21 entitled to a right of priority of any other applica-
 22 tion under section 119, 365(a), or 365(b) or to the

1 benefit of an earlier filing date in the United States
 2 under section 120, 121, or 365(c), the filing date of
 3 the earliest such application in which the claimed in-
 4 vention is disclosed in the manner provided by the
 5 first paragraph of section 112 of this title.

6 “(i) The term ‘claimed invention’ means the subject
 7 matter defined by a claim in a patent or an application
 8 for a patent.”.

9 (b) CONDITIONS FOR PATENTABILITY.—

10 (1) IN GENERAL.—Section 102 is amended to
 11 read as follows:

12 **“§ 102. Conditions for patentability; novelty**

13 “(a) NOVELTY; PRIOR ART.—A patent for a claimed
 14 invention may not be obtained if—

15 “(1) the claimed invention was patented, de-
 16 scribed in a printed publication, or otherwise pub-
 17 licly known—

18 “(A) more than one year before the effec-
 19 tive filing date of the claimed invention; or

20 “(B) before the effective filing date of the
 21 claimed invention, other than through disclo-
 22 sures made by the inventor or a joint inventor
 23 or by others who obtained the subject matter
 24 disclosed directly or indirectly from the inventor
 25 or a joint inventor; or

“(2) the claimed invention was described in a patent issued under section 151, or in an application for patent published or deemed published under section 122(b), in which the patent or application, as the case may be, names another inventor and was effectively filed before the effective filing date of the claimed invention.

“(b) LIMITATION ON PRIOR ART.—

“(1) COMMONLY ASSIGNED INVENTION EXCEPTION.—Subject matter that would otherwise qualify as prior art only under subsection (a)(2) shall not be prior art to a claimed invention if the subject matter and the claimed invention were, not later than the effective filing date of the claimed invention, owned by the same person or subject to an obligation of assignment to the same person.

“(2) JOINT RESEARCH AGREEMENT EXCEPTION.—

“(A) EXCEPTION.—Subject matter that would otherwise qualify as prior art only under subsection (a)(2) shall not be prior art for purposes of section 103 to a claimed invention if—

“(i) the claimed invention was made by or on behalf of parties to a joint research agreement that was in effect on or

before the effective filing date of the claimed invention;

“(ii) the subject matter was developed and the claimed invention was made as a result of activities undertaken within the scope of the joint research agreement; and

“(iii) the application for patent for the claimed invention discloses or is amended to disclose the names of the parties to the joint research agreement.

“(B) DEFINITION.—For purposes of subparagraph (A), the term ‘joint research agreement’ means a written contract, grant, or cooperative agreement entered into by two or more persons or entities for the performance of experimental, developmental, or research work in the field of the claimed invention.

“(3) REASONABLE AND EFFECTIVE ACCESSIBILITY REQUIREMENT.—

“(A) IN GENERAL.—Subject matter is publicly known for the purposes of subsection (a)(1) only when—

“(i) it becomes reasonably and effectively accessible through its use, sale, or disclosure by other means; or

“(ii) it is embodied in or otherwise inherent in subject matter that has become reasonably and effectively accessible.

“(B) REASONABLE AND EFFECTIVE ACCESSIBILITY.—For purposes of subparagraph (A)—

“(i) subject matter is reasonably accessible if persons of ordinary skill in the art to which the subject matter pertains are able to gain access to the subject matter by without resort to undue efforts; and

“(ii) subject matter is effectively accessible if persons of ordinary skill in the art to which the subject matter pertains are able to comprehend the content of the subject matter without resort to undue efforts.

“(4) PATENTS AND PUBLISHED APPLICATIONS EFFECTIVELY FILED.—A patent or application for patent is effectively filed under subsection (a)(2) with respect to any subject matter described in the patent or application—

“(A) as of the filing date of the patent or the application for patent; or

“(B) if the patent or application for patent is entitled to claim a right of priority under section 119, 365(a), or 365(b) or to claim the benefit of an earlier filing date under section 120, 121, or 365(c), based upon one or more prior filed applications for patent, as of the filing date of the earliest such application that describes the subject matter.”.

(2) CONFORMING AMENDMENT.—The item relating to section 102 in the table of sections for chapter 10 is amended to read as follows:

“102. Conditions for patentability; novelty.”.

(c) CONDITIONS FOR PATENTABILITY; NON-OBVIOUS SUBJECT MATTER.—Section 103 is amended—

(1) by striking subsections (b) and (c); and
(2) in subsection (a)—

(A) by striking “(a) A patent may not be obtained through the invention” and inserting “A patent for a claimed invention may not be obtained through the claimed invention”; and

(B) by striking “at the time the invention was made” and inserting “before the effective filing date of the claimed invention”.

(d) REPEAL OF REQUIREMENTS FOR INVENTIONS MADE ABROAD.—Section 104, and the item relating to

that section in the table of sections for chapter 10, are repealed.

(e) REPEAL OF STATUTORY INVENTION REGISTRATION.—Section 157, and the item relating to that section in the table of sections for chapter 14, are repealed.

(f) EARLIER FILING DATE FOR INVENTOR AND JOINT INVENTOR.—Section 120 is amended by striking “which is filed by an inventor or inventors named” and inserting “which names an inventor or joint inventor”.

(g) CONFORMING AMENDMENTS.—

(1) RIGHT OF PRIORITY.—Section 172 is amended by striking “and the time specified in section 102(d)”.

(2) LIMITATION ON REMEDIES.—Section 287(c)(4) is amended by striking “the earliest effective filing date of which is prior to” and inserting “which has an effective filing date before”.

(3) INTERNATIONAL APPLICATION DESIGNATING THE UNITED STATES: EFFECT.—Section 363 is amended by striking “except as otherwise provided in section 102(e) of this title”.

(4) PUBLICATION OF INTERNATIONAL APPLICATION: EFFECT.—Section 374 is amended by striking “sections 102(e) and 154(d)” and inserting “section 154(d)”.

(5) PATENT ISSUED ON INTERNATIONAL APPLICATION: EFFECT.—The second sentence of section 375(a) is amended by striking “Subject to section 102(e) of this title, such” and inserting “Such”.

(6) LIMIT ON RIGHT OF PRIORITY.—Section 119(a) is amended by striking “; but no patent shall be granted” and all that follows through “one year prior to such filing”.

(7) INVENTIONS MADE WITH FEDERAL ASSISTANCE.—Section 202(c) is amended—

(A) in paragraph (2)—

(i) by striking “publication, on sale, or public use,” and all that follows through “obtained in the United States” and inserting “the 1-year period referred to in section 102(a) would end before the end of such 2-year period”; and

(ii) by striking “the statutory” and inserting “the 1-year”; and

(B) in paragraph (3), by striking “any statutory bar date that may occur under this title due to publication, on sale, or public use” and inserting “the expiration of the 1-year period referred to in section 102(a)”.

(h) REPEAL OF INTERFERING PATENT REMEDIES.—Section 291, and the item relating to that section in the table of sections for chapter 29, are repealed.

(i) INVENTOR'S RIGHTS CONTESTS.—Section 135(a) is amended to read as follows:

“(a) DISPUTE OVER RIGHT TO PATENT.—

“(1) INSTITUTION OF INVENTOR'S RIGHTS CONTEST.—Whenever patents or applications for patent naming different individuals as the inventor are deemed by the Director to interfere because of a dispute over the right to patent under section 101, the Director shall institute an inventor's rights contest for the purpose of determining the right to patent.

“(2) DETERMINATION BY BOARD OF PATENT APPEALS.—The Board of Patent Appeals—

“(A) shall determine the question of the right to patent;

“(B) in appropriate circumstances, may correct the naming of the inventor in any application or patent at issue; and

“(C) shall issue a final decision on the right to patent.

“(3) EFFECT OF FINAL DECISION.—The final decision of the Board of Patent Appeals under paragraph (2), if adverse to the claim of an applicant,

shall constitute the final refusal by the Patent and Trademark Office on the claims involved. The Director may issue a patent to an applicant who is adjudged to have the right to patent. The final decision of the Board, if adverse to a patentee, shall, if no appeal or other review of the decision has been or can be taken or had, constitute cancellation of the claims involved in the patent, and notice of such cancellation shall be endorsed on copies of the patent distributed after such cancellation by the Patent and Trademark Office.”.

(j) BOARD OF PATENT APPEALS.—

(1) ELIMINATION OF REFERENCES TO INTERFERENCES.—(A) Sections 6, 41, 134, 141, 145, 146, 154, 305, and 314 are each amended by striking “Board of Patent Appeals and Interferences” each place it appears and inserting “Board of Patent Appeals”.

(B) Sections 135, 141, 146, and 154 are each amended by striking “interference” each place it appears and inserting “inventor's rights contest”.

(C) The section heading for section 6 is amended to read as follows:

“§ 6. Board of Patent Appeals”.

(D) The section heading for section 134 is amended to read as follows:

“§ 134. Appeal to the Board of Patent Appeals”.

(E) The section heading for section 135 is amended to read as follows:

“§ 135. Inventor’s rights contests”.

(F) The section heading for section 146 is amended to read as follows:

“§ 146. Civil action in case of inventor’s rights contest”.

(G) Section 154(b)(1)(C) is amended by striking “interferences” and inserting “inventor’s rights contests”.

(II) The item relating to section 6 in the table of sections for chapter 1 is amended to read as follows:

“6. Board of Patent Appeals.”.

(I) The items relating to sections 134 and 135 in the table of sections for chapter 12 are amended to read as follows:

“134. Appeal to the Board of Patent Appeals.

“135. Inventor’s rights contests.”.

(J) The item relating to section 146 in the table of sections for chapter 13 is amended to read as follows:

“146. Civil action in case of inventor’s rights contest.”.

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(2) TECHNICAL AND CONFORMING AMENDMENTS.—Section 135(c) is amended—

(A) by striking “(c) Any” and inserting “(c)(1) Any”;

(B) in the second paragraph, by striking “The Director” and inserting “(2) The Director”; and

(C) in the third paragraph, by striking “Any discretionary” and inserting “(3) Any discretionary”.

SEC. 4. RIGHT TO A PATENT.

(a) RIGHT TO PATENT.—

(1) IN GENERAL.—Section 101 is amended to read as follows:

“§ 101. Right to patent; subject matter eligible for patenting

“The inventor of any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, has the right to apply for and to obtain a patent therefor, subject to the conditions and requirements of this title.”.

(2) CONFORMING AMENDMENT.—The item relating to section 101 in the table of sections for chapter 10 is amended to read as follows:

“101. Right to patent; subject matter eligible for patenting.”.

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(b) OATH OF APPLICANT.—Section 115 is amended to read as follows:

“§ 115. Oath of applicant

“The Director may require the applicant to make an oath setting forth particulars relating to the inventor and the invention.”.

(c) FILING BY OTHER THAN INVENTOR.—Section 118 is amended to read as follows:

“§ 118. Filing by other than inventor

“A person to whom the inventor has assigned or is under an obligation to assign the invention may make an application for patent. A person who otherwise shows sufficient proprietary interest in the matter may make an application for patent on behalf of and as agent for the inventor on proof of the pertinent facts and a showing that such action is appropriate to preserve the rights of the parties. If the Director grants a patent on an application filed under this section by a person other than the inventor, the patent shall be granted to the real party in interest and upon such notice to the inventor as the Director considers to be sufficient.”.

(d) SPECIFICATION.—Section 112 is amended—

(1) in the first paragraph—

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(A) by striking “The specification” and inserting “(a) IN GENERAL.—The specification”; and

(B) by striking “, and shall set forth the best mode contemplated by the inventor of carrying out his invention”;

(2) in the second paragraph—

(A) by striking “The specifications” and inserting “(b) CONCLUSION.—The specification”; and

(B) by striking “applicant regards as his invention” and inserting “inventor or a joint inventor regards as the invention”;

(3) in the third paragraph, by striking “A claim” and inserting “(c) FORM.—A claim”;

(4) in the fourth paragraph, by striking “Subject to the following paragraph,” and inserting “(d) REFERENCE IN DEPENDENT FORMS.—Subject to subsection (e),”;

(5) in the fifth paragraph, by striking “A claim” and inserting “(e) REFERENCE IN MULTIPLE DEPENDENT FORM.—A claim”; and

(6) in the last paragraph, by striking “An element” and inserting “(f) ELEMENT IN CLAIM FOR A COMBINATION.—An element”.

SEC. 5. DUTY OF CANDOR.

(a) IN GENERAL.—Chapter 12 of title 35, United States Code, is amended by adding at the end the following:

“§ 136. Duty of candor: patents and applications for patent

“(a) DUTY.—The Director shall by regulation impose a duty of candor and good faith on individuals associated with the filing and prosecution of an application for patent and on individuals assisting a patent owner in proceedings before the Office involving a patent. The duty shall require each such individual to timely disclose information known to that individual to be material to any issue before the Office in connection with the application or patent, and to not materially misrepresent information. The duty may further address the types of information for which disclosure is required and the standards upon which a finding of misrepresentation or concealment on the part of such individuals could be based. Any allegation of any type of violation of the duty of candor and good faith under this subsection shall be governed exclusively by this chapter.

“(b) VIOLATION.—Any individual who is subject to the duty of candor and good faith under subsection (a) and who, with the intent to deceive or mislead, knowingly fails to disclose material information or knowingly and materially misrepresents information has engaged in mis-

conduct under this section, if the Director or a court under subsection (d), as the case may be, finds, by clear and convincing evidence, that—

“(1) the individual failed to disclose information or misrepresented information;

“(2) the information not disclosed was material or, in the case of a misrepresentation, the misrepresentation was material;

“(3) the individual had knowledge of the materiality of the information not disclosed or, in the case of a misrepresentation, of the misrepresentation and materiality of the misrepresentation; and

“(4) the individual had the intent to deceive or mislead.

“(c) ADJUDICATION BY THE OFFICE.—

“(1) OTHER FORA PRECLUDED.—No court or Federal department or agency other than the Office, and no other Federal or State governmental entity, may investigate or make a determination or an adjudication with respect to an alleged violation of the duty of candor and good faith under subsection (a) or with respect to an alleged fraud, inequitable conduct, or other misconduct in any proceeding before the Office involving a patent or in connection with

the filing or examination of an application for patent, except as expressly permitted in this section.

“(2) EXCEPTION REGARDING PENDING APPLICATIONS.—Nothing in this subsection shall limit the authority of the Director to enforce regulations concerning pending applications for patent, including regulations relating to misconduct.

“(3) LIMITATION ON DEFENSES TO ENFORCEMENT OF PATENT.— No defense of invalidity of a patent or other defense to the enforcement of a patent may be based in whole or in part upon a violation of the duty of candor and good faith under subsection (a) or on any fraud, inequitable conduct, or other misconduct, except as expressly permitted in this section.

“(4) REFERRAL BY COURT.—In any matter before a court involving an issue of validity or infringement of a patent, if the court determines that an issue of possible misconduct under subsection (b) exists, the court shall refer the matter to the Office for investigation and sanctions under this section. If such referral is made, the matter shall be resolved as provided in this section.

“(d) UNENFORCEABILITY ACTION.—

“(1) IN GENERAL.—A patent may be held unenforceable if a court determines, pursuant to a pleading permitted under paragraph (2), that—

“(A) misconduct under subsection (b) has occurred and constitutes fraud by reason of reliance by the Office on the misconduct which has resulted in the issuance of, or a certificate affirming patentability of, one or more invalid claims in a patent; and

“(B) the fraud is attributable to the patent owner.

“(2) REQUIRED MOTION TO PLEAD UNENFORCEABILITY.—The defense of unenforceability described in paragraph (1) may be pled in an action before a court only upon a motion to amend the pleadings in the action. The court shall not grant the motion unless—

“(A) the validity of one or more claims in the patent is at issue in the action;

“(B) the court has previously entered a judgment in the action that a claim in the patent is invalid;

“(C) the motion to amend the pleadings is brought by a party to the action adverse to the patent owner within 3 months after a judgment

is entered by the court invalidating the claim;
and

“(D) the motion sets out with particularity
a substantial basis for findings that—

“(i) because of the reliance of the Office on the misconduct, fraud took place in a proceeding before the Office involving the patent or in connection with the filing or examination of the application for patent, and as a result at least 1 claim in the patent invalidated in the action was issued as a result of the reliance on the misconduct; and

“(ii) the alleged fraud is attributable to the patent owner.

“(3) REQUIRED FINDINGS FOR UNENFORCEABILITY.—

“(A) LIABILITY OF PATENT OWNER.—In determining the unenforceability of a patent, no misconduct under subsection (b) by an individual registered to practice before the Office and acting in a representative capacity before the Office in a proceeding before the Office involving the patent or in connection with the filing or examination of the application for patent

shall be attributable to the patent owner unless the patent owner, or another individual who—

“(i) is subject to the duty of candor and good faith with respect to the patent,

“(ii) is not registered to practice before the Office, and

“(iii) was acting on the patent owner’s behalf,

is determined to have violated the duty of candor and good faith.

“(B) RELIANCE OF THE PATENT EXAMINER.—No misconduct may be determined to constitute fraud sufficient to support a finding that a patent is unenforceable without clear and convincing evidence of reliance of the Office on the alleged misconduct, resulting in the issuance of a claim invalidated by the court because a competent patent examiner either—

“(i) would not have issued the invalidated claim, acting reasonably, in the absence of the misconduct; or

“(ii) based upon the prosecution history as a whole objectively considered, would have done so based upon in whole or in part on account of the misconduct.

“(e) INVESTIGATION OF MISCONDUCT.—

“(1) IN GENERAL.—The Director shall establish a special office with authority to investigate possible violations of the duty of candor and good faith, including possible misconduct, in a proceeding before the Office involving a patent or in connection with the filing or examination of an application for patent, in cases in which such matters are referred to the Office for investigation under subsection (c)(4). The special office shall, following such referral, commence an investigation into possible violations of the duty . After such an investigation is begun, any subsequent decision to maintain the investigation or abandon the investigation may be made only by the Director, and such decision may not be appealed or reviewed.

“(2) PROCEDURES.—

“(A) SUBPOENAS.—During the period in which a misconduct investigation is conducted under paragraph (1), the matter shall be a contested case in the Office and the Director may seek evidence or other information through subpoenas under section 24.

“(B) NOTICE; SUBJECT PARTIES.—The Director shall provide written notice to the pat-

ent owner of the commencement of the investigation and may provide such written notice to persons who were owners of the patent or application for patent (or persons to whom the patent or application for patent was subject to an obligation of assignment) at the time the conduct that is the subject of the investigation occurred. Any person receiving written notice under this subparagraph shall be designated as a ‘subject party.’ The Director shall provide written notice under this subparagraph of an investigation before seeking any evidence under section 24, but otherwise at such time as the Director shall determine. Upon providing such written notice to the subject parties, the Director shall publish a notice of the commencement of the investigation in the Federal Register.

“(C) OBTAINING EVIDENCE.—Upon request of a subject party, the Director shall determine the manner in which to allow a subject party to obtain evidence of potential relevance, including by authorizing the subject party to seek subpoenas under section 24.

“(D) PRELIMINARY DETERMINATION.—The Director, at the earliest practicable time

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after the date on which notice of the investigation is published under subparagraph (B), shall conclude the investigation and make a preliminary determination on the issues under investigation. The Director shall, within 45 days after an investigation is begun, establish a target date for rendering a preliminary determination.

“(E) CONSULTATION WITH OTHER DEPARTMENTS AND AGENCIES.—During the course of each investigation under this section and section 137, the Director may consult with, seek advice and information from, and otherwise obtain assistance from the Attorney General, the Federal Trade Commission, the International Trade Commission, the Securities and Exchange Commission, and the heads of such other departments and agencies as the Director considers appropriate.

“(3) NOTICE OF DETERMINATION.—

“(A) IF NO MISCONDUCT FOUND.—If the Director determines in an investigation under paragraph (2) that there is no basis for concluding that misconduct under subsection (b) has occurred, the Director shall provide written

notice of such determination to each of the subject parties not later than 1 month after the conclusion of the investigation. A determination of the Director under this subparagraph is final and may not be appealed.

“(B) IF MISCONDUCT MAY HAVE OCCURRED.—If the Director makes a preliminary determination in an investigation under paragraph (2) that misconduct under subsection (b) may have occurred, the Director shall provide written notice of the preliminary determination to each of the subject parties not later than 1 month after the conclusion of the investigation. Such written notice shall provide a description with particularity of the separate acts alleged to constitute such possible misconduct. The Director shall afford the subject parties an opportunity to respond to the preliminary determination and a period of time within which to reach a settlement of the issue before taking any further action.

