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MARKUP OF APPROVAL OF ASSIGNMENT TO
SUBCOMMITTEE VACANCIES; AND H.R. 1908,
THE "PATENT REFORM ACT OF 2007"
Wednesday, July 18, 2007
House of Representatives,
Committee on the Judiciary,
Washington, D.C.

The committee met, pursuant to call, at 10:27 a.m., in Room 2141, Rayburn House Office Building, Hon. John Conyers [chairman of the committee] presiding.

Present: Representatives Conyers, Berman, Boucher, Nadler, Scott, Watt, Lofgren, Jackson Lee, Waters, Delahunt,

Wexler, Cohen, Johnson, Gutierrez, Sherman, Weiner, Schiff, Davis, Wasserman Schultz, Ellison, Sutton, Baldwin, Smith, Sensenbrenner, Coble, Gallegly, Chabot, Lungren, Cannon, Keller, Issa, Pence, Forbes, Fenney, Franks, Gohmert, and Jordan.

Staff present: Perry Apelbaum, Chief Counsel and Staff Director; Joseph Gibson, Minority Chief Counsel; and Anita Johnson, Clerk.

Chairman Conyers. [Presiding.] Good morning. The committee will come to order. Welcome, all.

Without objection, the chair is authorized to declare a recess.

Pursuant to notice, we have two items on our agenda.

The first is that we are all gathered here today to welcome Betty Sutton, the gentlelady from Ohio, who is now joining the Committee on the Judiciary. She is a lawyer, a labor lawyer, like some of the others of you here in the committee.

She has had public service beginning even while she was in law school as a city councilwoman, and then she served in the county, private practice, and she serves on the Rules Committee now in the House since she has come to Congress, and also on the Budget Committee, which she recently has given up to join the Judiciary Committee.

Ms. Sutton, we welcome you to the committee. We look forward to working with you and you working with us. And so your assignments will be the Subcommittee on Courts and the Subcommittee on Crime.

Now the other small item that brings us here is H.R. 1908, the Patent Reform Act. And I now call up our bill, 1908, for purposes of markup, and request the clerk to report the bill.

The Clerk. "H.R. 1908, a bill to amend Title 35 United

States Code to provide for patent reform—"

[The bill follows:]

********** INSERT **********

Chairman Conyers. Without objection, the bill will be considered as read, open for amendment at any point, and I will begin with a comment.

A fundamental principle of the great intellectual property system that distinguishes our country from all the other countries on the planet, and particularly with respect to patents, is to provide businesses meaningful incentives to innovate and develop new products.

And the importance of this system was recognized right from the beginning by the founders of our nation. The Constitution directs Congress to promote the progress of science and the useful arts by securing for a limited time to inventors the exclusive right to their discoveries.

A lot has gone into the creation of institutions and court decisions that have given life and meaning and direction and shape to those constitutional words.

But recently, we have heard from many in the patent community, businesses and academia included, that systems must be revised in light of certain developments that may be undermining the value of patents.

Well, what are the concerns? Inefficiencies in the examination of patent applications. The application of inappropriate rules in patent litigation. The lack of predictable and reliable levels of funding for the U.S. Patent and Trade Office operations. And the office issuance

of patents of a "questionable quality."

The resultant uncertainties force many companies to cancel the release of new products and services, sometimes to delay them, and to divert funding away from research and development.

And of course, this in turn compromises the competitiveness of our nation's businesses.

The efforts to address these concerns began several years ago and were led under the leadership of the subcommittee chairman at that time, the gentleman from Texas, Lamar Smith.

And so I commend you, Lamar, this morning for those excellent efforts that brought us to where we are now.

We meet today to take the next in a series of important steps toward reforming our nation's patent system. And needless to say, our journey has been rugged. There have been differing points of view.

And we meet here today with the realization that we haven't finished the discussions, the meetings, that have gone on almost endlessly in some people's minds, because compromises are necessary.

Our patent system affects our whole economy, large and small. The slightest change to a single provision of law, alteration of a phrase, sometimes punctuation, can have unintended consequences and therefore can result in a

devastating effect on a company or a business or an industry.

And so as we progress, we have been sensitive to this on this subcommittee that worked on this primarily, but there were plenty of members on the committee that joined us anyway under the leadership of Howard Berman.

We have also sought to be inclusive, and so there have been hearings, multiple hearings, briefings, at the staff level and among my colleagues, as well as interested members in the body who have helped particularly craft the manager's amendment, which will be forthcoming shortly.

So while the bill before us reflects much progress in an effort to produce something that will be fair—fairness is the key to what we are trying to do here today, and to satisfy to the maximum extent possible the widest spectrum of interests, as well as the consumers.