“(4) FINAL DETERMINATION; APPEAL TO BOARD.—

“(A) IN GENERAL.—If a matter relating to possible misconduct is not settled under para-

graph (3), the preliminary determination shall become final and may not be appealed unless 1 or more of the subject parties contests the preliminary determination by requesting a hearing on the matter, within 2 months after the end of the settlement period provided under paragraph (3)(B), before a panel of the Board of Patent Appeals.

“(B) HEARING.—If a hearing is timely requested under subparagraph (A), the hearing shall provide the Director and the patent owner an opportunity to present evidence and arguments.

“(C) DETERMINATION OF PANEL.—The panel shall, not later than 1 year after the date of the request by 1 or more of the subject parties for a hearing under subparagraph (B), issue a written determination containing findings of facts and conclusions of law on the matters before it. If the written determination by the panel concludes that one or more alleged violations of the duty of candor and good faith do not constitute acts of misconduct, then the determination is final with respect to such issues of possible misconduct and may not be

appealed, and no penalty shall be imposed with respect to such issues. If the written determination by the panel concludes that one or more alleged violations of the duty of candor and good faith do constitute acts of misconduct, then the decision of the panel shall represent a final determination of the Office on the matters involved.

“(5) NOTICE OF FINAL DETERMINATION.—If a matter of possible misconduct is not settled or otherwise terminated following the opportunity for settlement and hearing under paragraphs (3) and (4), the Director shall notify the subject parties in writing of the final determination on the matter under paragraph (4), setting forth—

“(A) the factual findings of the investigation;

“(B) the legal conclusions reached;

“(C) a description of each separate act of misconduct determined to have taken place;

“(D) the amount of any civil monetary penalty imposed against the subject parties under paragraph (6); and

“(E) a deadline for payment of any penalty imposed, which may not be earlier than 6

months after the date on which the notice is provided to the patent owner under this paragraph of the final determination.

“(6) PENALTY AMOUNT.—

“(A) IN GENERAL.—Subject to the limitations of this paragraph, the Director may impose civil monetary penalties on each subject party for each act of misconduct of which notice is given under paragraph (5), in amounts that the Director considers sufficient in the Director’s discretion to act as a deterrent to future such violations of the duty of candor and good faith under this section, taking into account the totality of the circumstances in each individual case.

“(B) LIMITATION ON AMOUNT.—The amount of a civil penalty imposed under subparagraph (A) may not exceed \$1,000,000 for each separate act of misconduct, except that in a case in which the violation of the duty of candor and good faith is found to be the result of fraudulent or other particularly egregious misconduct, the penalty imposed may not exceed \$5,000,000 for such act of misconduct. In an exceptional case, the Director may impose an

additional penalty in an amount equal to the costs incurred by the Director in conducting the investigation.

“(C) LIMITATION ON PARTIES ON WHICH PENALTIES MAY BE IMPOSED.—No penalty based upon an act of misconduct may be imposed under subparagraph (A) on a subject party other than the patent owner unless the subject party was the owner of a claimed invention in the patent or application for patent (or entitled to an assignment thereof), at the time the act of misconduct giving rise to the penalty occurred. Unless otherwise specified in the final determination, subject parties shall be jointly and severally liable for any penalty imposed.

“(7) TOLLING OF PENALTY; FAILURE OF TIMELY PAYMENT.—The deadline for payment of any penalty imposed shall be tolled during the pendency of an appeal brought by a subject party under paragraph (8). If the patent owner fails to make timely payment of any penalty imposed on the patent owner, including any penalty for which the patent owner is jointly liable, before the expiration of the deadline provided under paragraph (5)(E), the failure to pay the penalty constitutes a disclaimer of all

enforceable rights in each patent involved in the violation of the duty of candor and good faith for which the penalty was imposed.

“(8) APPEAL.—A subject party dissatisfied with the final determination of the Director under this section may, unless the penalty has been paid pursuant to the final determination, appeal the determination under sections 141 through 144.

“(f) OTHER ACTIONS NOT SUBJECT TO PREEMPTION.—Nothing in this section shall in any manner operate to—

“(1) prevent or otherwise obstruct a criminal investigation or supersede any criminal law, or any penalty imposed pursuant thereto, in connection with any matter involving a patent or application for patent;

“(2) limit the ability of the courts of any State or the District of Columbia to investigate and make determinations with respect to issues of attorney malpractice and impose sanctions on an attorney for malpractice; or

“(3) limit the ability of any entity before which an individual is registered or otherwise entitled to practice a profession to investigate and sanction such individual based upon professional misconduct.

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“(g) ACTIONS BASED UPON PRIOR MISCONDUCT ADJUDICATION.—If a final, nonappealable adjudication of misconduct has been made based upon a criminal action not subject to preemption under subsection (f)(1), a fraud pleading described in subsection (d), or a misconduct proceeding instituted pursuant to a referral described in subsection (e)(1), such adjudication of misconduct may be used as a basis for pursuing further remedies under any Federal or State law, including common law, except that nothing in this subsection shall authorize any investigation or determination of misconduct that is otherwise preempted under this section.

“§ 137. Duty of candor: parties adverse to a patent or application

“(a) DUTY.—The Director shall prescribe by regulation a duty of candor and good faith applicable to individuals who are parties adverse to a patent or application for patent in contested cases before the Office. The duty shall apply to individuals associated with such a proceeding on behalf of a party adverse to the patent or application. Each such individual shall timely disclose information known to that individual to be material to issues raised or responded to by the adverse party on whose behalf the individual is involved and shall not materially misrepresent information.

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“(b) MISCONDUCT.—Misconduct under this section shall be defined with respect to individuals described in subsection (a) in the same manner as that provided in section 136(b) with respect to individuals under that section. The Director may conduct an investigation of possible misconduct by an individual based upon a violation of the duty described in subsection (a) in the manner provided in section 136(c), except that the written notice described in section 136(c)(2)(B) shall be given by the Director to each party on whose behalf an individual is acting who is being investigated for possible violation of the duty of candor and good faith under this section. The persons receiving such written notice shall be the subject parties of the investigation. If, on the basis of an investigation the Director determines that there is a basis for concluding that a violation of the duty that amounts to misconduct may have occurred, the Director shall provide written notice of the preliminary determination to each subject party and shall afford the subject party an opportunity to reach a settlement of the issue before taking any further action.

“(c) PENALTIES.—If an issue of misconduct arising from a possible violation of the duty of candor and good faith under this section is not settled or otherwise terminated following the opportunity for settlement and hearing described in subsection (b), the Director may impose a

civil monetary penalty against the subject parties. The procedures described in section 136(c) shall be followed in imposing a civil penalty under this subsection, except that the maximum civil monetary penalty that may be imposed on a subject party under this section may not exceed \$500,000.”.

(b) TABLE OF SECTIONS.—The table of sections for chapter 12 is amended by adding at the end the following new items:

“136. Duty of candor: patents and applications for patent.

“137. Duty of candor: parties adverse to a patent or application.”.

(c) REMOVAL OF DECEPTIVE INTENT RESTRICTION.—

(1) INVENTOR.—

(A) IN GENERAL.—The third paragraph of section 116 is amended—

(i) by striking “Whenever” and inserting “(c) CORRECTION OF ERRORS IN APPLICATION.—Whenever”; and

(ii) by striking “, and such error arose without any deceptive intention on his part”.

(B) CORRECTION OF NAMED INVENTOR.—

Section 256 is amended—

(i) in the first paragraph—

(I) by striking “Whenever” and inserting “(a) CORRECTION.—Whenever”; and

(II) by striking “and such error arose without any deceptive intention on his part”; and

(ii) in the second paragraph, by striking “The error” and inserting “(b) PATENT VALID IF ERROR CORRECTED.—The error”.

(2) FILING.—

(A) FILING OF APPLICATION IN FOREIGN COUNTRY.—The first paragraph of section 184 is amended—

(i) by striking “Except when” and inserting “(a) FILING IN FOREIGN COUNTRY.—Except when”; and

(ii) by striking “and without deceptive intent”.

(B) PATENT BARRED FOR FILING WITHOUT LICENSE.—Section 185 is amended by striking “and without deceptive intent”.

(3) REISSUE OF DEFECTIVE PATENTS.—The first paragraph of section 251 is amended—

(A) by striking “Whenever” and inserting “(a) IN GENERAL.—Whenever”; and

(B) by striking “, through error without any deceptive intention,”.

(4) DISCLAIMER.—The first paragraph of section 253 is amended—

(A) by striking “Whenever” and inserting “(a) IN GENERAL.—Whenever”; and

(B) by striking “, without any deceptive intention,”.

(5) ACTION FOR INFRINGEMENT.—Section 288 is amended by striking “, without deceptive intention,”.

(d) TECHNICAL AMENDMENTS.—(1) Section 116 is amended—

(A) in the first paragraph, by striking “When” and inserting “(a) JOINT INVENTIONS.—When”; and

(B) in the second paragraph, by striking “If a joint inventor” and inserting “(b) OMITTED INVENTOR.—If a joint inventor”.

(2) Section 184 is amended—

(A) in the second paragraph, by striking “The term” and inserting “(b) APPLICATION.—The term”; and

(B) in the third paragraph, by striking “The scope” and inserting “(c) SUBSEQUENT MODIFICATIONS, AMENDMENTS, AND SUPPLEMENTS.—The scope”.

(3) Section 251 is amended—

(A) in the second paragraph, by striking “The Director” and inserting “(b) MULTIPLE REISSUED PATENTS.—The Director”;

(B) in the third paragraph, by striking “The provision” and inserting “(c) APPLICABILITY OF THIS TITLE.—The provisions”; and

(C) in the last paragraph, by striking “No reissued patent” and inserting “(d) REISSUE PATENT ENLARGING SCOPE OF CLAIMS.—No reissued patent”.

(4) Section 253 is amended in the second paragraph, by striking “in like manner” and inserting “(b) ADDITIONAL DISCLAIMER OR DEDICATION.—In the manner set forth in subsection (a),”.

SEC. 6. RIGHT OF THE INVENTOR TO OBTAIN DAMAGES.

Section 284 is amended—

(1) in the first paragraph—

(A) by striking “Upon” and inserting “(a) AWARD OF DAMAGES.—Upon”; and

(B) by adding at the end the following: “In determining a reasonable royalty in the case of a combination, the court shall consider, if relevant and among other factors, the portion of the realizable profit that should be credited to the inventive contribution as distinguished from other features of the combination, the manufacturing process, business risks, or significant features or improvements added by the infringer.”;

(2) by amending the second paragraph to read as follows:

“(b) WILLFUL INFRINGEMENT.—

“(1) INCREASED DAMAGES.—A court that has determined that the infringer has willfully infringed a patent or patents may increase the damages up to three times the amount of damages found or assessed under subsection (a), except that increased damages under this paragraph shall not apply to provisional rights under section 154(d) of this title.

“(2) PERMITTED GROUNDS FOR WILLFULNESS.—A court may find that an infringer has willfully infringed a patent only if the patent owner presents clear and convincing evidence that—

“(A) after receiving written notice from the patentee—

“(i) alleging acts of infringement in a manner sufficient to give the infringer an objectively reasonable apprehension of suit on such patent, and

“(ii) identifying with particularity each claim of the patent, each product or process that the patent owner alleges infringes the patent, and the relationship of such product or process to such claim, the infringer, after a reasonable opportunity to investigate, thereafter performed one or more of the alleged acts of infringement;

“(B) the infringer intentionally copied the patented invention with knowledge that it was patented; or

“(C) after having been found by a court to have infringed that patent, the infringer engaged in conduct that was not colorably different from the conduct previously found to have infringed the patent, and which resulted in a separate finding of infringement of the same patent.

“(3) LIMITATIONS ON WILLFULNESS.—(A) A court shall not find that an infringer has willfully infringed a patent under paragraph (2) for any period of time during which the infringer had an informed good faith belief that the patent was invalid or unenforceable, or would not be infringed by the conduct later shown to constitute infringement of the patent.

“(B) Reasonable reliance on advice of counsel shall establish an informed good faith belief within the meaning of subparagraph (A).

“(C) The decision of the infringer not to present evidence of advice of counsel shall have no relevance to a determination of willful infringement under paragraph (2).

“(4) LIMITATION ON PLEADING.—A patentee may not plead, and a court may not determine, that an infringer has willfully infringed a patent before the date on which a determination has been made that the patent in suit is not invalid, is enforceable, and has been infringed by the infringer.”; and

(3) in the third paragraph, by striking “The court” and inserting “(c) EXPERT TESTIMONY.—The court”.

SEC. 7. INJUNCTIONS.

Section 283 is amended by adding at the end the following:

“In determining equity, the court shall consider the fairness of the remedy in light of all the facts and the relevant interests of the parties associated with the invention. Unless the injunction is entered pursuant to a nonappealable judgment of infringement, a court shall stay the injunction pending an appeal upon an affirmative showing that the stay would not result in irreparable harm to the owner of the patent and that the balance of hardships from the stay does not favor the owner of the patent.”.

SEC. 8. CONTINUATION APPLICATIONS.

(a) IN GENERAL.—Chapter 11 is amended by adding at the end the following:

“§ 123. Limitations on continuation applications

“The Director may by regulation limit the circumstances under which an application for patent, other than a divisional application that meets the requirements for filing under section 121, may be entitled to the benefit under section 120 of the filing date of a prior-filed application. No such regulation may deny applicants an adequate opportunity to obtain claims for any invention disclosed in an application for patent.”.

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(b) CONFORMING AMENDMENT.—The table of sections for chapter 11 is amended by adding at the end the following new item:

“123. Limitations on continuation applications.”.

SEC. 9. POST-GRANT PROCEDURES AND OTHER QUALITY ENHANCEMENTS.

(a) PUBLICATION.—Section 122(b)(2) is amended—

(1) by striking subparagraph (B); and

(2) in subparagraph (A)—

(A) by striking “(A) An application” and inserting “An application”; and

(B) by redesignating clauses (i) through (iv) as subparagraphs (A) through (D), respectively.

(b) DEFENSE TO INFRINGEMENT BASED ON EARLIER INVENTOR.—Section 273 of title 35, United States Code, is amended—

(1) in subsection (a)—

(A) in paragraph (1)—

(i) by striking “of a method”; and

(ii) by striking “review period;” and inserting “review period; and”;

(B) in paragraph (2)(B), by striking the semicolon at the end and inserting a period; and

(C) by striking paragraphs (3) and (4);

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(2) in subsection (b)—

(A) in paragraph (1)—

(i) by striking “for a method”; and

(ii) by striking “at least 1 year before the effective filing date of such patent, and” and all that follows through the period and inserting “and commercially used, or made substantial preparations for commercial use of, the subject matter before the effective filing date of the claimed invention.”;

(B) in paragraph (2)—

(i) by striking “The sale or other disposition of a useful end result produced by a patented method” and inserting “The sale or other disposition of subject matter that qualifies for the defense set forth in this section”; and

(ii) by striking “a defense under this section with respect to that useful end result” and inserting “such defense”; and

(C) in paragraph (3)—

(i) by striking subparagraph (A); and

(ii) by redesignating subparagraphs

(B) and (C) as subparagraphs (A) and (B), respectively;

(3) in paragraph (7), by striking “of the patent” and inserting “of the claimed invention”; and

(4) by amending the heading to read as follows:

“§ 273. Special defenses to and exemptions from infringement”.

(c) TABLE OF SECTIONS.—The item related to section 273 in the table of sections for chapter 28 is amended to read as follows:

“273. Special defenses to and exemptions from infringement.”.

(d) REEXAMINATION.—Section 315(c) is amended by striking “or could have raised”.

(e) EFFECTIVE DATES.—Notwithstanding any other provision of law, sections 311 through 318 of title 35, United States Code, as amended by this Act, shall apply to any patent that issues from an original application filed on any date.

(f) POST-GRANT OPPOSITION PROCEDURES.—

(1) IN GENERAL.—Part III is amended by adding at the end the following new chapter:

“CHAPTER 32—POST-GRANT OPPOSITION PROCEDURES

³²¹. Right to oppose patent; opposition request.

³²². Real party in interest.

³²³. Timing of opposition request.

- “324. Limits on scope of validity issues raised.
- “325. Institution of the opposition proceeding.
- “326. Patent owner response.
- “327. Amendment of claims.
- “328. Discovery and sanctions.
- “329. Supplemental submissions.
- “330. Hearing and briefs.
- “331. Written decision.
- “332. Burden of proof and evidence.
- “333. Reconsideration.
- “334. Appeal.
- “335. Certificate.
- “336. Estoppel.
- “337. Duration of opposition.
- “338. Settlement.
- “339. Intervening rights.
- “340. Relationship with reexamination proceedings.

1 **“§ 321. Right to oppose patent; opposition request**

2 “(a) FILING OF OPPOSITION.—A person may request
3 that the grant or reissue of a patent be reconsidered by
4 the Office by filing an opposition seeking to invalidate one
5 or more claims in the patent. The Director shall establish,
6 by regulation, fees to be paid by the opposer. Copies of
7 patents and printed publications to be relied upon in sup-
8 port of the request must be filed with the request. If an
9 opposer relies on other factual evidence or on expert opin-
10 ions in support of the opposition, such evidence and opin-
11 ions must be filed with the request through one or more
12 accompanying affidavits or declarations.

13 “(b) COPIES PROVIDED TO PATENT OWNER.—Copies
14 of any documents filed under subsection (a) must be pro-
15 vided to the patent owner or, if applicable, the designated
16 representative of the patent owner, at the time of filing
17 under subsection (a), except that if a request is made

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1 under section 322(b) that the identity of a real party in
2 interest be kept separate, then the identity of the real
3 party in interest may be redacted from the copies pro-
4 vided.

5 “(c) FILE AVAILABLE TO THE PUBLIC.—The file of
6 any opposition proceeding shall be made available to the
7 public except as provided in section 322.

8 **“§ 322. Real party in interest**

9 “(a) IDENTIFICATION.—The person making the re-
10 quest under section 321 shall identify in writing each real
11 party in interest, and the opposition shall proceed in the
12 name of the real party in interest.

13 “(b) IDENTITY KEPT SECRET UPON REQUEST.—

14 “(1) IN GENERAL.—Subject to paragraph (2),
15 if requested by the opposer, the identity of a real
16 party in interest shall be kept separate from the file
17 of the opposition and made available only to Govern-
18 ment agencies upon written request, or to any per-
19 son upon a showing of good cause. If the identity of
20 a real party in interest is kept separate from the file
21 under this subsection, then the opposition shall pro-
22 ceed in the name of the individual filing the request
23 as representative of the real party in interest.

24 “(2) EXCEPTION.—No request under this para-
25 graph (1) to keep the identity of a real party in in-

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1 terest separate from the file of the opposition may
2 be made or maintained if the opposer relies upon
3 factual evidence or expert opinions in the form of af-
4 fidavits or declarations during the opposition pro-
5 ceeding or if the opposer becomes a party to an ap-
6 peal under section 141.

7 **“§ 323. Timing of opposition request**

8 “An person may not make an opposition request
9 under section 321 later than 9 months after the grant of
10 the patent or issuance of a reissue patent, or later than
11 6 months after receiving notice from the patent holder al-
12 leging infringement, except that, if the patent owner con-
13 sents in writing, an opposition request may be filed at any
14 time during the period of enforceability of the patent. A
15 court having jurisdiction over an issue of validity of a pat-
16 ent may not require the patent owner to consent to such
17 a request.

18 **“§ 324. Limits on scope of validity issues raised**

19 “An opposition request must identify with particu-
20 larity the claims that are alleged to be invalid and, as to
21 each claim, one or more issues of invalidity on which the
22 opposition is based. The issues of invalidity that may be
23 considered during the opposition proceeding are double
24 patenting and any of the requirements for patentability
25 set forth in sections 101, 102, 103, 112, and 251(d).

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1 **“§ 325. Institution of the opposition proceeding; stay**
2 **upon timely filed suit**

3 “(a) DETERMINATION ON OPPOSITION REQUEST; IN-
4 STITUTION OF OPPOSITION PROCEEDING.—

5 “(1) DETERMINATION BY THE DIRECTOR.—For
6 each opposition request submitted under section
7 321(a), the Director shall determine if the written
8 statement, and any evidence submitted with the re-
9 quest, establish that a substantial question of pat-
10 entability exists for at least one claim in the patent.
11 The Director shall notify the patent owner and each
12 opposer in writing of the Director’s findings, not
13 later than the date in which an opposition pro-
14 ceeding is instituted pursuant to the request. Any
15 determination made by the Director under this para-
16 graph shall not be appealable.

17 “(2) INSTITUTION.—If the Director makes a
18 determination under paragraph (1) that a substan-
19 tial question of patentability exists, the Director
20 shall commence an opposition proceeding. The Di-
21 rector shall institute such proceeding not earlier
22 than the date on which the applicable period speci-
23 fied in section 323 expires, and not later than the
24 date that is three months after such date. Absent a
25 showing of good cause, the opposition proceeding

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1 shall be limited to review of the claim or claims and
2 the issues identified in the opposition request.

3 “(3) CONSOLIDATED PROCEEDING.—If an op-
4 position is instituted based upon more than one op-
5 position request, the opposition shall proceed as a
6 single consolidated proceeding, unless later divided
7 under subsection (c).

8 “(b) PARTIES.—The parties to the opposition pro-
9 ceeding shall be the patent owner and each opposer who
10 has filed a request that results in a determination under
11 subsection (a)(2) to institute the opposition proceeding.

12 “(c) ASSIGNMENT TO PANEL.—The Director shall as-
13 sign the opposition proceeding to a panel of three adminis-
14 trative patent judges (in this chapter referred to as the
15 ‘panel’). The panel shall decide the questions of patent-
16 ability raised in the opposition request. The decision shall
17 be based upon the prosecution record that was the basis
18 for the grant or reissue of the patent and the additional
19 submissions by the parties to the opposition proceeding
20 authorized under this chapter. The panel may, in appro-
21 priate cases, divide the opposition into separate pro-
22 ceedings if the opposition involves multiple opposition re-
23 quests by different parties.

24 “(d) STAY OF OPPOSITION.—If the owner of a patent
25 files suit alleging infringement of the patent before the

1 expiration of the 9-month or 6-month period for filing an
2 opposition request under section 321, the Director, if re-
3 quested by the patent owner, shall stay the opposition pro-
4 ceeding until judgment in the suit, and all appeals thereof,
5 have become final.

6 **“§ 326. Patent owner response**

7 “After the Director has instituted an opposition pro-
8 ceeding under section 325, the patent owner shall have
9 the right to file, within a time period set by the panel,
10 a response to each opposition request that results in a de-
11 termination under section 325(a)(2) to institute an opposi-
12 tion proceeding. The patent owner shall file with the re-
13 sponse, through affidavits or declarations, any additional
14 factual evidence and expert opinions on which the patent
15 owner relies in support of the response.

16 **“§ 327. Amendment of claims**

17 “The patent owner is entitled to request amendment
18 of any claims that are the subject of an opposition pro-
19 ceeding under this chapter, including by the addition of
20 new claims. Any such request for amendment shall be filed
21 with the patent owner’s response to an opposition request.
22 The panel may permit further requests for amendment of
23 the claims only upon good cause shown by the patent
24 owner. No amendment enlarging the scope of the claims

1 of the patent shall be permitted in the opposition pro-
2 ceeding.

3 **“§ 328. Discovery and sanctions**

4 “(a) DEPOSITIONS.—After an opposition proceeding
5 under this chapter is instituted, the patent owner shall
6 have the right to depose each person submitting an affi-
7 davit or declaration on behalf of any opposer, and each
8 opposer shall have the right to depose each person submit-
9 ting an affidavit or declaration on behalf of the patent
10 owner. Such depositions shall be limited to cross-examina-
11 tion on matters relevant to the affidavit or declaration.

12 “(b) ADDITIONAL DISCOVERY.—No discovery other
13 than that provided for in subsection (a) shall be permitted
14 unless the panel determines that additional discovery is
15 required in the interest of justice.

16 “(c) SCHEDULE.—The panel shall determine the
17 schedule for the taking of discovery under subsections (a)
18 and (b).

19 “(d) CONSEQUENCES FOR FAILURE TO RESPOND
20 PROPERLY.—If any party to an opposition proceeding
21 fails to properly respond to any discovery under subsection
22 (a) or (b), the panel may draw appropriate adverse infer-
23 ences and take other action permitted by statute, rule, or
24 regulation.

1 **“§ 329. Supplemental submissions**

2 “The panel may permit one or more supplemental
3 submissions to be made by any party to an opposition pro-
4 ceeding under this chapter, subject to the rights and limi-
5 tations on discovery under section 328.

6 **“§ 330. Hearing and briefs**

7 “A party to an opposition proceeding under this
8 chapter may request an oral hearing by the date set by
9 the panel. If a hearing is requested or the panel deter-
10 mines sua sponte that a hearing is warranted, the panel
11 shall set a time for the hearing. The panel may permit
12 the parties to file briefs for the hearing, and shall permit
13 cross-examination of all affiants and declarants in the
14 hearing, either before the panel or by deposition taken
15 under section 328.

16 **“§ 331. Written decision**

17 “The panel shall issue a written decision on each
18 issue of patentability with respect to each claim that is
19 the subject of an opposition proceeding under this chapter.
20 The written decision shall consist of findings of fact and
21 conclusions of law. The written decision shall become a
22 final determination of the Office on the issues raised in
23 the opposition unless a party to the opposition files a re-
24 quest for reconsideration and modification of the written
25 decision within a period of time set by the panel. Such

1 time period shall not be less than two weeks after the date
2 of the written decision.

3 **“§ 332. Burden of proof and evidence**

4 “(a) BURDEN OF PROOF.—The opposer in an opposi-
5 tion proceeding under this chapter shall have the burden
6 to prove the invalidity of a claim by a preponderance of
7 the evidence. The determination of invalidity shall be
8 based upon the broadest reasonable construction of the
9 claim.

10 “(b) EVIDENCE.—The Federal Rules of Evidence
11 shall apply to the opposition proceeding, except to the ex-
12 tent inconsistent with any provision of this chapter.

13 **“§ 333. Reconsideration**

14 “If a request is filed for reconsideration of the written
15 decision in an opposition proceeding under this chapter,
16 the panel may authorize a party to the proceeding who
17 did not file such a request to file a response to the request
18 for reconsideration. Following any reconsideration, the
19 panel shall either deny the request for modification of the
20 written decision or grant the request and issue a modified
21 written decision, which shall constitute the final deter-
22 mination of the Office on the issues raised in the opposi-
23 tion proceeding.

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1 **“§ 334. Appeal**

2 “A party dissatisfied with the final determination of
3 the panel in an opposition proceeding under this chapter
4 may appeal the determination under sections 141 through
5 144. Any party to the opposition proceeding shall have the
6 right to be a party to the appeal.

7 **“§ 335. Certificate**

8 “When a decision of a panel in an opposition pro-
9 ceeding under this chapter has become final under section
10 331, 333, or 334, the Director shall issue and publish a
11 certificate in accordance with the decision, canceling any
12 claim of the patent determined to be unpatentable, and
13 shall incorporate into the patent any new or amended
14 claims determined to be patentable. The issuance of the
15 certificate shall terminate the opposition proceeding.

16 **“§ 336. Estoppel**

17 “(a) ESTOPPEL.—

18 “(1) IN GENERAL.—Subject to paragraph (2),
19 after a certificate has been issued under section 335
20 in accordance with the decision of the panel in an
21 opposition proceeding, the determination with re-
22 spect to an issue of invalidity raised by an opposer
23 shall bar the opposer from asserting, in any subse-
24 quent proceeding before the Office or a court involv-
25 ing that opposer under this title, that any claim of
26 that patent addressed in the opposition proceeding is

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1 invalid on the basis of any issue of fact or law actu-
 2 ally decided by the panel and necessary to the deter-
 3 mination of that issue.

4 “(2) EXCEPTION.—If an opposer in an opposi-
 5 tion proceeding demonstrates in a subsequent pro-
 6 ceeding referred to in paragraph (1) that there is
 7 additional factual evidence that is material to an
 8 issue of fact actually decided and necessary to the
 9 final determination in the opposition proceeding,
 10 that could not reasonably have been discovered by
 11 that opposer, the opposer may raise, in that subse-
 12 quent proceeding, that issue of fact and any deter-
 13 mined issue of law for which the issue of fact was
 14 necessary.

15 “(b) EXPANDED DEFINITION OF OPPOSER.—For
 16 purposes of this section, the term ‘opposer’ includes the
 17 person making the request under section 321, any real
 18 party in interest, and their successors in interest.

19 “(c) NEW PARTY IN INTEREST.—If a proceeding
 20 arising by reason of additional factual evidence raised
 21 under subsection (a)(2) involves a real party in interest
 22 not identified to the patent owner under section 322, the
 23 real party in interest shall notify the Director and the pat-
 24 ent owner of that fact and of the subsequent proceeding,

within 30 days after receiving notice that the subsequent
 proceeding has been filed.

“§ 337. Duration of opposition

“The final determination of a panel described in sec-
 tion 333 shall issue not later than one year after the date
 on which the opposition proceeding is instituted under sec-
 tion 325. Upon good cause shown, the Director may ex-
 tend the 1-year period by not more than six months.

“§ 338. Settlement

“(a) IN GENERAL.—An opposition proceeding under
 this chapter shall be terminated with respect to any op-
 poser upon the joint request of the opposer and the patent
 owner, unless the panel has issued a written decision
 under section 331 before the request for termination is
 filed. If the opposition is terminated with respect to an
 opposer under this section, no estoppel under section 336
 shall apply to that opposer. If no opposer remains in the
 proceeding, the panel may terminate the proceeding or
 proceed without the opposer to issue a written decision
 under section 331.

“(b) AGREEMENTS IN WRITING.—Any agreement or
 understanding between the patent owner and an opposer,
 including any collateral agreements referred to therein,
 that is made in connection with or in contemplation of
 the termination of an opposition proceeding, shall be in

writing. An opposition proceeding as between the parties to the agreement or understanding shall not be terminated until a true copy of the agreement or understanding, including any such collateral agreements, has been filed in the Office. If any party filing an agreement or understanding requests, the agreement or understanding shall be kept separate from the file of the opposition, and shall be made available only to Government agencies on written request, or to any person on a showing of good cause.

“(c) DISCRETIONARY ACTIONS REVIEWABLE.—Any discretionary action of the Director under subsection (b) shall be reviewable under chapter 7 of title 5.

“§ 339. Intervening rights

“Any proposed amended or new claim determined to be patentable and incorporated into a patent following an opposition proceeding under this chapter shall have the same effect as that specified in section 252 of this title for reissued patents on the right of any person who made, purchased, or used within the United States, or imported into the United States, anything patented by such proposed amended or new claim, or who made substantial preparation therefor, before the certificate is issued under section 335 with respect to that amended or new claim.

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“§ 340. Relationship with reexamination proceedings

“A patent for which an opposition proceeding has been instituted under this chapter may not thereafter be made the subject of a request under section 302 or 311 for reexamination by the same opposer or on behalf of the same real party in interest, on the same claim and on the same issue that was the basis of the opposition proceeding. An ex parte reexamination request made by a person other than the patent owner during the 9-month or 6-month period specified in section 323, or an inter partes reexamination request made during the 9-month or 6-month period specified in section 323, shall be treated as a request under section 321, and no ex parte reexamination or inter partes reexamination may be ordered based on such request. A request for ex parte reexamination or inter partes reexamination made after the 9-month or 6-month period specified in section 323, and a request for ex parte reexamination made by the patent owner at any time, shall be stayed during the pendency of any opposition proceeding under this chapter.”.

(g) CONFORMING AMENDMENT.—The table of chapters for part III of title 35, United States Code, is amended by adding at the end the following:

“32. Post-Grant Opposition Procedures 321”.

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SEC. 10. SUBMISSIONS BY THIRD PARTIES.

Section 122 is amended by adding at the end the following:

“(c) **PREISSUANCE SUBMISSIONS BY THIRD PARTIES.**—

“(1) **IN GENERAL.**—Any person may submit for consideration and inclusion in the record of a patent application, any patent, published patent application or other publication of potential relevance to the examination of the application, if such submission is made in writing before the earlier of—

“(A) the date a notice of allowance under section 151 is mailed in the application for patent; or

“(B) either—

“(i) six months after the date on which the application for patent is published under section 122, or

“(ii) the date of the first rejection under section 132 of any claim by the examiner during the examination of the application for patent,

whichever occurs later.

“(2) **OTHER REQUIREMENTS.**—Any submission under paragraph (1) shall—

“(A) set forth a concise description of the asserted relevance of each submitted document;

“(B) be accompanied by such fee as the Director may prescribe; and

“(C) include a statement by the submitter affirming that the submission was made in compliance with this section.”.

SEC. 11. APPLICABILITY; TRANSITIONAL PROVISIONS.

(a) **SECTION 3.**—The amendments made by section 3 shall apply to applications for patent, and any patents issued thereon, that contain a claim to a claimed invention that has an effective filing date (as defined in section 100(h) of title 35, United States Code) that is one year or more after the date of the enactment of this Act. With respect to any patent or application for patent to which the amendments made by section 3 apply, no claim in the patent or in the application shall be entitled to an effective filing date that is before the date of the enactment of this Act.

(b) **SECTIONS 4, 6, AND 7.**—The amendments made by sections 4, 6, and 7 shall take effect on the date of the enactment of this Act, except that such amendments shall not apply to any action brought in any court before such date of the enactment.

(c) SECTION 5.—The amendments made by section 5 shall take effect on the date of the enactment of this Act and shall apply to patents issued on or after such date of enactment, except that, in any action brought on or after the date of the enactment of this Act in any court involving a patent issued before the date of the enactment of this Act, the patent owner may consent to—

(1) the jurisdiction of the United States Patent and Trademark Office based on a referral by the court under section 136(c)(4) of title 35, United States Code; and

(2) any penalty imposed by the Patent and Trademark Office under section 136(e) of such title pursuant to such referral.

(d) SECTION 8.—Any regulations issued under section 123 of title 35, United States Code, as added by section 8 of this Act, shall apply to any application for patent that is filed on or after the effective date of such regulations. Such regulations may not take effect before the end of the 1-year period beginning on the date of the enactment of this Act.

(e) SECTION 9.—(1) The amendments made by section 9(a) shall apply to applications for patent filed on or after the date of the enactment of this Act.

(2) The amendments made by section 9(b) shall apply to patents issuing on applications filed on or after the date of the enactment of this Act.

(3) The amendments made by subsections (c) and (d) of section 9 shall apply to any request made under section 311 of title 35, United States Code, on or after the date of the enactment of this Act.

(4) The amendments made by section 9(e) shall take effect on the date of the enactment of this Act, except that—

(A) no request for institution of an opposition proceeding under chapter 32 of title 35, United States Code, may be made until—

(i) the end of the 1-year period beginning on the date of the enactment of this Act; or

(ii) such later date that the Director may establish through notice published in the Federal Register; and

(B) no such request may be made unless the amendments made by section 3 apply with respect to the patent that is the subject of the request.

(f) SECTION 10.—The amendments made by section 10 shall take effect at the end of the 1-year period beginning on the date of the enactment of this Act.

(g) DETERMINING VALIDITY OF CLAIMS.—For the purpose of determining the validity of a claim in any patent or the patentability of any claim in a nonprovisional application for patent that is made before the effective date of the amendments made by section 3, other than in an action brought in a court before the date of the enactment of this Act—

(1) the provisions of sections 102(c) and 102(d) of title 35, United States Code, shall be deemed to be repealed;

(2) the provisions of sections 102(f) of title 35, United States Code, shall be deemed to be repealed and replaced by the provisions of section 101 of title 35, United States Code, as amended by section 4(a) of this Act, relating to the inventor's right to seek and obtain a patent, except that a claim in a patent that is otherwise valid shall not be invalidated by reason of this paragraph; and

(3) the term “in public use or on sale” as used in section 102(b) of title 35, United States Code, shall be deemed to exclude the use, sale, or offer for sale of any subject matter that had not become reasonably and effectively accessible to persons of ordinary skill in the art to which the subject matter per-

tains, as defined in the amendments made by section 3 of this Act.

(h) EFFECT OF EUROPEAN PATENT CONVENTION AND PATENT LAWS OF JAPAN.—Before the date, if ever, that the Director of the United States Patent and Trademark Office publishes a notice in the Official Gazette of the Office declaring that both the European Patent Convention and the patent laws of Japan afford inventors seeking patents a 1-year period prior to the effective filing date of a claimed invention during which disclosures made by the inventor or by others who obtained the subject matter disclosed directly or indirectly from the inventor do not constitute prior art, the term “effective filing date” as used in section 102(a)(1)(A) of title 35, United States Code, shall be construed by disregarding any right of priority except that provided under section 119(e) of title 35, United States Code.

○

109TH CONGRESS
2D SESSION

H. R. 5418

To establish a pilot program in certain United States district courts to encourage enhancement of expertise in patent cases among district judges.

IN THE HOUSE OF REPRESENTATIVES

MAY 18, 2006

Mr. ISSA (for himself and Mr. SCHIFF) introduced the following bill, which was referred to the Committee on the Judiciary

A BILL

To establish a pilot program in certain United States district courts to encourage enhancement of expertise in patent cases among district judges.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. PILOT PROGRAM IN CERTAIN DISTRICT**
4 **COURTS.**

5 (a) ESTABLISHMENT.—

6 (1) IN GENERAL.—There is established a pro-
7 gram, in each of the United States district courts
8 designated under subsection (b), under which—

9 (A) those district judges of that district
10 court who request to hear cases under which

one or more issues arising under any Act of Congress relating to patents or plant variety protection must be decided, are designated by the chief judge of the court to hear those cases;

(B) cases described in subparagraph (A) are randomly assigned to the judges of the district court, regardless of whether the judges are designated under subparagraph (A);

(C) a judge not designated under subparagraph (A) to whom a case is assigned under subparagraph (B) may decline to accept the case; and

(D) a case declined under subparagraph (C) is randomly reassigned to one of those judges of the court designated under subparagraph (A).

(2) SENIOR JUDGES.—Senior judges of a district court may be designated under paragraph (1)(A) if at least one judge of the court in regular active service is also so designated.

(3) RIGHT TO TRANSFER CASES PRESERVED.—This section shall not be construed to limit the ability of a judge to request the reassignment of or otherwise transfer a case to which the judge is assigned

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under this section, in accordance with otherwise applicable rules of the court.

(b) DESIGNATION.—The Director of the Administrative Office of the United States Courts shall, not later than 6 months after the date of the enactment of this Act, designate not less than 5 United States district courts, in at least 3 different judicial circuits, in which the program established under subsection (a) will be carried out. The Director shall make such designation from among the 15 district courts in which the largest number of patent and plant variety protection cases were filed in the most recent calendar year that has ended.

(c) DURATION.—The program established under subsection (a) shall terminate 10 years after the end of the 6-month period described in subsection (b).

(d) APPLICABILITY.—The program established under subsection (a) shall apply in a district court designated under subsection (b) only to cases commenced on or after the date of such designation.

(e) REPORTING TO CONGRESS.—

(1) IN GENERAL.—At the times specified in paragraph (2), the Director of the Administrative Office of the United States Courts, in consultation with the chief judge of each of the district courts designated under subsection (b), shall submit to the

Committee on the Judiciary of the House of Representatives and the Committee on the Judiciary of the Senate a report on the pilot program established under subsection (a). The report shall include an analysis of—

(A) the extent to which the program has succeeded in developing expertise in patent and plant variety protection cases among the district judges of the district courts so designated;

(B) the extent to which the program has improved the efficiency of the courts involved by reason of such expertise; and

(C) whether the pilot program should be extended to other district courts, or should be made permanent and apply to all district courts.

(2) TIMETABLE FOR REPORTS.—The times referred to in paragraph (1) are—

(A) not later than the date that is 5 years and 3 months after the end of the 6-month period described in subsection (b); and

(B) not later than 5 years after the date described in subparagraph (A).

(3) PERIODIC REPORTING.—The Director of the Administrative Office of the United States Courts,

in consultation with the chief judge of each of the district courts designated under subsection (b), shall keep the committees referred to in paragraph (1) informed, on a periodic basis while the pilot program is in effect, with respect to the matters referred to in subparagraphs (A), (B), and (C) of paragraph (1).

(f) **AUTHORIZATION FOR TRAINING AND CLERKSHIPS.**—In addition to any other funds made available to carry out this section, there is authorized to be appropriated not less than \$5,000,000 in each fiscal year for—

(1) educational and professional development of those district judges designated under subsection (a)(1)(A) in matters relating to patents and plant variety protection; and

(2) compensation of law clerks with expertise in technical matters arising in patent and plant variety protection cases, to be appointed by the courts designated under subsection (b) to assist those courts in such cases.

Amounts made available pursuant to this subsection shall remain available until expended.

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H.L.C.

.....
(Original Signature of Member)

109TH CONGRESS
2D SESSION

H. R. _____

To amend section 115 of title 17, United States Code, to provide for licensing of digital delivery of musical works, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

Mr. SMITH of Texas (for himself and Mr. BERMAN) introduced the following bill; which was referred to the Committee on _____

A BILL

To amend section 115 of title 17, United States Code, to provide for licensing of digital delivery of musical works, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the "Section 115 Reform
5 Act of 2006".