And so the upcoming manager's amendment helps address the two serious concerns that we started out working with when we began this endeavor, a second window provision that could allow frivolous challenges to valid patents and a damage apportionment provision that could undervalue patents.

So the compromise language reflects a carefully balanced effort to provide post-grant review opportunities that will allow patents of less quality to be challenged while reducing the opportunity for harassing action against patent owners.

The amendment also begins to address concerns that the

damages language did not allow the inventor to fully benefit from the innovation of his patent.

And so I thank my colleagues, my Republican colleagues, my Democratic colleagues, for their continuing efforts to help us revitalize a system so necessary to the industry and economy of this nation.

And I continue to be open for further ideas to perfect the product that we humbly bring forward to you today.

Now, my pleasure to recognize Lamar Smith, ranking minority member, for his comments.

Mr. Smith. Thank you, Mr. Chairman. Mr. Chairman, first of all, thank you for your personal comments just a couple of minutes ago. They are much appreciated.

Last year, we laid a substantial foundation for patent reform, and it was a good start. I am pleased that we are following up on our previous initiative. This year, we need to push to the goal line and actually enact patent reform.

Chairman Conyers, Chairman Berman, Ranking Subcommittee Member Coble and I agree this legislation will continue to be tweaked and refined. Additional modifications will be made as needed and where appropriate.

For example, like other committee members, I believe we must fine-tune the apportionment of damages provision.

But for today, we need to unite behind the changes in the manager's substitute, a limited number of freestanding

amendments that have been worked out, and the bill itself on final passage.

This will send a strong bipartisan signal that we are serious about completing the job we began last year.

This is the most significant update to patent law within the past decade. Arguably, it represents the biggest change since the 1952 act was written.

The subcommittee has undertaken such an initiative because the changes are necessary to bolster the U.S. economy and improve the quality of living for all Americans.

The bill will eliminate legal gamesmanship in the current system that rewards lawsuit abuses over creativity. It will enhance the quality of patents and increase public confidence in their integrity.

This will help individuals and companies obtain money for research, commercialize their inventions, expand their businesses, create new jobs and offer the American public a dazzling array of products and services that continue to make our country the envy of the world.

All businesses, small and large, can benefit. All industries directly or indirectly affected by patents, including finance, high tech and pharmaceuticals, can also profit.

It is significant that the Judiciary Committee's jurisdiction over this subject, as the chairman mentioned a

minute ago, is defined in Article 1, Section 8 of the Constitution.

This passage empowers Congress "to promote the progress of science and the useful arts by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries."

The foresight of the founders in creating an intellectual property system demonstrates their understanding of how patent rights ultimately benefit the American people.

Nor was the value of patents lost on one of our greatest presidents, Abraham Lincoln, himself a patent owner. Lincoln described the patent system as adding "the fuel of interest to the fire of genius."

Mr. Chairman, H.R. 1908 represents a momentous improvement to our patent system. I urge the committee to report the bill favorably to the House, and I will yield back the balance of my time.

Chairman Conyers. Thank you very much. I thank the gentleman.

Without objection, other member statements will be included in the record.

Are there any amendments?

The chair recognizes the gentleman from California, chairman of the Subcommittee on Courts.

Mr. Berman. Thank you, Mr. Chairman, and I have an

amendment in the nature of a substitute at the desk.

Chairman Conyers. The clerk will report the amendment.

The Clerk. "Amendment in the nature of a substitute to H.R. 1909 offered by Mr. Berman of California, Mr. Smith of Texas, Mr. Conyers of Michigan and Mr. Coble of North Carolina. Strike all after the enacting—"

[The amendment by Mr. Berman, Mr. Smith, Chairman Conyers, and Mr. Coble follows:]

********** INSERT **********

Chairman Conyers. Without objection, the amendment is considered as read.

And the gentleman is recognized in support of his amendment.

Mr. Berman. Well, thank you, Mr. Chairman.

This is, as you mentioned in your opening statement, a controversial and complex bill. It makes substantial changes to the patent system, perhaps, as was noted by my colleague Mr. Smith, the most significant since the 1952 Patent Act.

Naturally, the magnitude of changes contemplated by this act have given pause to most users of the patent system, as it should. But fear of change is no reason not to fix what obviously are serious problems in the patent system.

A litany of economists, attorneys, businesses, government agencies and, of course, on a number of occasions, particularly in recent years, the Supreme Court have all identified the problem of poor quality patents and abusive litigation practices which impact the health of our patent system.

Over the past 5 years, the subcommittee has provided much process and held numerous hearings on the varying provisions in the patent legislation.