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June 8, 2006 (12:13 PM)

1 **SEC. 2. STATUTORY LICENSES FOR DIGITAL DELIVERY OF**
 2 **MUSICAL WORKS.**

3 Section 115 of title 17, United States Code, is
 4 amended by adding at the end the following new sub-
 5 section:

6 “(e) LICENSES FOR DIGITAL USES OF MUSICAL
 7 WORKS.—

8 “(1) IN GENERAL.—The compulsory license for
 9 digital phonorecord deliveries and hybrid offerings
 10 shall be governed by this subsection, in addition to
 11 subsections (a), (c), and (d). The license under this
 12 subsection covers—

13 “(A) the making and distribution of gen-
 14 eral and incidental digital phonorecord deliv-
 15 eries in the form of full downloads, limited
 16 downloads, interactive streams, and any other
 17 form constituting a digital phonorecord delivery
 18 or hybrid offering; and

19 “(B) all reproduction and distribution
 20 rights necessary to engage in activities de-
 21 scribed in subparagraph (A), solely for the pur-
 22 pose of engaging in such activities under the li-
 23 cense, including—

24 “(i) the making of reproductions by
 25 and for end users;

“(ii) reproductions made on servers
 under the authority of the licensee; and

“(iii) incidental reproductions made
 under the authority of the license in the
 normal course of engaging in activities de-
 scribed in subparagraph (A), including
 cached, network, and RAM buffer repro-
 ductions.

“(2) BLANKET LICENSES.—A person may ob-
 tain a compulsory license to engage in activities sub-
 ject to this subsection only from a designated agent
 under paragraph (4) and only if the person is a dig-
 ital music provider. A person may engage in activi-
 ties subject to this subsection under authority of a
 compulsory license only—

“(A) if the license was obtained by a dig-
 ital music provider; and

“(B) with respect to end users with which
 the digital music provider meets the require-
 ments of paragraph (14)(C).

“(3) ROYALTY-FREE LICENSE.—

“(A) IN GENERAL.—A compulsory license
 shall be available for the making of server and
 incidental reproductions to facilitate noninter-
 active streaming.

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“(B) ACTIVITIES COVERED.—Each designated agent shall grant a license under this subsection for the making of server and incidental reproductions to facilitate noninteractive streaming at a royalty-free rate. The designated agent may charge only a filing fee of not more than \$30 to administer the issuance of the license. The license shall cover reproductions made on servers under authority of the licensee and incidental reproductions made under the authority of the licensee in the course of the noninteractive streaming, including cached, network, and RAM buffer reproductions, to the extent reasonably necessary for, and solely for the purpose of, engaging in noninteractive streaming under the license in a technologically reasonable and efficient matter.

“(C) EXCLUDED ACTIVITIES.—The license under subparagraph (A) does not extend to any server or incidental reproductions used to enable a streaming service (or any other type of service) that takes affirmative steps to authorize, enable, cause, or induce the making of reproductions of musical works by or for end users that are accessible by those end users for

future listening, unless a valid license for reproduction and distribution rights has otherwise been obtained by the streaming or other type of service permitting the server or incidental reproductions to be used for that activity.

“(4) APPLICATIONS FOR LICENSES.—Any digital music provider seeking a license under this subsection may apply to a designated agent for the license, identifying in the application each type of qualifying activity for which the license is sought. Any digital music provider that has a license under this subsection and seeks to engage in any activity covered by this subsection that is not identified in the license may engage in that activity only upon filing a new application identifying the additional activity.

“(5) LICENSES.—All activities specified in an application filed under paragraph (4) for which a license is available under this subsection shall be licensed by the designated agent. The license shall be effective, upon the filing of the application, for all copyrighted nondramatic musical works (or shares of such musical works) represented by the designated agent.

“(6) RETROACTIVE ROYALTY PAYMENTS.—

“(A) RETROACTIVE PAYMENTS.—A digital music provider that has obtained a license from a designated agent under this subsection for—

“(i) the making and distribution of limited downloads, or

“(ii) the making or distribution of interactive streams,

may report to the designated agent activity authorized by the license that the digital music provider engaged in during the period beginning January 1, 2001, and ending on January 1, 2008, and pay to the designated agent royalties applicable to that activity. Such reporting and payments shall be made not later than March 1, 2008, in accordance with the regulations issued under paragraph (10) regarding reporting and payments.

“(B) LIMITATION ON LIABILITY.—A digital music provider that reports activity and makes payments under this paragraph for an activity under this paragraph shall not be subject to an action for copyright infringement alleging violation of reproduction or distribution rights to the extent such action is based on ac-

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tivity so reported for which all payments due have been made.

“(C) EFFECT ON ROYALTY-FREE LICENSE.—A digital music provider that complies with the requirements of this paragraph is entitled to a royalty-free license under paragraph (3)(A) for the activity reported under subparagraph (A), retroactive to January 1, 2001.

“(7) LICENSE NOT TRANSFERABLE.—A license granted to a digital music provider under this subsection may not be transferred to any other person or entity.

“(8) ROYALTY RATES AND TERMS.—

“(A) IN GENERAL.—Except as provided in this paragraph, the Copyright Royalty Judges shall determine reasonable rates and terms for digital phonorecord deliveries and hybrid offerings as provided under subsection (c) and chapter 8, except for server and incidental reproductions for noninteractive streaming that are eligible for royalty-free licenses under this subsection.

“(B) RATES AND TERMS IN EFFECT.—Rates and terms in effect under subsection (c) on the effective date of the Section 115 Reform

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Act of 2006 for any activity for which a license is available under this section shall continue to apply to that activity on and after that date until a new rate is determined under subsection (c) and chapter 8.

“(C) PAYMENT.—Licensees under this subsection shall make payments of royalty rates and terms to the designated agents as directed by the Copyright Royalty Judges.

“(D) RATES AND TERMS FOR NEW LICENSE ACTIVITIES.—

“(i) IN GENERAL.—Not later than December 1, 2007, the Copyright Royalty Judges shall initiate a ratemaking proceeding, pursuant to the procedures set forth in chapter 8, to determine a final rate and terms for any activity for which a license is available under this subsection if—

“(I) a final rate and terms have not been established for the activity as of that date; or

“(II) the activity is not the subject of a proceeding to set a final rate and terms under subsection (c) that is

pending before the Copyright Royalty Judges on that date.

“(ii) PENDING PROCEEDINGS.—In any case in which a proceeding is pending before the Copyright Royalty Judges, on December 1, 2007, to determine final rates and terms under subsection (c) for any activity for which a license is available under this subsection, the Copyright Royalty Judges may expand and adjust the schedule of the proceeding to cover rates and terms for any activity described in clause (i), in lieu of initiating a proceeding under clause (i) with respect to that activity, if so expanding and adjusting the schedule of the proceeding will not unduly prejudice any party to the proceeding and will not delay the final determination of rates and terms by the Copyright Royalty Judges by more than 90 days.

“(iii) PARTICIPATION OF DESIGNATED AGENTS.—All designated agents, and any other parties who have a significant interest, within the meaning of section 804(a), in the applicable royalty rate, are entitled

to participate in a proceeding under this subparagraph relating to activities licensed under this subsection.

“(E) INTERIM RATES.—

“(i) IN GENERAL.—For any activity for which a license is available under this subsection and for which a rate and terms have not been determined under subsection (c), a digital music provider shall, upon filing a valid application with the relevant designated agent, have a license under this subsection to engage in the activity, subject to clause (ii).

“(ii) INTERIM RATES AND TERMS.— Upon the filing of an application under clause (i)—

“(I) the digital music provider and the designated agent may negotiate an interim rate and terms that will apply to the activity under the license; or

“(II) the digital music provider or the designated agent, or both, may apply to the Copyright Royalty

Judges for an interim rate and terms, in which case—

“(aa) the Copyright Royalty Judges shall, not later than 15 days after the application is made, publish notice of an expedited proceeding to determine the interim rate and terms; and

“(bb) the Judges shall determine the interim rate and terms not less than 30 days and not more than 60 days after publishing the notice, through the expedited proceeding.

“(iii) APPLICABILITY OF INTERIM RATES AND TERMS.—(I) An interim rate and terms negotiated under clause (ii)(I) or established under clause (ii)(II) shall apply to the activity under the license concerned until a final rate and terms for the activity are determined under subparagraph (D), or as otherwise agreed by the parties.

“(II) An interim rate and terms described in clause (i) with respect to an ac-

tivity by a digital music provider shall not be treated as precedent in a final rate-making proceeding. If the Copyright Royalty Judges have established an interim rate and terms under clause (ii)(II), subject to clause (iv), that rate and those terms shall apply to the same activity engaged in by any digital music provider, except as otherwise agreed to by the parties.

“(iv) SINGLE PROCEEDING FOR EACH ACTIVITY.—Unless the Copyright Royalty Judges determine that there is good cause to review an interim rate established under clause (ii)(II), the Judges may conduct only 1 proceeding to determine an interim rate and terms for an activity for which a license is available under this subsection.

“(v) ADJUSTMENT OF INTERIM RATES.—After a determination of a final rate and terms that will apply to an activity for which a license is available under this subsection has been made under subparagraph (D), the final rate and terms shall be retroactive to the inception of the activity under all licenses to which such

rate and terms apply, unless an agreement between the parties to a license provides otherwise. Not later than 60 days after the determination of the final rate becomes effective—

“(I) the digital music provider shall pay to the designated agent any amounts due from underpayment of fees by the digital music provider because the final rate exceeds the interim rate; or

“(II) the designated agent shall refund to the digital music provider the amounts of any overpayment of fees by the digital music provider because the interim rate exceed the final rate, or, at the election of the digital music provider, the designated agent shall credit such overpayment against future payments by the digital music provider to the designated agent under this subsection.

“(9) DESIGNATED AGENTS.—

“(A) IN GENERAL.—Designated agents under this subsection are the General Designated Agent and additional designated agents.

“(B) GENERAL DESIGNATED AGENT.—

“(i) DESIGNATION AND PURPOSE.—

(I) Not later than August 1, 2007, the Register of Copyrights shall designate a mechanical licensing and collection agency representing music publishing entities that represent the greatest share of the music publishing market, as measured by the amount of royalties collected during the preceding 3 full calendar years with respect to the use of copyrighted musical works pursuant to this section, to establish and operate the General Designated Agent.

“(II) The General Designated Agent shall grant and administer licenses and collect and distribute royalties payable for the use of musical works licensed under this subsection.

“(III) The General Designated Agent shall be governed by a board of directors consisting of representatives of at least 5 music publishing entities.

“(ii) DECERTIFICATION.—The Register of Copyrights may disqualify the General Designated Agent upon a showing that it fails to meet the qualifications under this subparagraph or otherwise fails to meet the requirements under this paragraph. In such a case, the Register of Copyrights shall designate another General Designated Agent that most closely meets the requirements of clause (i)(I).

“(C) ADDITIONAL DESIGNATED AGENTS.—

“(i) CERTIFICATION.—The Register of Copyrights shall certify as an additional designated agent to represent copyright owners for purposes of licenses under this subsection any entity that demonstrates that—

“(I) upon certification, it will represent music publishing entities that represent at least a 15 percent share of the music publishing market, as measured by the amount of royalties collected during the preceding 3 full calendar years with respect to the

use of copyrighted musical works pursuant to this section; and

“(II) it has the capability to perform the required functions of a designated agent under this subsection.

“(ii) DUTIES.—(I) Upon certification under clause (i), an additional designated agent shall represent any copyright owners of musical works who elect to have the additional designated agent represent them and the musical works (or shares of musical works) owned or controlled by such copyright owners for purposes of the licenses under this subsection.

“(II) Each additional designated agent shall notify the General Designated Agent and any other additional designated agent of each copyright owner, and the musical works (or shares of musical works) owned or controlled by the copyright owner, that the additional designated agent represents pursuant to subclause (I).

“(III) Any election under subclause (I) is effective only if it is made in writing, a copy of which shall be made available to

any other designated agent upon a reasonable request therefor.

“(iii) DECERTIFICATION.—The Register of Copyrights may remove the certification of any additional designated agent upon a showing that it fails to meet the qualifications under this subparagraph or otherwise fails to meet the requirements under this paragraph.

“(D) AUTHORITIES OF DESIGNATED AGENTS.—A designated agent may—

“(i) engage in activities pursuant to this subsection;

“(ii) engage in such additional activities in the interest of music publishers and songwriters as the designated agent considers appropriate, including industry negotiations, ratesetting proceedings, litigation, and legislative efforts; and

“(iii) apply any administrative fees or other funds it collects to support the activities described in clauses (i) and (ii).

“(E) ELECTIONS BY COPYRIGHT OWNERS.—

“(i) REPRESENTATION BY SINGLE DESIGNATED AGENT.—Each copyright owner, and the musical works (or shares of musical works) that the copyright owner owns or controls, may be represented by only one designated agent during any calendar year.

“(ii) ANNUAL ENROLLMENT PERIOD.—

“(I) IN GENERAL.—Each copyright owner may, during the month of September of each year, elect to change the designated agent to represent the owner and the musical works (or shares of musical works) referred to in clause (i), beginning on January 1 of the succeeding calendar year.

“(II) SELECTION.—A copyright owner may choose only one designated agent during the month of September of each year. If the designated agent chosen is not certified pursuant to subparagraph (C)(i) or is decertified pursuant to subparagraph (C)(iii), the

copyright owner and the musical works (or shares) referred to in clause (i) shall be represented by the General Designated Agent for the succeeding calendar year.

“(iii) EFFECT ON LICENSES.—A designated agent’s representation of the musical works (and shares of musical works) of any copyright owner who elects to change designated agents under clause (ii) shall terminate on December 31 of the year in which the election is made, after which the musical works (and shares of musical works) of the copyright owner will become subject to the licenses in effect with the designated agent selected under clause (ii).

“(iv) DEFAULT REPRESENTATION BY GENERAL DESIGNATED AGENT.—If a copyright owner does not choose to be represented by an additional designated agent, the General Designated Agent shall represent the copyright owner and musical works (or shares of musical works) owned or controlled by the copyright owner.

“(v) VOLUNTARY AGREEMENTS.—A copyright owner and a digital music provider may enter into a voluntary license agreement pursuant to subsection (c)(3)(E)(i) to cover activities licensed under this subsection. Any such agreement shall apply in lieu of a blanket license under this subsection with respect to those musical works (or shares of musical works) and activities covered by the agreement during the period that the agreement is in effect. The royalty fees due for usage of musical works (or shares of musical works) under a blanket license under this subsection shall be reduced in proportion to the usage covered under such a voluntary license agreement. Each designated agent shall establish procedures by which copyright owners and licensees shall be required to notify the designated agent of the existence of voluntary license agreements upon which they are relying in lieu of the blanket license. Such procedures shall include appropriate measures to protect confidential information of licensees.

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“(F) NOTICE OF DESIGNATED AGENTS.—At least 90 days before beginning operations, the General Designated Agent and any interested party wishing to serve as a designated agent shall file with the Copyright Office a notice of intent to operate as a designated agent under this subsection. The notice shall contain such contact information, and such information concerning applications for licenses under this subsection and access to the electronic database of the designated agent (described in subparagraph (H)(i)) identifying musical works (or shares of musical works) represented by the designated agent, as required in regulations issued to carry out this subsection. The Copyright Office shall make each notice filed under this subparagraph available to the public on the Internet.

“(G) TERMINATION OF DESIGNATED AGENT.—

“(i) NOTICE AND TRANSFER OF RECORDS.—At least 180 days before terminating operations, a designated agent shall—

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“(I) notify the Copyright Office, all of its licensees under this subsection, all of the copyright owners represented by the designated agent for the purposes of this subsection, and all other designated agents of its intent to terminate operations; and

“(II) transfer electronic and other copies of all relevant records to the existing General Designated Agent or, in the case of the termination of the General Designated Agent, to the successor General Designated Agent.

“(ii) ASSUMPTION OF DUTIES BY GDA.—Upon the termination of operations of a designated agent, the General Designated Agent or successor General Designated Agent, as the case may be, shall assume the administration of the musical works and rights previously administered by the terminated designated agent, regardless of whether the terminated agent has complied with clause (i).

“(H) MUSICAL WORKS DATA.—

“(i) AVAILABILITY.—The General Designated Agent and each additional designated agent shall maintain and make available to licensees, free of charge, a searchable electronic database of information from which licensees can determine which musical works (or shares of musical works) are available for licensing under this subsection through that designated agent. Any musical work (or shares of a musical work) not identified as being represented by the General Designated Agent or any additional designated agent in any such database may be presumed by licensees to be represented by the General Designated Agent.

“(ii) USE OF DATABASE BY DESIGNATED AGENTS AND LICENSEES.—Subject to the public access described under clause (iii), the database required by clause (i) may be used by designated agents and licensees only for purposes of determining the identity and availability of musical works for licenses under this subsection, obtaining such licenses, reporting of use of

musical works, payment of royalties, and otherwise to comply with licenses under this subsection, except that a designated agent may use or make the database it maintains available for other purposes relating to musical works or music publishers. The Copyright Royalty Judges shall, in establishing cost-sharing amounts pursuant to paragraph (12), consider the value and benefit of any such other purposes to the designated agent and the copyright owners it represents. The use of any such database shall be subject to reasonable confidentiality and security standards prescribed in regulations to carry out this subsection.

“(iii) PUBLIC ACCESS TO DATABASE.—The General Designated Agent and each designated agent shall make relevant portions of the database required by clause (i) available free of charge to the general public to access information concerning specific musical works that are represented by the designated agent, subject to reasonable terms and conditions of

use as may be prescribed by the Register of Copyrights.

“(I) LETTERS OF DIRECTION.—

“(i) IN GENERAL.—A designated agent shall comply with a letter of direction submitted under clause (ii) or (iii) which instructs the designated agent to pay all or part of the royalties otherwise payable to the copyright owner to another person.

“(ii) RECOURPMENT OF ADVANCE.—A copyright owner that receives an advance payment from a sound recording company under a contract entered into before June 1, 2006, that has not been recouped by the sound recording company shall, at the request of the sound recording company, submit a letter of direction to a designated agent instructing the designated agent to pay royalties otherwise payable to the copyright owner to the sound recording company until such time as the advance payment made by the sound recording company to the copyright owner is recouped by the sound recording company.

“(iii) MISSING COPYRIGHT OWNER.—

In any case in which a sound recording company is, after reasonable efforts, unable to locate a copyright owner that received an advance payment from the sound recording company that has not fully been recouped by the sound recording company, the sound recording company may submit a letter of direction to a designated agent directing the designated agent to pay royalties that would be due the copyright owner to the sound recording company.

“(10) ROYALTY REPORTING AND COMPLIANCE.—

“(A) REQUIREMENTS.—

“(i) IN GENERAL.—Each licensee under this subsection shall, on a quarterly basis and in electronic format, report its usage of musical works under the license, and make royalty payments by reason of such usage, to the applicable designated agent.

“(ii) LIMITATION ON DISCLOSURE.—

“(I) IN GENERAL.—A designated agent may disclose information re-

ceived under clause (i) to a recipient of royalty payments made by a licensee only with respect to musical works owned or controlled by the recipient. The designated agent may not disclose such information to any other person in a form that can be readily associated with a licensee except to the extent permitted by written agreement of the licensee.

“(II) EXCEPTION.—Subclause (I) does not prevent a designated agent from providing information with respect to a licensee—

“(aa) to the legal and financial advisors of the designated agent or to an accountant or auditor rendering services relating to this subsection; or

“(bb) to the extent necessary in connection with a bona fide dispute or legal claim or proceeding.

“(iii) INTEREST.—

“(I) IN GENERAL.—A licensee who has failed to make a payment required under this subsection by the due date to a designated agent (including as specified in a notice of payment deficiency or default, as determined in a royalty compliance examination under subparagraph (B), or as required by a determination of the Copyright Royalty Judges), shall pay to the designated agent interest on the overdue amount, at the Federal funds rate plus 5 percent, such interest to accrue monthly from the date payment was due until the date payment is received by the designated agent.

“(II) DEFINITION.—In this clause, the term ‘Federal funds rate’ means the interest rate established by the Federal Reserve at which depository institutions lend balances at the Federal Reserve to other depository institutions overnight. The Federal funds rate for any 1-month period

during which interest accrues under clause (i) is the Federal funds rate in effect on the first day of that 1-month period.

“(iv) PROMOTIONAL USE.—A licensee under this subsection shall not be required to report or pay under this subsection for a free promotional use of a musical work that is authorized by the copyright owner of the musical work.

“(B) ROYALTY COMPLIANCE EXAMINATIONS.—A designated agent may, upon providing written notice to its licensee under this subsection, conduct a royalty compliance examination of the licensee, subject to the following:

“(i) A designated agent may conduct only 1 examination of any licensee in a calendar year, and may conduct an examination of a licensee with respect to a reporting period only once. A designated agent may conduct an examination jointly with one or more other designated agents.

“(ii) The examination may begin only within 18 months after the end of the period being examined and may only cover a

period of not less than 2 and not more than 4 consecutive years, except that an examination may cover a period of—

“(I) more than 4 years if the examination includes activities subject to retroactive payments under paragraph (6);

“(II) a period of less than 2 years if—

“(aa) the licensee’s license has been terminated;

“(bb) the licensee has defaulted in its reporting or payments under this paragraph; or

“(cc) the licensee has terminated or is about to terminate operations, has filed or indicated an intent to file for bankruptcy, or has transferred or indicated an intent to transfer its assets to a third party; or

“(III) a period of less than 2 years or more than 4 years, if for other good cause the examination can-

not reasonably cover a period of 2 to 4 years.

“(iii) At the conclusion of the examination, the designated agent shall, after considering any written rebuttal provided by the licensee during the examination, provide a written notice to the licensee setting forth the designated agent’s final determination of the claim, if any, resulting from the examination.

“(iv) The designated agent shall bear the costs of the examination, except that, if the licensee underpaid royalty fees by 10 percent or more, the licensee shall bear the reasonable costs of the examination.

“(v) A licensee may not assert section 507 of this title or any other Federal or State statute of limitations, doctrine of laches or estoppel, or similar provision to avoid a royalty examination under this subparagraph, or as a defense to a legal action arising from such a royalty examination, if the legal action is commenced within 18 months after the final determination by the designated agent of the

claim (as stated in the written notice under clause (iii)) resulting from the examination that is the basis for such action.

“(C) FAILURE TO REPORT OR PAY ROYALTIES.—

“(i) IN GENERAL.—If a licensee under this subsection—

“(I) fails to provide a quarterly report when due or fails to provide a quarterly report in compliance with the error tolerance standard, or

“(II) fails to make all quarterly royalty payments when due or fails to pay royalties due for reported usage, the designated agent may provide written notice to the licensee describing the default under subclause (I) or (II) and providing that if the default is not remedied within 30 days after receipt of the notice, the license will automatically terminate upon the expiration of that 30-day period. Upon such termination, the licensee will be subject to an infringement action as provided in subsection (c)(6) with respect to the

uses of the musical works that are the subject of the default.

“(ii) FAILURE WITH RESPECT TO INDIVIDUAL WORK.—

“(I) EXCLUSION FROM LICENSE.—If a licensee with an otherwise valid license under this subsection—

“(aa) has not made the required reports or royalty payments under subparagraph (A)(i) for a musical work covered by the license, or

“(bb) upon being sent written notice from the designated agent of a valid reporting or payment deficiency with respect to the use of a musical work, fails to remedy that deficiency within the specified cure period, that work is excluded from the scope of the license until such time as the licensee provides all the reports that are past due, and makes all royalty payments that are past due, to the

designated agent for that work, or the designated agent otherwise identifies the work, determines the usage of the work, and has received from the licensee all royalty payments for the work that are past due.

“(II) SPECIFIED CURE PERIOD.—For purposes of subclause (I)(bb), the “specified cure period” means, with respect to a licensee—

“(aa) 90 days, during the first 12 month-period in which the licensee engages in activities under a license under this subsection;

“(bb) 60 days, during the succeeding 12-month period in which a licensee engages in activities under a license under this subsection; and

“(cc) 30 days, during any period thereafter.

“(III) EXCEPTION.—If the licensee demonstrates to the designated agent with respect to a musical work

that is the subject of a notice of deficiency described in subclause (I)(bb) that the deficiency cannot be remedied because it is due to missing information that, notwithstanding a diligent search by the licensee, is actually and objectively unobtainable by the licensee from any known source, then the license shall not be invalidated with respect to that work, if all royalties due for that work have been paid.

“(iii) OBTAINING SUBSEQUENT LICENSES.—A licensee whose license is terminated by a designated agent under clause (i) and who fully remedies the default within 60 days after the date on which the license terminates, may apply for and obtain a new license from that designated agent, if, during the 5-year period ending on the date of such termination, the licensee has not previously had a license terminated by the designated agent. In any other case in which a license is validly terminated by a designated agent, the designated agent may require the licensee to

meet reasonable credit or advance requirements or to demonstrate the capability to report and make royalty payments in compliance with this subsection before obtaining a new license.

“(11) DISTRIBUTION OF ROYALTIES, UNCLAIMED FUNDS, AND DISPUTE RESOLUTION.—

“(A) DISTRIBUTION OF ROYALTIES.—Each designated agent shall be responsible for distributing royalties collected from licensees under this subsection to any copyright owner whom the designated agent represents and who has provided the designated agent with sufficient information to identify and pay that copyright owner (or the copyright owner’s designee).

“(B) UNCLAIMED FUNDS.—

“(i) IN GENERAL.—If a designated agent is unable, after a reasonably diligent search, to identify or locate a copyright owner entitled to receive royalties under subparagraph (A), the designated agent may deposit the undistributed royalties (in this subparagraph referred to as ‘unclaimed funds’) into an unclaimed funds account that earns interest, accrued

monthly, at the Federal short term rate determined under section 1274(d)(1)(C)(i) of the Internal Revenue Code of 1986. Interest accrued on unclaimed funds shall be payable to a copyright owner upon distribution of the unclaimed funds to such copyright owner.

“(ii) HOLDING AND DISTRIBUTION.—

“(I) HOLDING.— A designated agent with unclaimed funds shall hold the funds for a period of at least 3 years after the date on which the licensee paid the funds. The designated agent shall make reasonably diligent efforts to publicize the existence of the unclaimed funds and the procedures by which copyright owners may claim such funds from the designated agent.

“(II) LICENSING ADMINISTRATIVE COSTS.—At the end of the period in which funds are held under subclause (I), the designated agent may apply the funds to offset licensing administrative costs.

“(III) DISTRIBUTION OF REMAINDER.—Any unclaimed funds not applied to offset licensing administrative costs under subclause (II) shall be distributed as follows:

“(aa) The designated agent shall pay to every other designated agent its pro rata share of the unclaimed funds as determined on the basis of the proportionate distribution of royalties by each designated agent to copyright owners for the reporting periods during which the funds were collected.

“(bb) Each designated agent shall distribute, on an equitable basis, its pro rata share of the unclaimed funds to the copyright owners that the designated agent represents under this subsection (other than those that cannot be identified or located).

“(iii) PREEMPTION.—This subparagraph preempts any State law (including

common law) that would otherwise apply concerning escheatment or abandoned or unclaimed property.

“(C) DISPUTES.—Each designated agent shall establish a committee that includes an equal number of—

“(i) representatives of music publishing entities represented by the designated agent, and

“(ii) songwriters with musical works represented by the designated agent who are not members of the board of directors, governing body, or management of the designated agent,

for the purpose of addressing any dispute raised by a copyright owner relating to the allocation and payment by the designated agent of royalties to such copyright owner under a license obtained from the designated agent under this subsection. The dispute resolution process shall not affect any other legal or equitable rights or remedies available to any copyright owner or the designated agent.

“(D) PROCEDURES.—The Register of Copyrights shall establish by regulation the pro-

cedures for the holding by a designated agent of unclaimed funds and royalties paid under this subsection that are attributable to musical works that are the subject of a legal dispute or proceeding. A designated agent that complies with the requirements of this paragraph and such regulations shall not be subject to a legal claim based upon or arising from unclaimed funds or an ownership dispute or legal proceeding.

“(E) DOCUMENTATION.—A songwriter whose musical works (or shares thereof) are administered by a music publisher for licensing under this subsection (including those represented through default representation pursuant to paragraph (9)(E)(iv)) may request from a designated agent a copy of the relevant portions of any royalty statement that the designated agent provided, within the preceding 4 calendar years, to that publisher, and that shows all data provided by the designated agent to the publisher regarding the use and royalties distributed to the publisher in connection with those works (or shares thereof). A designated agent shall provide the information requested

by the songwriter within a reasonable time after receiving the request. A songwriter may make such a request of a particular designated agent not more than once each calendar year.

“(F) WITHHOLDING OF INTERIM ROYALTIES.—Each designated agent may withhold reasonable reserves from the distribution of interim royalties collected under this subsection to allow for the possibility of a lower final statutory rate. Upon final determination of the statutory rate, to the extent such reserves are not required to be returned or credited to the licensee, the designated agent shall distribute to copyright owners such reserves with interest.

“(12) COST SHARING FEES.—

“(A) IN GENERAL.—The Copyright Royalty Judges shall determine, under such procedures as they may establish, an appropriate cost-sharing mechanism and cost-sharing amounts to be paid by licensees under this subsection to designated agents. Not later than February 1, 2007, the Copyright Royalty Judges shall initiate a proceeding to determine, not later than May 1, 2007, appropriate interim cost-sharing amounts to apply pending the es-

establishment of final cost-sharing amounts. Any cost-sharing mechanism or cost-sharing amounts shall be equitably applied to all designated agents. In determining a cost-sharing mechanism or cost-sharing amount under this paragraph, the Copyright Royalty Judges shall consider—

“(i)(I) the actual, reasonable costs of creating and maintaining an infrastructure for activities of designated agents under this subsection;

“(II) any nonmonetary contributions by the parties to such infrastructures, including contributions of data and services;

“(III) the actual, reasonable costs to designated agents specifically associated with the administration of licenses under this subsection;

“(IV) the nature and value of any collateral benefits that any party may realize from the blanket license and blanket license system created by this subsection; and

“(V) any other factors deemed relevant by the Copyright Royalty Judges.

“(B) COST-SHARING NOT A FACTOR IN ROYALTY RATES.—The Copyright Royalty Judges, in establishing royalty rates for statutory licenses, may not take into account the cost-sharing mechanism or cost-sharing amounts under subparagraph (A).

“(13) EXCLUSION FROM BLANKET LICENSES.—

“(A) IN GENERAL.—A sound recording company may, by written notice to the appropriate designated agent, exclude a musical work from a compulsory license under paragraph (2) if the musical work is the subject of a contract described in subsection (c)(3)(E)(ii).

“(B) EXCLUSION ERRORS.—

“(i) NOT EXCLUDED.—In any case in which a musical work could have been excluded pursuant to subparagraph (A) but was not due to uncertainty concerning ownership of the copyright of the musical work or the application of a contract described in subsection (c)(3)(E)(ii), or in any case in which a digital music provider makes payments to a designated agent for use of a musical work excluded under subparagraph (A), the designated agent shall

make payments to the appropriate person as if the exclusion under subparagraph (A) had applied on the date of the enactment of the Section 115 Reform Act of 2006, unless an agreement between the designated agent and the appropriate person provides otherwise.

“(ii) EXCLUDED.—In any case in which a musical work was excluded pursuant to subparagraph (A) in error—

“(I) a sound recording company acting in good faith with regards to the exclusion shall only be liable for the payment of amounts that otherwise would have been payable under this subsection plus interest as described in (10)(A)(iii)(II); and

“(II) a licensee acting in good faith with regards to the exclusion shall not be liable.

“(14) DEFINITIONS.—In this subsection:

“(A) ADMINISTRATIVE FEES.—The term ‘administrative fees’ means any fees that are collected or deducted by a designated agent to

cover licensing administrative costs or other administrative costs.

“(B) COPYRIGHT OWNER.—The term ‘copyright owner’ means a natural person or legally recognized entity that owns or controls an interest in one or more copyrighted nondramatic musical works subject to licensing under this section.

“(C) DIGITAL MUSIC PROVIDER.—The term ‘digital music provider’ means a person that—

“(i) with respect to a service engaging in activities licensed under this subsection—

“(I) contracts with or has a direct economic relationship with the end users of the service, and controls what end users pay for the service;

“(II) controls how content is bundled and offered through the service;

“(III) is able to fully report on all revenues and consideration generated by the service; and

“(IV) is able to fully report on all elements of music usage by the service (or procure such reporting); or

“(ii) makes and distributes a hybrid offering.

“(D) ERROR TOLERANCE STANDARD.—

The term ‘error tolerance standard’ means the maximum percentage, of all data that a licensee is required to report under this subsection under its license in any statutory reporting period, that is permitted to be inaccurate, unreadable, or missing, or any combination thereof, as determined under regulations issued to carry out this subsection.

“(E) FULL DOWNLOAD.—The term ‘full download’ means a digital phonorecord delivery of a sound recording of a musical work that is not limited in availability for listening by the end user either to a period of time or a number of times the sound recording can be played.

“(F) HYBRID OFFERING.—The term ‘hybrid offering’ means a reproduction or distribution of a phonorecord in physical form subject to a compulsory license under this section where—

“(i) a digital transmission of data by or under the authority of the licensee is required to render the sound recording embodied on the phonorecord audible to the end user or to enable the continued rendering of the sound recording after a finite period of time or a specified number of times rendered; or

“(ii) the phonorecord is made by or under the authority of the licensee at the request of a user for distribution to that user or the user’s designee.

“(G) INTERACTIVE STREAM.—The term ‘interactive stream’—

“(i) means a stream of a sound recording of a musical work that does not qualify for a statutory license under section 114(d)(2) with respect to the sound recording embodied therein; and

“(ii) subject to clause (i), includes a stream of a particular sound recording of a musical work that an end user has selected, and is transmitted to such end user, to listen to at or substantially at the time of making such selection or at some future

time, whether or not as a part of a program specially created for the end user.

“(H) LICENSING ADMINISTRATIVE COSTS.—The term ‘licensing administrative costs’ means the actual costs to a designated agent that are attributable to the issuance and administration of licenses under this subsection, including—

“(i) costs in connection with the collection and distribution of royalties under this subsection;

“(ii) the costs of identifying and locating copyright owners and administering a claims system for unidentified copyright owners;

“(iii) the costs of royalty examinations and other royalty compliance efforts; and

“(iv) the costs of creating and maintaining an infrastructure for the activities described in clauses (i), (ii), and (iii).

“(I) LIMITED DOWNLOAD.—the term ‘limited download’ means a digital phonorecord delivery of a sound recording of a musical work that is only available for listening for—

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“(i) a definite period of time (including a period of time defined by ongoing subscription payments made by an end user); or

“(ii) a specified number of times.

“(J) NONINTERACTIVE STREAMING.—The term ‘noninteractive streaming’ means the radio-style streaming of sound recordings of musical works for which a statutory license is available with respect to the sound recordings under section 114(d)(2).

“(K) OTHER ADMINISTRATIVE COSTS.—The term ‘Other administrative costs’ means all expenses, expenditures, retained earnings, and reserves of a designated agent, other than licensing administrative costs, that are authorized by the board of directors of the designated agent.

“(L) SONGWRITER.—The term ‘songwriter’ means the author of a musical work.

“(M) SOUND RECORDING COMPANY.—The term ‘sound recording company’ means a person who is—

“(i) a copyright owner or who has similar rights to a sound recording of a

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musical work under the common law or statutes of any State with respect to a sound recording fixed before February 15, 1972;

“(ii) an exclusive licensee of a sound recording of a musical work; or

“(iii) performing the functions of marketing and authorizing the distribution of a sound recording of a musical work under the authority of the copyright owner of the musical work.

“(N) STREAM.—(i) The term ‘stream’ means the digital transmission of a sound recording embodying a musical work for one-time listening by the end user using technology such that the transmission is not intended or designed to result in a substantially complete reproduction of the sound recording, other than an incidental reproduction made in the normal course of such activity, including a cached, network, or RAM buffer reproduction, to permit such one-time listening.

“(ii) The term ‘streaming’ means the process of making and distributing streams.

“(15) REGULATIONS.—The Register of Copyrights shall issue such regulations as are necessary to carry out this subsection, including—

“(A) specifying the requirements and procedures for reporting and making payments, and conducting royalty compliance examinations, under paragraph (10);

“(B) specifying the procedures for expedited proceedings under paragraph (8)(D)(ii)(II)(bb);

“(C) specifying the form of a letter of direction under paragraph (9)(I)(i); and

“(D) facilitating exclusions from the blanket license under paragraph (13).”.

SEC. 3. PERFORMANCE RIGHT PRESERVED.

Section 115 of title 17, United States Code, is amended by adding at the end the following new subsection:

“(f) PERFORMANCE RIGHT PRESERVED.—The rights granted under subsection (e) shall not include, limit, or otherwise affect any right of public performance of a musical work. The third sentence of subsection (e)(9)(E)(v) and the definitions contained in paragraph (14) of subsection (e) shall not be taken into account in any administrative, judicial, or other governmental proceeding to set

or adjust the royalties payable to copyright owners of musical works for, the right of public performance of their works.”.

SEC. 4. INTERIM RATE PROCESS.

Section 115(e) of title 17, United States Code, is amended by adding at the end the following new paragraph:

“(7) INTERIM RATES.—

“(A) IN GENERAL.—For any activity for which a license is available under this section, other than an activity for which a license is available under subsection (e), for which a rate and terms have not been determined, any person shall, upon serving notice to the copyright owner, have a license under this subsection to engage in the activity, subject to subparagraph (B).

“(B) INTERIM RATES.—Upon the filing of an application under subparagraph (A)—

“(i) the parties may negotiate an interim rate and terms that will apply to the activity under the license; or

“(ii) either party or both parties may apply to the Copyright Royalty Judges for an interim rate and terms, in which case—

“(I) the Copyright Royalty Judges shall, not later than 15 days after the application is made, publish notice of an expedited proceeding to determine the interim rate and terms; and

“(II) the Judges shall determine the interim rate and terms not less than 30 days and not more than 60 days after publishing the notice, through the expedited proceeding.

“(C) APPLICABILITY OF INTERIM RATES.—(i) Interim rates and terms negotiated under subparagraph (B)(i) or established under subparagraph (B)(ii) shall apply to the activity under the license concerned until a rate and terms for the activity are determined under paragraph (3)(C) and chapter 8, or as otherwise agreed by the parties.

“(ii) Interim rates and terms described in subparagraph (A) with respect to an activity by an applicant shall not be treated as precedent in a final ratemaking proceeding. If the Copyright Royalty Judges have established an interim rate and terms under subparagraph

(B)(ii), subject to subparagraph (D), that rate and those terms shall apply to the same activity engaged in by any person, except as otherwise agreed to by the parties.

“(D) SINGLE PROCEEDING FOR EACH ACTIVITY.—Unless the Copyright Royalty Judges determine that there is good cause to review an interim rate or terms established under subparagraph (B)(ii), the Copyright Royalty Judges may conduct only 1 proceeding to determine an interim rate and terms for an activity for which a license is available under this subsection.

“(E) ADJUSTMENT OF INTERIM RATES.—After a final determination of rates and terms that will apply to an activity for which a license is available under this subsection has been made under paragraph (3)(C) and chapter 8, the final rate and terms shall be retroactive to the inception of the activity under a license between a person and a copyright owner to which the rate and terms apply, unless an agreement between the parties to the license provides otherwise. Not later than 60 days after the deter-

mination of the final rate and terms becomes effective—

“(i) the person shall pay to the copyright owner any amounts due from underpayment of fees by the person because the final rate exceeds the interim rate; or

“(ii) the copyright owner shall refund to the person the amounts of any overpayment of fees by the person because the interim rate exceed the final rate, or, at the election of the person, the copyright owner shall credit such overpayment against future payments by the person to the copyright owner under this subsection.”.

EC. 5. TECHNICAL AMENDMENTS.

(a) DEFINITION.—Section 115(d) of title 17, United States Code, is amended—

(1) in the first sentence, by striking “As used” and inserting by adding at the end the following: “.”

“(1) IN GENERAL.—As used”;

(2) by moving the remaining text 2 ems to the right; and

(3) by adding at the end the following:

“(2) INCLUDED ACTIVITIES.—The term ‘digital phonorecord delivery’ includes—

“(A) an interactive stream (as such term is defined in subsection (e)(16)(F)) of nondramatic musical works; and

“(B) server and incidental reproductions of nondramatic musical works made to facilitate the deliveries of phonorecords by digital transmission described in subparagraph (A) and paragraph (1).”.

(b) CONFORMING AMENDMENTS.—Section 115(c) of title 17, United States Code, is amended—

(1) in paragraph (3)—

(A) in the first sentence of subparagraph (A), by striking “or authorize the distribution of”;

(B) in subparagraph (C), by striking “Such terms and rates shall distinguish” and all that follows through the end of the sentence; and

(C) in subparagraph (D), by striking “Such terms and rates shall distinguish” and all that follows through the end of the sentence; and

(2) in paragraph (5)—

(A) by striking “(5) Royalty payments” and inserting “(5)(A) Subject to subparagraph (B), royalty payments”; and

(B) by adding at the end the following:

“(B) Payments under the license provided for under subsection (e) shall be governed by that subsection in lieu of subparagraph (A).”.

SEC. 6. EFFECTIVE DATE.

(a) IN GENERAL.—Subject to subsection (b), this Act and the amendments made by this Act take effect on the date of the enactment of this Act.