The sum of these efforts has led me to the conclusion we must act soon to restore balance in the patent system and maintain the incentive to innovate.

Today's substitute amendment responds to concerns raised by members and many interested parties representing most major sectors, including the university community and independent inventors.

This manager's amendment constitutes the beginning of what I hope will be the ultimate compromise that tries to balance the many divergent interests.

This package contains significant changes to almost every single issue originally addressed in H.R. 1908. While it does achieve a middle ground on many provisions, this is still an ongoing process. Not every issue is resolved.

But it is my intention to continue to work through the remaining issues between full committee and the floor and hopefully from the floor to and through the conference committee.

If this bill made every single person completely happy, I am quite sure it would not be effective. Our objective, though, must remain to reform the patent system so that patents continue to encourage innovation.

Before I describe the amendment, I would like to thank some particular individuals, first and most specially Chairman Conyers.

He is really quite an amazing guy, as we all know, a chairman with strong convictions and principles who, at the same time, particularly in this effort with me, has

encouraged me to look for opportunities for conciliation, for mediation, for finding ways to lower the level of friction and tension.

And I thank him very much for the role he has played in helping us get to this point.

The ranking member of the committee, Mr. Smith, who has provided a huge amount of support as chairman of the subcommittee when he led this effort and as a true ally on the effort to produce both the bill and the manager's amendment.

The ranking member of the subcommittee, Mr. Coble, who endured one patent battle almost 10 years ago, and notwithstanding that has the courage and the willingness to face another one.

And I want to also thank my colleague to my right here, Mr. Boucher. He has been my partner on patent reform issues for over 5 years.

And finally, a special word to Mr. Issa. There was a patent expert in Congress once named Bob Kastenmeier, a very learned chairman who knew a tremendous amount about this issue.

While no two people are probably more different in personality than Bob Kastenmeier and Darrell Issa, Darrell Issa is truly the patent expert of this Congress, and he made many constructive suggestions, and emphasis on many, to

improve the bill. And those suggestions have been incorporated into this amendment.

I want to particularly thank the staff to the subcommittee: our staff director, Shawnna Winters; Professor Karl Manheim, who took a sabbatical to spend it with us, which raises questions of judgment; Eric Garduno—both counsels on the subcommittee; George Elliott, the GPO detailee; the staff assistant to the minority, Blaine Merritt; and, of course, Perry Applebaum and Greg Barnes from the full committee.

Now, a quick summary of the changes. And I ask unanimous consent if I can have 2 or 3 additional minutes just to try and go through the major changes here.

Chairman Conyers. Sure.

Mr. Berman. On first to file in Section 3, we have made several changes, one at the behest of the universities in terms of clarifying the grace period.

Perhaps more significantly, the administration expressed concern that if we immediately moved to a first inventor to file system, it would undercut their efforts to negotiate for an effective grace period with major intellectual property partners, Europe and Japan in particular.

We have put a trigger in so that we put in first inventor to file, but before it actually gets implemented, the administration can exhaust its chances to negotiate this

internationally recognized kind of grace period and then can determine they are ready to go, and the first inventor to file goes into effect.

The chairman mentioned the issue of damages. It is probably the most complex issue in the bill, and in the amendment is damages language—the most complex issue in the bill and in the amendment is the damages language in Section 5.

A number of groups have expressed anxiety about language concerning apportionment of damages.

It has been suggested that there is ambiguity about whether apportionment is required in a lost profits analysis, prior art subtraction prevents a proper valuation for a combination patent, like the Post-it note, and whether the entire market value language includes convoyed sales.

We have developed in the manager's amendment, based on discussions with a number of different parties, amendments that clarify those ambiguities. Apportionment is not required in a lost profits case where the patent holder and the infringer are normally competitors and the test of damages is lost profits.

We protect what we call the magic of the combination. You take the Post-It note. We heard a lot about that at our hearing. You have the paper—that is pretty well-established prior art—and you have the adhesive, also pretty well-

established prior art.

Put together in a special way, you have the patented Post-It note. The value of that note far exceeds the value of the prior art in that particular situation. We make special reference to the court looking at that combination and judging the value of the product.

And the use of the entire market rule will allow for convoyed sales. The patents on the printer—you also sell the cartridges. The printer is sometimes sold at a loss so people will buy the cartridges.

You should be looking at both products and determining the value of the damages. Otherwise the loss leader will produce no damages even if it is infringed.

In the post grant, the other major issue, we have elected to eliminate the second window and instead replace it with an improved interparties reexam. It was the inadequacy of that reexamination that caused us to move to the second window.