(b) DELAY OF LICENSES.—No license under subsection (e) of section 115 of title 17, United States Code, may take effect before January 1, 2008.

SEC. 7. SAVINGS CLAUSES.

(a) LICENSE NOT REQUIRED.—This Act and the amendments made by this Act shall not be construed to indicate whether an activity for which a license under section 115 of title 17, United States Code, is available, if not licensed or otherwise authorized by the copyright owner, would constitute an act of copyright infringement.

(b) FAIR USE.—Nothing in this Act shall affect any right, limitation, or defense to copyright infringement, including fair use, under title 17, United States Code.

Appeal No. 05-1238

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

Jan K. Voda, M.D.,
Plaintiff-Appellee,

v.

Cordis Corp.,
Defendant-Appellant.

Appeal from the United States District Court
for the Western District of Oklahoma in Case No. Civ-03-1512-L
Judge Tim Leonard

BRIEF FOR AMICUS CURIAE
AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION
IN SUPPORT OF CORDIS

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June 15, 2005

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CERTIFICATE OF INTEREST

Counsel for Amicus Curiae American Intellectual Property Law Association
certifies the following:

- The full name of every party represented by the undersigned is:
American Intellectual Property Law Association
- The real party in interest represented by the undersigned is:
American Intellectual Property Law Association
- All parent companies and any publicly held companies that own 10 percent
or more of the stock of the party represented by me are:
None
- The names of all law firms and the partners or associates that appeared for
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STATEMENT OF INTEREST OF AMICUS CURIAE

The American Intellectual Property Law Association (AIPLA) is a national association of nearly 16,000 members interested in all areas of intellectual property law. AIPLA's members include attorneys employed in private practice and by corporations, universities, and government. AIPLA's members represent both owners and users of intellectual property.

AIPLA has no stake in any of the parties to this litigation or the result of this case other than its interest in seeking correct and consistent interpretation of the law as it relates to intellectual property issues.¹ This brief is filed with the consent of both parties.

¹ After reasonable investigation, AIPLA believes that (a) no member of its Board or *Amicus* Committee who voted to prepare this brief, or any attorney in the law firm or corporation of such a member, represents a party to this litigation, (b) no representative of any party to this litigation participated in the authorship of this brief, and (c) no one other than AIPLA, or its members who authored this brief and their law firms or employers, made a monetary contribution to the preparation or submission of this brief. Some committee members or attorneys in their respective law firms or corporations may represent entities that have an interest in other matters that may be affected by the outcome of this litigation.

INTRODUCTION

AIPLA urges this court to reverse the district court's exercise of supplemental jurisdiction over claims of foreign patent infringement. While AIPLA does not have an interest in the outcome of the present litigation, it is concerned about the potential implications of the court's decision in this case. For the reasons discussed herein, this court should hold that federal district courts lack supplemental jurisdiction over foreign patent law claims. This result is proper under the following principles: (1) statutory construction of the federal supplemental jurisdiction statute; (2) an inherent failure of foreign patent infringement claims to meet the "common nucleus of operative fact" standard; (3) the fact that no plaintiff ordinarily would expect to try foreign patent infringement claims in one judicial proceeding with federal patent infringement claims; and (4) other compelling reasons under 28 U.S.C. § 1367(c)(4) (1993), including international comity, judicial economy, fairness, and convenience.

ARGUMENT

I. **As a matter of statutory construction, § 1367(a) does not confer jurisdiction over foreign patent law claims.**

This case presents the issue of whether jurisdiction exists over foreign patent law claims based on the federal supplemental jurisdiction statute, 28 U.S.C. § 1367(a) (1993). As a matter of statutory construction, such jurisdiction does not exist.

Section 1367(a) provides in relevant part that

in any civil action of which the district courts have original jurisdiction, the district courts shall have supplemental jurisdiction over all other claims that are so related to claims in the action within such original jurisdiction that they form part of the same case or controversy under Article III of the United States Constitution.

Id. In adopting this statute, Congress expressed an intent to codify the scope of "pendent jurisdiction" as defined by the Supreme Court in *United Mine Workers v. Gibbs*, 383 U.S. 715 (1966).² Under *Gibbs*, a federal law claim and a state law claim form part of the same Article III "case or controversy" if they "derive from a common nucleus of operative fact" and if they are "such that [a plaintiff] would ordinarily be expected to try them all in one judicial proceeding." *Id.* at 725; *see Carnegie-Mellon Univ. v. Cohill*, 484 U.S. 343, 349 (1988). As a result, when Congress enacted the supplemental jurisdiction statute, it understood that a state law claim and federal law claim that satisfied these standards would form part of the "same case or controversy."³

But neither *Gibbs* nor any subsequent Supreme Court decision has confronted a case in which one of two asserted claims arises under foreign patent law. This was the situation at issue in *Mars Inc. v. Kabushiki-Kaisha Nippon Conlux*, 24 F.3d 1368, 1374 (Fed. Cir. 1994), where this court held that federal

² See H.R. REP. NO. 734, 101st Cong., 2d Sess. (1990), *reprinted in* 1990 U.S.C.C.A.N. 6860, 6875 n.15.

³ See *Mars Inc. v. Kabushiki-Kaisha Nippon Conlux*, 24 F.3d 1368, 1374 (Fed. Cir. 1994).

supplemental jurisdiction was lacking because the foreign patent law claims at issue did not share a common nucleus of operative fact with the plaintiff's other claims. *Mars* assumed that § 1367 might confer jurisdiction on foreign patent law claims that met the *Gibbs* standard but did not actually decide the issue. Because the scope of § 1367 must be resolved as a logical antecedent to any analysis of a plaintiff's claims under *Gibbs*, this court should address that question first and hold that § 1367(a) does not confer federal jurisdiction over foreign patent law claims.

When Congress enacted the supplemental jurisdiction statute, no express statutory basis existed for a plaintiff to raise any type of foreign patent law claim in federal court. Specifically, no federal substantive cause of action for foreign patent infringement existed, and no federal jurisdictional statute expressly provided for jurisdiction over claims arising solely under foreign patent law. Thus, the determinative question is whether § 1367 somehow grants federal jurisdiction over such unusual and essentially unprecedented claims. As AIPLA will show, several compelling reasons mandate that the statute should not be read so broadly.

A. Federal courts are courts of limited jurisdiction.

Federal courts are courts of *limited* jurisdiction. *Owen Equip. & Erection Co. v. Kroger*, 437 U.S. 365, 374 (1978). Since Congress has never expressly created a cause of action covering foreign patent law claims and has never expressly granted federal courts jurisdiction over such claims, at least a presumption arises that any statutory grant of jurisdiction should be strictly

construed against such jurisdiction. *Cf. Healy v. Ratta*, 292 U.S. 263, 269-70 (1934) (strictly construing federal removal statute because, among other reasons, federal courts historically had limited jurisdiction over federal question and diversity cases); *see also id.* at 270 (strict construction requires federal courts to “scrupulously confine their own jurisdiction to the precise limits which the statute has defined”). This presumption should apply with greater force here than in other contexts because there has never been any expressed basis for federal courts to assert this type of jurisdiction.

B. Federal statutes are presumed to be limited to the geographical territory of the United States.

Interpreting the federal supplemental jurisdiction statute to confer jurisdiction over foreign patent law claims would give extraterritorial effect to the supplemental jurisdiction statute by allowing federal courts to adjudicate (and thus regulate) the legality of actions occurring solely in foreign countries. But unless Congress has clearly expressed an intention that a particular statute be given extraterritorial effect, a presumption exists that federal laws do not regulate foreign conduct. *See EEOC v. Arabian Am. Oil Co.*, 499 U.S. 244, 248 (1991) (“[L]egislation of Congress, unless a contrary intent appears, is meant to apply only within the territorial boundaries of the United States.” (quoting *Foley Bros., Inc. v. Filardo*, 336 U.S. 281, 285 (1949));⁴ *F. Hoffman-La Roche Ltd. v.*

⁴ *See also Small v. United States*, 125 S. Ct. 1752, 1758 (2005) (holding that phrase (cont'd)

Empagran S.A., 124 S. Ct. 2359, 2366 (2004) (“[T]his Court ordinarily construes ambiguous statutes to avoid unreasonable interference with the sovereign authority of other nations.”). As recently explained by the Supreme Court,

This rule of statutory construction cautions courts to assume that legislators take account of the legitimate sovereign interests of other nations when they write American laws. [The rule] thereby helps the potentially conflicting laws of different nations work together in harmony—a harmony particularly needed in today’s highly interdependent commercial world.

F. Hoffman-La Roche, 124 S. Ct. at 2366.

In addition to such comity concerns, another important justification for this presumption is separation of powers: the Constitution assigns principal policymaking and foreign affairs authority to the legislative and executive branches rather than the judicial branch.⁵ As a result, the Supreme Court has applied this presumption if a court’s jurisdiction would otherwise encroach on issues of foreign affairs. See *McCulloch v. Sociedad Nacional de Marineros de Honduras*, 372 U.S. 10, 21-22 (1963) (explaining that policy issues in the sphere of foreign affairs “should be directed to the Congress”).

(... cont’d)

“convicted in any court” in federal criminal law refers only to domestic courts, not foreign courts, based on presumption that Congress’s statutes do not have extraterritorial application).

⁵ See, e.g., U.S. CONST. art. I, § 1; *id.* § 8 cl. 3, 10, 11; *id.* § 9 cl. 8; *id.* § 10, cl. 1, 3; *id.* art. II, § 2 cl. 2; *id.* § 3.

Although these separation-of-powers concerns may arise more often when interpreting *substantive* federal statutes, they also arise when interpreting federal statutes that are “bare” grants of jurisdiction. See *Sosa v. Alvarez-Machain*, 124 S. Ct. 2739, 2762-63 (2004). In *Sosa*, the Supreme Court had to interpret the jurisdictional reach of the Alien Tort Statute, which itself created no new causes of action. 28 U.S.C. § 1350 (1993); *Sosa*, 124 S. Ct. at 2755. The Court thus had to determine the universe of federal common law claims, based on international-law causes of action, that could be brought under that statute. The Court narrowly held that the statute only authorized federal courts to hear claims that met strict standards of “content and acceptance” under “historical paradigms familiar [to international law] when § 1350 was enacted.” *Sosa*, 124 S. Ct. at 2765. The Court reached this result based in part on two separation-of-powers concerns. First, “a decision to create a private right of action is one better left to legislative judgment in the great majority of cases.” *Id.* at 2762-63. Second, “the potential implications for the foreign relations of the United States of recognizing such causes should make courts particularly wary of impinging on the discretion of the Legislative and Executive Branches in managing foreign affairs.” *Id.* at 2763.

Both of these concerns are present with respect to the reach of the supplemental jurisdictional statute: Congress has never created an express cause of action to litigate foreign patent law claims in federal court and the adjudication of such claims in federal courts implicates foreign-affairs issues, such as the proper

construction of foreign patent rights.⁶ Consistently, this court should apply the presumption against extraterritorial reach of U.S. laws and construe the supplemental jurisdiction statute accordingly.

C. Federal statutes should be construed to avoid difficult constitutional questions.

Under principles of statutory construction, federal statutes are interpreted to avoid difficult constitutional questions whenever doing so is “fairly possible.” *See Lorillard, Div. of Loew's Theatres, Inc. v. Pons*, 434 U.S. 575, 577 (1978) (“[I]t is a cardinal principle that this Court will first ascertain whether a construction of the statute is fairly possible by which the [constitutional] question may be avoided.” (internal quotation marks omitted, second alteration in original)).

As mentioned above, the Supreme Court in *Gibbs* defined the standard for determining if a state law claim against one party is part of the same Article III case or controversy as a federal claim against that same party. But the Court has not decided if the *Gibbs* standard also applies in other situations. Instead, when faced with that constitutional question, the Court has avoided the issue when it could decide a case on other grounds. For example, the Court has twice avoided the issue in cases where a party’s supplemental claim involved the addition of a

⁶ Nor is there an interpretive need to infer a federal common law cause of action over foreign patent law claims because, unlike the case in *Sosa*, the federal supplemental jurisdiction statute would not be a “nullity” if it did not reach that particular class of claims. *See Sosa*, 124 S. Ct. at 2759-61.

new party. *See Moor v. County of Alameda*, 411 U.S. 693, 715 (1973) (“Whether there exists judicial power to hear the state law claims against the [new party] is, in short, a subtle and complex question with far-reaching implications.”); *id.* at 717 (resolving case on non-constitutional grounds); *Finley v. United States*, 490 U.S. 545, 549 (1989) (“We may assume, without deciding, that the constitutional criterion for pendent-party jurisdiction is analogous to the constitutional criterion [under *Gibbs*] for pendent-claim jurisdiction . . .”).

Likewise, before extending supplemental jurisdiction to foreign patent law claims, this court would first have to decide analogous constitutional questions, including whether the judicial power extends to such claims and if so, whether the *Gibbs* standard remains the correct one for defining the scope of the constitutional “case or controversy.” Those constitutional issues may be avoided, however, by construing § 1367 such that it does not extend federal jurisdiction to foreign patent law claims in the first place, as next explained.

* * *

Given the above principles of statutory construction, AIPLA urges this court to read the supplemental jurisdiction statute as narrowly as is “fairly possible.” One way to do that is to read § 1367(a)’s reference to “other claims” as limited to those types of substantive law claims that federal courts were authorized to hear when § 1367(a) was enacted, such as state and federal law claims. In other words, “other claims” should not be read to include completely new types of claims that

lack any history of federal court adjudication, such as foreign patent law claims. *Cf. Raygor v. Regents of Univ. of Minn.*, 534 U.S. 533, 546 (2002) (narrowly construing § 1367(d)'s statutory reference to "all . . . claims" to exclude a particular class of claims that, among other things, raised constitutional issues); *ITSI T.V. Prods., Inc. v. Cal. Auth. of Racing Fairs*, 785 F. Supp. 854, 866 (E.D. Cal. 1992) (dismissing foreign copyright claim based in part on lack of any "clear authority for exercising such jurisdiction"), *aff'd in part, rev'd in part on other grounds*, 3 F.3d 1289 (9th Cir. 1993).

Such a limiting construction should be adopted because it avoids difficult constitutional issues and remains consistent with the principle of limited federal jurisdiction and the presumption of non-extraterritorial effect. In addition, this limiting construction helps make sense of other statutory language. Specifically, § 1367(c) gives district courts express power to decline jurisdiction over supplemental claims in certain cases, as when a claim "raises a novel or complex issue of State law." 28 U.S.C. § 1367(c)(1). In contrast, however, the statute provides no express authority to decline jurisdiction over similarly complex foreign claims (such as foreign patent law claims).⁷ But if anything, foreign patent law claims would be expected to raise difficult legal issues at least as often as state

⁷ The statute defines "State" so as to exclude foreign states by negative implication. *See* 28 U.S.C. § 1367(e) ("As used in this section, the term 'State' includes the District of Columbia, the Commonwealth of Puerto Rico, and any territory or possession of the United States.").

law claims, if not more often. In addition, there is no reason to think that Congress intended to confer jurisdiction over such a complex, unprecedented, and potentially enormous class of claims as foreign patent law claims while withholding the same basis for declining jurisdiction that Congress provided for complex state law claims. Thus, § 1367(c)(1) provides contextual evidence that Congress simply never intended to confer jurisdiction over foreign patent law claims in the first place. *See Davis v. Mich. Dep't of Treasury*, 489 U.S. 803, 809 (1989) ("It is a fundamental canon of statutory construction that the words of a statute must be read in their context and with a view to their place in the overall statutory scheme.").

For these reasons, this court should hold that § 1367(a) does not extend supplemental jurisdiction to claims arising solely under the patent laws of foreign countries.

II. Foreign patent infringement claims do not share a common nucleus of operative fact with federal patent infringement claims under § 271(a).

Even if one assumed that district courts could exercise supplemental jurisdiction over foreign patent law claims that met the "common nucleus of operative fact" standard under *Gibbs*, that jurisdiction would not exist where the district court's original jurisdiction is based on patent infringement under 35 U.S.C. § 271(a) (2001). This is because the kinds of claims at issue in those circumstances inherently lack a common nucleus of operative fact.

Specifically, § 271(a) creates infringement liability only when an entity

“makes, uses, offers to sell, or sells” a patented invention *in* the United States or if it imports it *into* the United States. *Id.* Thus, to prove a claim of patent infringement under § 271(a), a plaintiff must prove specific domestic activity with respect to each alleged act of infringement. In other words, § 271(a) does not apply to purely extraterritorial conduct. *See Rotec Indus., Inc. v. Mitsubishi Corp.*, 215 F.3d 1246, 1251 (Fed. Cir. 2000) (“[The defendant’s] extraterritorial activities . . . are irrelevant to the [§ 271(a) claim] before us[] because ‘[t]he right conferred by a patent under our law is confined to the United States and its territories, and infringement of this right cannot be predicated on acts wholly done in a foreign country.’” (quoting *Dowagiac Mfg. Co. v. Minn. Moline Plow Co.*, 235 U.S. 641, 650 (1915))).⁸

As a result, a federal patent infringement claim under § 271(a) will never share a common nucleus of operative fact with a foreign patent law claim. This is true for at least two reasons:

First, if a plaintiff’s foreign patent infringement claim is territorially limited, then it will not overlap with the plaintiff’s federal patent infringement claims under

⁸ *See also Fuji Photo Film Co. v. Jazz Photo Corp.*, 394 F.3d 1368, 1376 (Fed. Cir. 2005) (holding that a patentee’s foreign product sales cannot occur “under” a United States patent because “the United States patent system does not provide for extraterritorial effect” (citing *Int’l Rectifier Corp. v. Samsung Elecs. Co.*, 361 F.3d 1355, 1360 (Fed. Cir. 2004) (“Further, it is well known that United States patent laws ‘do not, and were not intended to, operate beyond the limits of the United States,’” (quoting *Brown v. Duchesne*, 60 U.S. 183, 195 (1856)))).

§ 271(a) because the underlying foreign and domestic acts of infringement will have occurred in different countries. While a defendant’s foreign and domestic acts of infringement may be qualitatively similar, they cannot be said to have a *common nucleus of operative fact* if they do not actually overlap. *See Lyon v. Whisman*, 45 F.3d 758, 761 (3d Cir. 1995) (*Gibbs* satisfied where federal and state claims are alternative theories of recovery based on same underlying acts); *Frye v. Pioneer Logging Mach., Inc.*, 555 F. Supp. 730, 732 (D.S.C. 1983) (*Gibbs* satisfied where defendant’s conduct causes single injury actionable under federal and state law); *Gudenkauf v. Stauffer Communications, Inc.*, 896 F. Supp. 1082, 1084 (D. Kan. 1995) (*Gibbs* satisfied where defendant’s wrongful termination of plaintiff was element of offense under federal and state law). Consequently, when foreign patent law is territorially limited, a plaintiff’s foreign claim will not be part of the same case or controversy (under the *Gibbs* standard) as his federal claim. *See Alan G. Kirios, Territoriality and International Copyright Infringement Actions*, 22 COPYRIGHT LAW SYMPOSIUM (ASCAP) 69, 76 (Columbia Univ. Press 1977) (explaining that a common nucleus of operative fact is inherently lacking between foreign and federal patent infringement claims when underlying acts of infringement are territorially non-overlapping).

Second, where foreign patent law is not territorially limited – in other words, where it purports to regulate domestic conduct – it is preempted because Congress has occupied the field of patent law. *See Cover v. Hydramatic Packing Co.*, 83

F.3d 1390, 1393 (Fed. Cir. 1996) (“With respect to field pre-emption, Title 35 occupies the field of patent law”);⁹ *Gade v. Nat’l Solid Wastes Mgmt. Ass’n*, 505 U.S. 88, 98 (1992) (“field preemption” means that “the scheme of federal regulation is so pervasive as to make reasonable the inference that Congress left no room for the States to supplement it” (internal quotation marks omitted)).¹⁰

Consequently, if foreign patent law ever purported to regulate infringing activities in the United States, the Supremacy Clause would prevent federal courts from giving that law any effect. U.S. CONST. art. VI (Supremacy Clause) (“This Constitution, and the Laws of the United States which shall be made in Pursuance thereof; and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the Land”).

Thus, regardless of the substantive content of individual foreign patent regimes, foreign patent infringement claims will not share a common nucleus of operative fact with federal patent infringement claims under 35 U.S.C. § 271(a).

III. Federal patent claims cannot support supplemental jurisdiction over foreign patent claims because plaintiffs ordinarily would not expect to try all such claims in one judicial proceeding.

Even if a federal patent infringement claim could ever share a common

nucleus of operative fact with a foreign patent infringement claim, a federal court would still lack supplemental jurisdiction over the foreign claim unless the two claims were “ ‘such that [a plaintiff] would ordinarily be expected to try them all in one judicial proceeding.’ ” *Carnegie-Mellon Univ.*, 484 U.S. at 349 (quoting *Gibbs*, 383 U.S. at 725) (alteration in original). But if history is any guide to ordinary expectations, this additional *Gibbs* requirement cannot be met in the context of foreign patent claims. Indeed, despite the fact that federal and foreign patents have existed for hundreds of years, hardly any cases even discuss the possibility of litigating them in one proceeding, let alone hold that a plaintiff is expected to do so.

Moreover, to create such a tradition in order to broaden federal jurisdiction would have negative repercussions on AIPLA’s membership because it would increase the universe of claims and counterclaims that federal parties must raise to avoid waiving them under principles of *res judicata*. See *Brown v. Felsen*, 442 U.S. 127, 131 (1979) (“*Res judicata* prevents litigation of all grounds for, or defenses to, recovery that were previously available to the parties, regardless of whether they were asserted or determined in the prior proceeding.”).¹¹

In other words, although parties in federal court may feel no obligation *today* to bring all of their worldwide patent claims and counterclaims in one federal case,

⁹ See also *Univ. of Colo. Found., Inc. v. Am. Cyanamid Co.*, 196 F.3d 1366, 1372 (Fed. Cir. 1999) (holding that federal patent law preempts any state law that purports to define rights based on inventorship).

¹⁰ *Gade* speaks of “the States” rather than “foreign countries,” but federal law necessarily prevails in either case. See U.S. CONST. art. VI (Supremacy Clause).

¹¹ This result would also obtain with respect to compulsory counterclaims. See 13 MOORE’S FEDERAL PRACTICE - CIVIL § 13.14 & n.2 (2005).

that would change if federal courts hold that plaintiffs are expected to do so and that such claims may form part of the same case if they bear factual similarities. Parties would then need to bring all such claims they have in the first federal proceeding or risk losing them under the principles noted above. *See, e.g., Equity Resources Mgmt., Inc. v. Vinson*, 723 So. 2d 634, 641 (Ala. 1998) (plaintiff's federal age discrimination suit was *res judicata* as to her related state law claims that could have been – but were not – brought under § 1367). This poses an extremely slippery slope that would have a negative impact on the members of AIPLA, among others.

For these reasons, this court should, at a minimum, hold that federal and foreign patent law claims do not form part of the same case or controversy because plaintiffs never have been expected to try them together in one proceeding.

IV. Other compelling reasons exist under § 1367(c)(4) to decline the exercise of supplemental jurisdiction over foreign patent law claims.

Under 28 U.S.C. § 1367(c)(4), a district court may decline to exercise jurisdiction over a supplemental claim if “in exceptional circumstances, there are other compelling reasons for declining jurisdiction.” *Id.* The statute does not expressly define what constitutes “other compelling reasons” for declining jurisdiction, but at the time of § 1367's enactment, the Supreme Court had interpreted *Gibbs* to require that federal courts “consider and weigh in each case, and at every stage of the litigation, the values of judicial economy, convenience, fairness, and comity in order to decide whether to exercise jurisdiction over a case

brought in that court involving pendent state-law claims.” *Carnegie-Mellon Univ.*, 484 U.S. at 350. Each of these values provides a compelling basis to decline jurisdiction over foreign patent law claims.

First, asserting jurisdiction over foreign patent law claims would needlessly complicate federal patent litigation and hinder rather than promote judicial economy. Federal patent litigation is a complicated procedure already, and the interests of the members of AIPLA would be adversely impacted by further complicating this procedure with claims of foreign patent infringement. For one, numerous differences exist between federal patent law and the patent laws of other countries. *See Mars*, 24 F.3d at 1375-76 (suggesting that dismissal of foreign patent law claims may be supported by difficulty of resolving complex foreign law issues). These include differing standards for patentability, differing rules for interpreting the scope of patent claims, as well as procedural differences in the enforcement and defense of patent infringement allegations.¹²

In addition, the Patent Cooperation Treaty (“PCT”)¹³ has made it increasingly convenient for inventors to file patent applications in numerous

¹² Indeed, even where patents arise from the same patent application, the patent laws of the various foreign countries differ. *See* Vincenzo di Cataldo, *From the European Patent to a Community Patent*, 8 COLUM. J. EUR. L. 19, 21-22 (2002) (discussing lack of uniformity of national courts in interpreting the European Patent Convention); Sasa Bavec, *Scope of Protection: Comparison of German and English Courts' Case Law*, 8 MARQ. INTELL. PROP. L. REV. 255 (2004).

¹³ June 19, 1970, art. 1, 28 U.S.T. 7645, 7649, 9 I.L.M. 978, 978.

countries. Yet if a district court decides to retain jurisdiction over *one* foreign patent infringement claim for a patent obtained through the PCT procedure, it is hard to see a principled way to draw any line regarding every other foreign patent claim the plaintiff may have. Some cases might involve only one or two foreign claims, but others could involve over one hundred. Indeed, 126 countries are now signatories to the PCT.¹⁴

Second, asserting jurisdiction over foreign patent law claims would be unfair to defendants because of the Act of State doctrine, which broadly precludes federal courts from determining “the validity of the acts of a foreign sovereign done within its borders.” See *Vanity Fair Mills v. T. Eaton Co.*, 234 F.2d 633, 646 (2d Cir. 1956) (citing *Underhill v. Hernandez*, 168 U.S. 250 (1897); *Am. Banana Co. v. United Fruit Co.*, 213 U.S. 347 (1909); *Ricaud v. Am. Metal Co.*, 246 U.S. 304 (1918)).¹⁵ Because foreign patents are grants of property rights by foreign sovereigns, their validity, at a minimum, cannot be questioned by federal courts. See *Stein Assocs., Inc. v. Heat & Control, Inc.*, 748 F.2d 653, 658 (Fed. Cir. 1984) (“Only a British court, applying British law, can determine validity . . . of British

¹⁴ See World Intellectual Property Organization, Treaties and Contracting Parties: PCT, available at http://www.wipo.int/treaties/en/ShowResults.jsp?lang=en&treaty_id=6 (last visited June 13, 2005).

¹⁵ One basis for this doctrine is international comity. *Oetjen v. Cent. Leather Co.*, 246 U.S. 297, 304 (1918) (“To permit the validity of the acts of one sovereign State to be reexamined and perhaps condemned by the courts of another would very certainly imperil the amicable relations between governments and vex the peace of nations.” (internal quotation marks omitted)).

patents.”).¹⁶ This is especially unfair to defendants where the relevant foreign law allows invalidity to be asserted as a defense in an infringement proceeding. In contrast, nothing is unfair about requiring foreign patent law claims to be litigated in their respective foreign countries.¹⁷

Third, although plaintiffs may be interested in litigating all of their patent claims in one forum, especially if that forum has perceived procedural advantages (such as the availability of liberal discovery and the right to a jury trial), and although some efficiencies may be gained by adjudicating disputes involving the same or similar technology in one forum, the overall convenience to the parties of this kind of consolidation would be more imaginary than real. Even if all of a plaintiff’s foreign patent law claims were allowed to proceed in one federal court, there ordinarily would still need to be substantial foreign proceedings on related issues (most notably issues of patent validity because of the Act of State doctrine discussed above). In addition, if a plaintiff wanted to execute upon a judgment in

¹⁶ In *Stein Associates*, this court also stated that only the relevant foreign court can determine infringement issues. See 748 F.2d at 658. This provides further reason for declining to exercise jurisdiction in a case like the present.

¹⁷ For one, given that there is no tradition of consolidated foreign and domestic patent infringement proceedings, plaintiffs who make the effort to obtain foreign patents do so without any reasonable expectation that they will be allowed to enforce them in a single worldwide proceeding. In addition, by affirmatively invoking the benefits and protections of foreign patent law for the purpose of obtaining property rights that by and large are territorially tied to a foreign country, plaintiffs have no basis to claim that it is unfair to have the courts of that foreign sovereign adjudicate disputes that arise under those rights.

another country, there would need to be foreign enforcement proceedings, which, depending on the country, could effectively result in the re-litigation of the entire dispute (at least as it pertains to that country's patent law). *See Packard Instrument Co. v. Beckman Instruments, Inc.*, 346 F. Supp. 408, 409-10 (N.D. Ill. 1972) (declining to exercise jurisdiction over foreign patent law claims in part because of concerns that resulting judgment would not be respected by foreign courts). Conversely, an adjudication by the courts of the relevant sovereign is the best guarantee of finality to the litigation.

Fourth, and perhaps most importantly, asserting jurisdiction over foreign patent law claims undermines basic principles of comity. Foreign patents are property rights granted by foreign sovereigns under foreign law, and their infringement largely concerns events occurring within that country's territorial jurisdiction. As a result, the adjudication of such claims is a matter peculiarly within both the interest and expertise of the issuing sovereign. *See id.* at 411 (declining to exercise jurisdiction over foreign patent law claims in part because foreign patent law embodied significant economic and social policies best addressed by jurists in the relevant foreign countries).

Finally, dismissal also is appropriate on the ground of *forum non conveniens*. District courts have inherent authority to dismiss claims on the grounds of *forum non conveniens* if an adequate alternative forum exists and a balancing of private and public factors weighs against an exercise of jurisdiction. *See Piper Aircraft*

Co. v. Reyno, 454 U.S. 235, 241 & n.6 (1981). In virtually any imaginable case, an alternative forum exists in which to litigate a plaintiff's foreign patent law claims. And a balancing of the public and private factors will favor dismissal of those foreign claims. *See Mars*, 24 F.3d at 1375-76 (suggesting that dismissal under *forum non conveniens* would be appropriate in case involving foreign patent law claims that raised comity concerns and complex issues of foreign law).

CONCLUSION

For the foregoing reasons, this court should hold that federal courts lack supplemental jurisdiction over foreign patent claims.

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CERTIFICATE OF COMPLIANCE

Pursuant to Federal Rule of Appellate Procedure 32(a)(7)(C), I certify that the foregoing **BRIEF FOR AMICUS CURIAE AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION IN SUPPORT OF CORDIS** is 5,092 words in length, in relevant part, and therefore complies with the 7,000 word limitation of Rules 29(d) and 32(a)(7)(b) of the Federal Rules of Appellate Procedure.

William C. Rooklidge

**UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT**

Jan K. Voda, M.D.,
Plaintiff-Appellee,

v.

Cordis Corp.,
Defendant-Appellant.

**Appeal from the United States District Court
for the Western District of Oklahoma in Case No. Civ-03-1512-L
Judge Tim Leonard**

**BRIEF FOR AMICUS CURIAE
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CERTIFICATE OF INTEREST

Counsel for *Amicus Curiae* American Intellectual Property Law Association certifies the following:

1. The full name of every party represented by the undersigned is:
American Intellectual Property Law Association
2. The real party in interest represented by the undersigned is:
American Intellectual Property Law Association
3. All parent companies and any publicly held companies that own 10 percent or more of the stock of the party represented by me are:
None
4. The names of all law firms and the partners or associates that appeared for the party now represented by the undersigned in the trial court or are expected to appear in this court are:

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STATEMENT OF INTEREST OF AMICUS CURIAE

The American Intellectual Property Law Association (AIPLA) is a national association of nearly 16,000 members interested in all areas of intellectual property law. AIPLA's members include attorneys employed in private practice and by corporations, universities, and government. AIPLA's members represent both owners and users of intellectual property.

AIPLA has no stake in any of the parties to this litigation or the result of this case other than its interest in seeking correct and consistent interpretation of the law as it relates to intellectual property issues.¹ This brief is filed with the consent of both parties.

¹ After reasonable investigation, AIPLA believes that (a) no member of its Board or *Amicus* Committee who voted to prepare this brief, or any attorney in the law firm or corporation of such a member, represents a party to this litigation, (b) no representative of any party to this litigation participated in the authorship of this brief, and (c) no one other than AIPLA, or its members who authored this brief and their law firms or employers, made a monetary contribution to the preparation or submission of this brief. Some committee members or attorneys in their respective law firms or corporations may represent entities that have an interest in other matters that may be affected by the outcome of this litigation.

INTRODUCTION

AIPLA urges this court to reverse the district court's exercise of supplemental jurisdiction over claims of foreign patent infringement. While AIPLA does not have an interest in the outcome of the present litigation, it is concerned about the potential implications of the court's decision in this case. For the reasons discussed herein, this court should hold that federal district courts lack supplemental jurisdiction over foreign patent law claims. This result is proper under the following principles: (1) statutory construction of the federal supplemental jurisdiction statute; (2) an inherent failure of foreign patent infringement claims to meet the "common nucleus of operative fact" standard; (3) the fact that no plaintiff ordinarily would expect to try foreign patent infringement claims in one judicial proceeding with federal patent infringement claims; and (4) other compelling reasons under 28 U.S.C. § 1367(c)(4) (1993), including international comity, judicial economy, fairness, and convenience.

ARGUMENT**I. As a matter of statutory construction, § 1367(a) does not confer jurisdiction over foreign patent law claims.**

This case presents the issue of whether jurisdiction exists over foreign patent law claims based on the federal supplemental jurisdiction statute, 28 U.S.C. § 1367(a) (1993). As a matter of statutory construction, such jurisdiction does not exist.

Section 1367(a) provides in relevant part that

in any civil action of which the district courts have original jurisdiction, the district courts shall have supplemental jurisdiction over all other claims that are so related to claims in the action within such original jurisdiction that they form part of the same case or controversy under Article III of the United States Constitution.

Id. In adopting this statute, Congress expressed an intent to codify the scope of “pendent jurisdiction” as defined by the Supreme Court in *United Mine Workers v. Gibbs*, 383 U.S. 715 (1966).² Under *Gibbs*, a federal law claim and a state law claim form part of the same Article III “case or controversy” if they “derive from a common nucleus of operative fact” and if they are “such that [a plaintiff] would ordinarily be expected to try them all in one judicial proceeding.” *Id.* at 725; see *Carnegie-Mellon Univ. v. Cohill*, 484 U.S. 343, 349 (1988). As a result, when Congress enacted the supplemental jurisdiction statute, it understood that a state law claim and federal law claim that satisfied these standards would form part of the “same case or controversy.”³

But neither *Gibbs* nor any subsequent Supreme Court decision has confronted a case in which one of two asserted claims arises under foreign patent law. This was the situation at issue in *Mars Inc. v. Kabushiki-Kaisha Nippon Conlux*, 24 F.3d 1368, 1374 (Fed. Cir. 1994), where this court held that federal

² See H.R. REP. NO. 734, 101st Cong., 2d Sess. (1990), reprinted in 1990 U.S.C.C.A.N. 6860, 6875 n.15.

³ See *Mars Inc. v. Kabushiki-Kaisha Nippon Conlux*, 24 F.3d 1368, 1374 (Fed. Cir. 1994).

supplemental jurisdiction was lacking because the foreign patent law claims at issue did not share a common nucleus of operative fact with the plaintiff’s other claims. *Mars* assumed that § 1367 might confer jurisdiction on foreign patent law claims that met the *Gibbs* standard but did not actually decide the issue. Because the scope of § 1367 must be resolved as a logical antecedent to any analysis of a plaintiff’s claims under *Gibbs*, this court should address that question first and hold that § 1367(a) does not confer federal jurisdiction over foreign patent law claims.

When Congress enacted the supplemental jurisdiction statute, no express statutory basis existed for a plaintiff to raise any type of foreign patent law claim in federal court. Specifically, no federal substantive cause of action for foreign patent infringement existed, and no federal jurisdictional statute expressly provided for jurisdiction over claims arising solely under foreign patent law. Thus, the determinative question is whether § 1367 somehow grants federal jurisdiction over such unusual and essentially unprecedented claims. As AIPLA will show, several compelling reasons mandate that the statute should not be read so broadly.

A. Federal courts are courts of limited jurisdiction.

Federal courts are courts of limited jurisdiction. *Owen Equip. & Erection Co. v. Kroger*, 437 U.S. 365, 374 (1978). Since Congress has never expressly created a cause of action covering foreign patent law claims and has never expressly granted federal courts jurisdiction over such claims, at least a presumption arises that any statutory grant of jurisdiction should be strictly

construed against such jurisdiction. *Cf. Healy v. Ratta*, 292 U.S. 263, 269-70 (1934) (strictly construing federal removal statute because, among other reasons, federal courts historically had limited jurisdiction over federal question and diversity cases); *see also id.* at 270 (strict construction requires federal courts to “scrupulously confine their own jurisdiction to the precise limits which the statute has defined”). This presumption should apply with greater force here than in other contexts because there has never been any expressed basis for federal courts to assert this type of jurisdiction.

B. Federal statutes are presumed to be limited to the geographical territory of the United States.

Interpreting the federal supplemental jurisdiction statute to confer jurisdiction over foreign patent law claims would give extraterritorial effect to the supplemental jurisdiction statute by allowing federal courts to adjudicate (and thus regulate) the legality of actions occurring solely in foreign countries. But unless Congress has clearly expressed an intention that a particular statute be given extraterritorial effect, a presumption exists that federal laws do not regulate foreign conduct. *See EEOC v. Arabian Am. Oil Co.*, 499 U.S. 244, 248 (1991) (“[L]egislation of Congress, unless a contrary intent appears, is meant to apply only within the territorial boundaries of the United States.” (quoting *Foley Bros., Inc. v. Filardo*, 336 U.S. 281, 285 (1949));⁴ *F. Hoffman-La Roche Ltd. v.*

⁴ *See also Small v. United States*, 125 S. Ct. 1752, 1758 (2005) (holding that phrase (cont’d)

Empagran S.A., 124 S. Ct. 2359, 2366 (2004) (“[T]his Court ordinarily construes ambiguous statutes to avoid unreasonable interference with the sovereign authority of other nations.”). As recently explained by the Supreme Court,

This rule of statutory construction cautions courts to assume that legislators take account of the legitimate sovereign interests of other nations when they write American laws. [The rule] thereby helps the potentially conflicting laws of different nations work together in harmony—a harmony particularly needed in today’s highly interdependent commercial world.

F. Hoffman-La Roche, 124 S. Ct. at 2366.

In addition to such comity concerns, another important justification for this presumption is separation of powers: the Constitution assigns principal policymaking and foreign affairs authority to the legislative and executive branches rather than the judicial branch.⁵ As a result, the Supreme Court has applied this presumption if a court’s jurisdiction would otherwise encroach on issues of foreign affairs. *See McCulloch v. Sociedad Nacional de Marineros de Honduras*, 372 U.S. 10, 21-22 (1963) (explaining that policy issues in the sphere of foreign affairs “should be directed to the Congress”).

(... cont’d)

“convicted in any court” in federal criminal law refers only to domestic courts, not foreign courts, based on presumption that Congress’s statutes do not have extraterritorial application).

⁵ *See, e.g.*, U.S. CONST. art. I, § 1; *id.* § 8 cl. 3, 10, 11; *id.* § 9 cl. 8; *id.* § 10, cl. 1, 3; *id.* art. II, § 2 cl. 2; *id.* § 3.

Although these separation-of-powers concerns may arise more often when interpreting *substantive* federal statutes, they also arise when interpreting federal statutes that are “bare” grants of jurisdiction. *See Sosa v. Alvarez-Machain*, 124 S. Ct. 2739, 2762-63 (2004). In *Sosa*, the Supreme Court had to interpret the jurisdictional reach of the Alien Tort Statute, which itself created no new causes of action. 28 U.S.C. § 1350 (1993); *Sosa*, 124 S. Ct. at 2755. The Court thus had to determine the universe of federal common law claims, based on international-law causes of action, that could be brought under that statute. The Court narrowly held that the statute only authorized federal courts to hear claims that met strict standards of “content and acceptance” under “historical paradigms familiar [to international law] when § 1350 was enacted.” *Sosa*, 124 S. Ct. at 2765. The Court reached this result based in part on two separation-of-powers concerns. First, “a decision to create a private right of action is one better left to legislative judgment in the great majority of cases.” *Id.* at 2762-63. Second, “the potential implications for the foreign relations of the United States of recognizing such causes should make courts particularly wary of impinging on the discretion of the Legislative and Executive Branches in managing foreign affairs.” *Id.* at 2763.

Both of these concerns are present with respect to the reach of the supplemental jurisdictional statute: Congress has never created an express cause of action to litigate foreign patent law claims in federal court and the adjudication of such claims in federal courts implicates foreign-affairs issues, such as the proper

construction of foreign patent rights.⁶ Consistently, this court should apply the presumption against extraterritorial reach of U.S. laws and construe the supplemental jurisdiction statute accordingly.

C. *Federal statutes should be construed to avoid difficult constitutional questions.*

Under principles of statutory construction, federal statutes are interpreted to avoid difficult constitutional questions whenever doing so is “fairly possible.” *See Lorillard, Div. of Loew's Theatres, Inc. v. Pons*, 434 U.S. 575, 577 (1978) (“[I]t is a cardinal principle that this Court will first ascertain whether a construction of the statute is fairly possible by which the [constitutional] question may be avoided.” (internal quotation marks omitted, second alteration in original)).