The provisions in the manager's amendment constitute a negotiated compromise reached, I am persuaded, through the consensus of many key parties, some of whom even acknowledge that consensus.

[Laughter.]

And it provides for an effective validity challenge within the confines of a much more limited procedure.

If the issue comes up, I will mention a number of groups who have concerns about the bill generally and about the second window who have indicated through letters to me, letters from the university community, AAU, from a number of different companies and associations that they think this is a reasonable compromise, and while they may have other issues that they want to continue to work on with other parts of the bill, that the compromise there they think resolves their problems.

We have some venue changes. We are making modifications in the automatic interlocutory appeal and giving the district courts discretion.

Many were concerned about the broad regulatory authority we gave the patent office, feeling they would end up making substantive law changes without regulatory authority.

While I do not share that concern, we understood the fear and we have curtailed that authority to clarify the specific limited circumstances in which the PTO has regulatory authority.

As a suggestion of my colleague, Mr. Cannon, who has been very involved in this legislation, we are including a study on an interesting concept of the use of special masters in patent cases, a way of cutting litigation time and cost and improving the quality not of the patents but of the district court decisions.

The study will develop empirical evidence on this subject, and they will come back to us.

Inequitable conduct—we have a number of changes that we are proposing in the manager's amendment in inequitable conduct. There will be other changes offered as individual amendments. I won't go through them all now.

But the major point I guess I would like to raise on inequitable conduct—the most frequent concern—there is a duty of candor for the patent applicant to reveal and be straightforward about everything.

There is a defense in current law that allows the alleged infringer to assert that the applicant engaged in inequitable conduct. It is a defense that is frequently, perhaps almost automatically, pled and hardly ever proven.

We require, number one, that you plead with particularity—no more just broad allegations of inequitable conduct; you have to be specific in the pleadings—and secondly, clarify and raise the standards and separate the materiality from the intent. I won't excite you with any more discussions of this issue.

[Laughter.]

So let's see here. Why don't I rest for a while?

I yield back, Mr. Chairman, and I urge support for the manager's amendment.

Chairman Conyers. I thank the gentleman very much.

Going back to his earlier first comment, would you say something laudatory about the previous chairman of the House Judiciary Committee?

Mr. Berman. At this moment, given that it is 10 minutes to 11:00, and I never thought we would be at this point, I particularly want to say something laudatory about the former chairman of the Judiciary Committee, a fine legislator and a wonderful guy, and I look forward to his support.

Mr. Smith. Will the gentleman yield?

I won't ask the gentleman's words be taken down.

[Laughter.]

Chairman Conyers. Now that you have given out all of those commendations, are there medals or plaques that will be subsequently distributed to at least some of the people that you named in your opening remarks?

Mr. Berman. Other than the sit-ins that will be in our office in the next few days—

Chairman Conyers. I thank the gentleman very much.

We turn now to the former chairman of the Subcommittee on Courts, the gentleman from North Carolina, Howard Coble.

Mr. Coble. Thank you, Mr. Chairman. I will move to strike the last word. I probably will not take the 5 minutes.

The distinguished gentleman from California has very thoroughly addressed the amendment in the nature of a

substitute, and I intend to support that, Mr. Chairman, but reserve the right to support amendments offered during today's markup if I feel it will strengthen our patent system.

I strongly support the concept of patent reform and am one of H.R. 1908's original sponsors.

Needless to say, Mr. Chairman, a number of very important stakeholders from my district and other areas of the country have expressed a number of concerns that may not be completely addressed by the amendment in the nature of a substitute but may be addressed subsequently either today or after we report the bill out.

Mr. Chairman, often times on this hill, when members don't want to become involved or don't want to be identified with a piece of legislation, their ready response is, "I don't have a dog in that fight."

I have nothing but dogs in this fight, Mr. Chairman. I have friends all over the board.

I have friends who supported and embraced very warmly the original bill. I have friends, by the same token, who conversely loathed the original bill. And the same sort of response will likely be felt with the amendment in the nature of a substitute.

As the distinguished gentleman from California, Mr. Berman, pointed out, he and I fought this battle along with

help on this committee, along with help from many I see in the hearing room now, almost a decade ago, in 1999 when the American Inventors Protection Act was implemented.

The arguments today time and again have come to me that H.R. 1908 undermines everything that was accomplished in that protection act, and it is my belief, Mr. Chairman, that these charges are, for the most part, inaccurate.

Among the changes that we created were the reexamination. We banned deceptive practice. We clarified patent term. We required publication. We made the patent office independent within the Department of Commerce. And H.R. 1908, in my opinion, builds upon all of those.