As mentioned above, the Supreme Court in *Gibbs* defined the standard for determining if a state law claim against one party is part of the same Article III case or controversy as a federal claim against that same party. But the Court has not decided if the *Gibbs* standard also applies in other situations. Instead, when faced with that constitutional question, the Court has avoided the issue when it could decide a case on other grounds. For example, the Court has twice avoided the issue in cases where a party’s supplemental claim involved the addition of a

⁶ Nor is there an interpretive need to infer a federal common law cause of action over foreign patent law claims because, unlike the case in *Sosa*, the federal supplemental jurisdiction statute would not be a “nullity” if it did not reach that particular class of claims. *See Sosa*, 124 S. Ct. at 2759-61.

new party. See *Moor v. County of Alameda*, 411 U.S. 693, 715 (1973) (“Whether there exists judicial power to hear the state law claims against the [new party] is, in short, a subtle and complex question with far-reaching implications.”); *id.* at 717 (resolving case on non-constitutional grounds); *Finley v. United States*, 490 U.S. 545, 549 (1989) (“We may assume, without deciding, that the constitutional criterion for pendent-party jurisdiction is analogous to the constitutional criterion [under *Gibbs*] for pendent-claim jurisdiction . . .”).

Likewise, before extending supplemental jurisdiction to foreign patent law claims, this court would first have to decide analogous constitutional questions, including whether the judicial power extends to such claims and if so, whether the *Gibbs* standard remains the correct one for defining the scope of the constitutional “case or controversy.” Those constitutional issues may be avoided, however, by construing § 1367 such that it does not extend federal jurisdiction to foreign patent law claims in the first place, as next explained.

* * *

Given the above principles of statutory construction, AIPLA urges this court to read the supplemental jurisdiction statute as narrowly as is “fairly possible.” One way to do that is to read § 1367(a)’s reference to “other claims” as limited to those types of substantive law claims that federal courts were authorized to hear when § 1367(a) was enacted, such as state and federal law claims. In other words, “other claims” should not be read to include completely new types of claims that

lack any history of federal court adjudication, such as foreign patent law claims. Cf. *Raygor v. Regents of Univ. of Minn.*, 534 U.S. 533, 546 (2002) (narrowly construing § 1367(d)’s statutory reference to “all . . . claims” to exclude a particular class of claims that, among other things, raised constitutional issues); *ITSI T.V. Prods., Inc. v. Cal. Auth. of Racing Fairs*, 785 F. Supp. 854, 866 (E.D. Cal. 1992) (dismissing foreign copyright claim based in part on lack of any “clear authority for exercising such jurisdiction”), *aff’d in part, rev’d in part on other grounds*, 3 F.3d 1289 (9th Cir. 1993).

Such a limiting construction should be adopted because it avoids difficult constitutional issues and remains consistent with the principle of limited federal jurisdiction and the presumption of non-extraterritorial effect. In addition, this limiting construction helps make sense of other statutory language. Specifically, § 1367(c) gives district courts express power to decline jurisdiction over supplemental claims in certain cases, as when a claim “raises a novel or complex issue of State law.” 28 U.S.C. § 1367(c)(1). In contrast, however, the statute provides no express authority to decline jurisdiction over similarly complex foreign claims (such as foreign patent law claims).⁷ But if anything, foreign patent law claims would be expected to raise difficult legal issues at least as often as state

⁷ The statute defines “State” so as to exclude foreign states by negative implication. See 28 U.S.C. § 1367(e) (“As used in this section, the term ‘State’ includes the District of Columbia, the Commonwealth of Puerto Rico, and any territory or possession of the United States.”).

law claims, if not more often. In addition, there is no reason to think that Congress intended to confer jurisdiction over such a complex, unprecedented, and potentially enormous class of claims as foreign patent law claims while withholding the same basis for declining jurisdiction that Congress provided for complex state law claims. Thus, § 1367(c)(1) provides contextual evidence that Congress simply never intended to confer jurisdiction over foreign patent law claims in the first place. See *Davis v. Mich. Dep't of Treasury*, 489 U.S. 803, 809 (1989) (“It is a fundamental canon of statutory construction that the words of a statute must be read in their context and with a view to their place in the overall statutory scheme.”).

For these reasons, this court should hold that § 1367(a) does not extend supplemental jurisdiction to claims arising solely under the patent laws of foreign countries.

II. Foreign patent infringement claims do not share a common nucleus of operative fact with federal patent infringement claims under § 271(a).

Even if one assumed that district courts could exercise supplemental jurisdiction over foreign patent law claims that met the “common nucleus of operative fact” standard under *Gibbs*, that jurisdiction would not exist where the district court’s original jurisdiction is based on patent infringement under 35 U.S.C. § 271(a) (2001). This is because the kinds of claims at issue in those circumstances inherently lack a common nucleus of operative fact.

Specifically, § 271(a) creates infringement liability only when an entity

“makes, uses, offers to sell, or sells” a patented invention *in* the United States or if it imports it *into* the United States. *Id.* Thus, to prove a claim of patent infringement under § 271(a), a plaintiff must prove specific domestic activity with respect to each alleged act of infringement. In other words, § 271(a) does not apply to purely extraterritorial conduct. See *Rotec Indus., Inc. v. Mitsubishi Corp.*, 215 F.3d 1246, 1251 (Fed. Cir. 2000) (“[The defendant’s] extraterritorial activities . . . are irrelevant to the [§ 271(a) claim] before us[] because ‘[t]he right conferred by a patent under our law is confined to the United States and its territories, and infringement of this right cannot be predicated on acts wholly done in a foreign country.’” (quoting *Dowagiac Mfg. Co. v. Minn. Moline Plow Co.*, 235 U.S. 641, 650 (1915))).⁸

As a result, a federal patent infringement claim under § 271(a) will never share a common nucleus of operative fact with a foreign patent law claim. This is true for at least two reasons:

First, if a plaintiff’s foreign patent infringement claim is territorially limited, then it will not overlap with the plaintiff’s federal patent infringement claims under

⁸ See also *Fuji Photo Film Co. v. Jazz Photo Corp.*, 394 F.3d 1368, 1376 (Fed. Cir. 2005) (holding that a patentee’s foreign product sales cannot occur “under” a United States patent because “the United States patent system does not provide for extraterritorial effect” (citing *Int’l Rectifier Corp. v. Samsung Elecs. Co.*, 361 F.3d 1355, 1360 (Fed. Cir. 2004) (“Further, it is well known that United States patent laws ‘do not, and were not intended to, operate beyond the limits of the United States,’” (quoting *Brown v. Duchesne*, 60 U.S. 183, 195 (1856)))).

§ 271(a) because the underlying foreign and domestic acts of infringement will have occurred in different countries. While a defendant's foreign and domestic acts of infringement may be qualitatively similar, they cannot be said to have a *common nucleus of operative fact* if they do not actually overlap. *See Lyon v. Whisman*, 45 F.3d 758, 761 (3d Cir. 1995) (*Gibbs* satisfied where federal and state claims are alternative theories of recovery based on same underlying acts); *Frye v. Pioneer Logging Mach., Inc.*, 555 F. Supp. 730, 732 (D.S.C. 1983) (*Gibbs* satisfied where defendant's conduct causes single injury actionable under federal and state law); *Gudenkauf v. Stauffer Communications, Inc.*, 896 F. Supp. 1082, 1084 (D. Kan. 1995) (*Gibbs* satisfied where defendant's wrongful termination of plaintiff was element of offense under federal and state law). Consequently, when foreign patent law is territorially limited, a plaintiff's foreign claim will not be part of the same case or controversy (under the *Gibbs* standard) as his federal claim. *See* Alan G. Kirios, *Territoriality and International Copyright Infringement Actions*, 22 COPYRIGHT LAW SYMPOSIUM (ASCAP) 69, 76 (Columbia Univ. Press 1977) (explaining that a common nucleus of operative fact is inherently lacking between foreign and federal patent infringement claims when underlying acts of infringement are territorially non-overlapping).

Second, where foreign patent law is not territorially limited – in other words, where it purports to regulate domestic conduct – it is preempted because Congress has occupied the field of patent law. *See Cover v. Hydramatic Packing Co.*, 83

F.3d 1390, 1393 (Fed. Cir. 1996) (“With respect to field pre-emption, Title 35 occupies the field of patent law . . .”);⁹ *Gade v. Nat'l Solid Wastes Mgmt. Ass'n*, 505 U.S. 88, 98 (1992) (“field preemption” means that “the scheme of federal regulation is so pervasive as to make reasonable the inference that Congress left no room for the States to supplement it” (internal quotation marks omitted)).¹⁰

Consequently, if foreign patent law ever purported to regulate infringing activities in the United States, the Supremacy Clause would prevent federal courts from giving that law any effect. U.S. CONST. art. VI (Supremacy Clause) (“This Constitution, and the Laws of the United States which shall be made in Pursuance thereof; and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the Land . . .”).

Thus, regardless of the substantive content of individual foreign patent regimes, foreign patent infringement claims will not share a common nucleus of operative fact with federal patent infringement claims under 35 U.S.C. § 271(a).

III. Federal patent claims cannot support supplemental jurisdiction over foreign patent claims because plaintiffs ordinarily would not expect to try all such claims in one judicial proceeding.

Even if a federal patent infringement claim could ever share a common

⁹ *See also Univ. of Colo. Found., Inc. v. Am. Cyanamid Co.*, 196 F.3d 1366, 1372 (Fed. Cir. 1999) (holding that federal patent law preempts any state law that purports to define rights based on inventorship).

¹⁰ *Gade* speaks of “the States” rather than “foreign countries,” but federal law necessarily prevails in either case. *See* U.S. CONST. art. VI (Supremacy Clause).

nucleus of operative fact with a foreign patent infringement claim, a federal court would still lack supplemental jurisdiction over the foreign claim unless the two claims were “ ‘such that [a plaintiff] would ordinarily be expected to try them all in one judicial proceeding.’ ” *Carnegie-Mellon Univ.*, 484 U.S. at 349 (quoting *Gibbs*, 383 U.S. at 725) (alteration in original). But if history is any guide to ordinary expectations, this additional *Gibbs* requirement cannot be met in the context of foreign patent claims. Indeed, despite the fact that federal and foreign patents have existed for hundreds of years, hardly any cases even discuss the possibility of litigating them in one proceeding, let alone hold that a plaintiff is expected to do so.

Moreover, to create such a tradition in order to broaden federal jurisdiction would have negative repercussions on AIPLA’s membership because it would increase the universe of claims and counterclaims that federal parties must raise to avoid waiving them under principles of *res judicata*. See *Brown v. Felsen*, 442 U.S. 127, 131 (1979) (“*Res judicata* prevents litigation of all grounds for, or defenses to, recovery that were previously available to the parties, regardless of whether they were asserted or determined in the prior proceeding.”).¹¹

In other words, although parties in federal court may feel no obligation *today* to bring all of their worldwide patent claims and counterclaims in one federal case,

¹¹This result would also obtain with respect to compulsory counterclaims. See 13 MOORE’S FEDERAL PRACTICE - CIVIL § 13.14 & n.2 (2005).

that would change if federal courts hold that plaintiffs are expected to do so and that such claims may form part of the same case if they bear factual similarities. Parties would then need to bring all such claims they have in the first federal proceeding or risk losing them under the principles noted above. See, e.g., *Equity Resources Mgmt., Inc. v. Vinson*, 723 So. 2d 634, 641 (Ala. 1998) (plaintiff’s federal age discrimination suit was *res judicata* as to her related state law claims that could have been – but were not – brought under § 1367). This poses an extremely slippery slope that would have a negative impact on the members of AIPLA, among others.

For these reasons, this court should, at a minimum, hold that federal and foreign patent law claims do not form part of the same case or controversy because plaintiffs never have been expected to try them together in one proceeding.

IV. Other compelling reasons exist under § 1367(c)(4) to decline the exercise of supplemental jurisdiction over foreign patent law claims.

Under 28 U.S.C. § 1367(c)(4), a district court may decline to exercise jurisdiction over a supplemental claim if “in exceptional circumstances, there are other compelling reasons for declining jurisdiction.” *Id.* The statute does not expressly define what constitutes “other compelling reasons” for declining jurisdiction, but at the time of § 1367’s enactment, the Supreme Court had interpreted *Gibbs* to require that federal courts “consider and weigh in each case, and at every stage of the litigation, the values of judicial economy, convenience, fairness, and comity in order to decide whether to exercise jurisdiction over a case

brought in that court involving pendent state-law claims.” *Carnegie-Mellon Univ.*, 484 U.S. at 350. Each of these values provides a compelling basis to decline jurisdiction over foreign patent law claims.

First, asserting jurisdiction over foreign patent law claims would needlessly complicate federal patent litigation and hinder rather than promote judicial economy. Federal patent litigation is a complicated procedure already, and the interests of the members of AIPLA would be adversely impacted by further complicating this procedure with claims of foreign patent infringement. For one, numerous differences exist between federal patent law and the patent laws of other countries. *See Mars*, 24 F.3d at 1375-76 (suggesting that dismissal of foreign patent law claims may be supported by difficulty of resolving complex foreign law issues). These include differing standards for patentability, differing rules for interpreting the scope of patent claims, as well as procedural differences in the enforcement and defense of patent infringement allegations.¹²

In addition, the Patent Cooperation Treaty (“PCT”)¹³ has made it increasingly convenient for inventors to file patent applications in numerous

¹² Indeed, even where patents arise from the same patent application, the patent laws of the various foreign countries differ. *See* Vincenzo di Cataldo, *From the European Patent to a Community Patent*, 8 COLUM. J. EUR. L. 19, 21-22 (2002) (discussing lack of uniformity of national courts in interpreting the European Patent Convention); Sasa Bavec, *Scope of Protection: Comparison of German and English Courts’ Case Law*, 8 MARQ. INTELL. PROP. L. REV. 255 (2004).

¹³ June 19, 1970, art. 1, 28 U.S.T. 7645, 7649, 9 I.L.M. 978, 978.

countries. Yet if a district court decides to retain jurisdiction over *one* foreign patent infringement claim for a patent obtained through the PCT procedure, it is hard to see a principled way to draw any line regarding every other foreign patent claim the plaintiff may have. Some cases might involve only one or two foreign claims, but others could involve over one hundred. Indeed, 126 countries are now signatories to the PCT.¹⁴

Second, asserting jurisdiction over foreign patent law claims would be unfair to defendants because of the Act of State doctrine, which broadly precludes federal courts from determining “the validity of the acts of a foreign sovereign done within its borders.” *See Vanity Fair Mills v. T. Eaton Co.*, 234 F.2d 633, 646 (2d Cir. 1956) (citing *Underhill v. Hernandez*, 168 U.S. 250 (1897); *Am. Banana Co. v. United Fruit Co.*, 213 U.S. 347 (1909); *Ricaud v. Am. Metal Co.*, 246 U.S. 304 (1918)).¹⁵ Because foreign patents are grants of property rights by foreign sovereigns, their validity, at a minimum, cannot be questioned by federal courts. *See Stein Assocs., Inc. v. Heat & Control, Inc.*, 748 F.2d 653, 658 (Fed. Cir. 1984) (“Only a British court, applying British law, can determine validity . . . of British

¹⁴ *See* World Intellectual Property Organization, *Treaties and Contracting Parties: PCT*, available at http://www.wipo.int/treaties/en/ShowResults.jsp?lang=en& treaty_id=6 (last visited June 13, 2005).

¹⁵ One basis for this doctrine is international comity. *Oetjen v. Cent. Leather Co.*, 246 U.S. 297, 304 (1918) (“To permit the validity of the acts of one sovereign State to be reexamined and perhaps condemned by the courts of another would very certainly imperil the amicable relations between governments and vex the peace of nations.” (internal quotation marks omitted)).

patents.”).¹⁶ This is especially unfair to defendants where the relevant foreign law allows invalidity to be asserted as a defense in an infringement proceeding. In contrast, nothing is unfair about requiring foreign patent law claims to be litigated in their respective foreign countries.¹⁷

Third, although plaintiffs may be interested in litigating all of their patent claims in one forum, especially if that forum has perceived procedural advantages (such as the availability of liberal discovery and the right to a jury trial), and although some efficiencies may be gained by adjudicating disputes involving the same or similar technology in one forum, the overall convenience to the parties of this kind of consolidation would be more imaginary than real. Even if all of a plaintiff's foreign patent law claims were allowed to proceed in one federal court, there ordinarily would still need to be substantial foreign proceedings on related issues (most notably issues of patent validity because of the Act of State doctrine discussed above). In addition, if a plaintiff wanted to execute upon a judgment in

¹⁶ In *Stein Associates*, this court also stated that only the relevant foreign court can determine infringement issues. See 748 F.2d at 658. This provides further reason for declining to exercise jurisdiction in a case like the present.

¹⁷ For one, given that there is no tradition of consolidated foreign and domestic patent infringement proceedings, plaintiffs who make the effort to obtain foreign patents do so without any reasonable expectation that they will be allowed to enforce them in a single worldwide proceeding. In addition, by affirmatively invoking the benefits and protections of foreign patent law for the purpose of obtaining property rights that by and large are territorially tied to a foreign country, plaintiffs have no basis to claim that it is unfair to have the courts of that foreign sovereign adjudicate disputes that arise under those rights.

another country, there would need to be foreign enforcement proceedings, which, depending on the country, could effectively result in the re-litigation of the entire dispute (at least as it pertains to that country's patent law). See *Packard Instrument Co. v. Beckman Instruments, Inc.*, 346 F. Supp. 408, 409-10 (N.D. Ill. 1972) (declining to exercise jurisdiction over foreign patent law claims in part because of concerns that resulting judgment would not be respected by foreign courts). Conversely, an adjudication by the courts of the relevant sovereign is the best guarantee of finality to the litigation.

Fourth, and perhaps most importantly, asserting jurisdiction over foreign patent law claims undermines basic principles of comity. Foreign patents are property rights granted by foreign sovereigns under foreign law, and their infringement largely concerns events occurring within that country's territorial jurisdiction. As a result, the adjudication of such claims is a matter peculiarly within both the interest and expertise of the issuing sovereign. See *id.* at 411 (declining to exercise jurisdiction over foreign patent law claims in part because foreign patent law embodied significant economic and social policies best addressed by jurists in the relevant foreign countries).

Finally, dismissal also is appropriate on the ground of *forum non conveniens*. District courts have inherent authority to dismiss claims on the grounds of *forum non conveniens* if an adequate alternative forum exists and a balancing of private and public factors weighs against an exercise of jurisdiction. See *Piper Aircraft*

Co. v. Reyno, 454 U.S. 235, 241 & n.6 (1981). In virtually any imaginable case, an alternative forum exists in which to litigate a plaintiff's foreign patent law claims. And a balancing of the public and private factors will favor dismissal of those foreign claims. *See Mars*, 24 F.3d at 1375-76 (suggesting that dismissal under *forum non conveniens* would be appropriate in case involving foreign patent law claims that raised comity concerns and complex issues of foreign law).

CONCLUSION

For the foregoing reasons, this court should hold that federal courts lack supplemental jurisdiction over foreign patent claims.

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CERTIFICATE OF COMPLIANCE

Pursuant to Federal Rule of Appellate Procedure 32(a)(7)(C), I certify that the foregoing **BRIEF FOR AMICUS CURIAE AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION IN SUPPORT OF CORDIS** is 5,092 words in length, in relevant part, and therefore complies with the 7,000 word limitation of Rules 29(d) and 32(a)(7)(b) of the Federal Rules of Appellate Procedure.

William C. Rooklidge

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**"PATENTS PENDING CHANGES--RECENT
DEVELOPMENTS IN PATENT
LITIGATION"**

**SOME "RECENT" CASES RELATING TO
THE "BOOK OF WISDOM"**

1. *Sinclair Refining Co. v. Jenkins Petroleum Process Co.*, 289 U.S. 689 (1933)
2. *Fromson v. Western Litho Plate*, 853 F.2d 1568 (Fed. Cir. 1988)
3. *Interactive Pictures v. Infinite Pictures*, 274 F.3d 1371 (Fed. Cir. 2001)
4. *Riles v. Shell Exploration & Production Co.*, 298 F.3d 1302 (Fed. Cir. 2002)
5. *Integra Lifesciences I v. Merck KGaA*, 331 F.3d 860 (Fed. Cir. 2003), 2004 U.S. Dist. LEXIS 20725 (SD Cal.)
6. *Honeywell International, Inc. et al. v. Hamilton Sundstrand Corp.*, 378 F.Supp. 2d 459 (D. Del. 2005)