Everyone, Mr. Chairman, has a lot to gain by improving our patent system, which is why I believe we can perfect this bill. The impact of patents is not limited by geographic area, by industry sector, or even by our national border.

That being said, I also know that even after changes are made by the amendment process, several serious concerns will not be addressed, and I feel very strongly that every effort must be made to find some sort of resolution, or we could assume the risk of jeopardizing our changes of enacting patent reform.

I would be remiss, in closing, Mr. Chairman, if I did not extend what Mr. Berman said regarding apportionment of damages—very, very significant issue. There will be at least

one amendment addressing that issue today.

I intend to support it, but I don't believe even that goes far enough. But that can be revisited at a subsequent date.

And again, Mr. Berman, to you and Mr. Smith, Chairman Conyers, I appreciate all the work that has been done.

And I yield back.

Chairman Conyers. Thank you so much.

The chair recognizes the gentleman from California, Adam Schiff, for an amendment.

Mr. Schiff. Mr. Chairman, I have an amendment at the desk.

Chairman Conyers. The clerk will report.

The Clerk. "Amendment to the amendment in the nature of a substitute to H.R. 1908 offered by Mr. Schiff of California—"

Mr. Feeney. Mr. Chairman, a parliamentary inquiry? Did we adopt the Berman amendment to the amendment?

Chairman Conyers. No. It hasn't been adopted.

Mr. Feeney. Okay.

The Clerk. "—Page 58, strike lines 1 through 20 and insert the following: '(1) Defense. A patent may be held to be unenforceable or—'"

[The amendment by Mr. Schiff follows:]

********** INSERT **********

Chairman Conyers. I ask that the amendment be considered read.

And the gentleman is recognized in support of his amendment.

Mr. Schiff. Thank you, Mr. Chairman.

My amendment seeks to address the current abuse of the inequitable conduct defense by making some further improvements to the manager's amendment.

Under current law, even if a patent is found to be valid and infringed, a court may still exercise its authority not to enforce the patent if the patentee has engaged in inequitable conduct, intentionally withholding or misrepresenting material information.

While the doctrine of inequitable conduct has an important purpose, its assertion as a defense has been abused. Many have argued that this doctrine has ceased to serve a useful purpose in our patent system and should be eliminated.

Primarily, they argue that the allegation of inequitable conduct is raised as a defense in nearly every patent litigation and that innocent statements or failures to disclose small items can become the bases for charges of inequitable conduct.

One judicial opinion noted that the practice of charging inequitable conduct in almost every major patent case has

become an absolute plague.

In view of its cost and limited deterrent value, the National Academies has recommended that the doctrine be eliminated or that its implementation be modified in order to discourage resort to the defense and reduce cost.

While there are compelling arguments for the repeal of the doctrine, after meeting with the director of the PTO and other representatives from the office, I believe that full repeal may be premature.

The PTO made the case that patent quality is a shared responsibility between the examiner and the applicant and that applicants should be encouraged, not discouraged, from providing the best and most accurate information available.

Since full disclosure of material information by the patent applicant is a key element in ensuring that high-quality patents are issued, I believe we should raise the bar for this defense much higher while retaining some deterrent value that it has against those who would intentionally deceive the patent office.

If, in practice, this considerably higher standard of pleading and proof is not enough, and the doctrine continues to be abused, I will support its repeal. But at this stage, let us try to amend it before we end it.

I want to thank the chairman for his work on this issue and his work on the bill as a whole. I have said many times

to many people over the last several months that if there is anyone who can navigate this bill through the Congress, it is Howard Berman. And he has done a phenomenal job.

Importantly, the manager's amendment requires that materiality and intent be proven separate, and that intent may not be inferred solely from materiality. The manager's amendment also eliminates uncertainty by codifying a single definition and standard for the courts to apply.

However, I believe that these changes can be further improved upon, and I believe that my amendment strikes a better balance between full repeal and reform.

First, my amendment would narrow the circumstances under which this defense could be asserted to only those instances where the office, in the absence of the deception, would have made a prima facie finding of unpatentability—that is, if the patent examiner was provided with accurate information, a finding of unpatentability would have resulted.

This formulation is based on one of the materiality factors in the PTO rules that some courts have used as guidance but which has not been uniformly applied.

Under the manager's amendment, information that a patent examiner would have deemed important would be sufficient for establishing a claim of inequitable conduct, even if the information would not have had an impact on the examiner's analysis.

I believe this standard is too vague and over broad. I believe the higher standard in my amendment, taken in conjunction with the other reforms in the manager's amendment, will ensure that PTO decisions are not impacted by misleading conduct while also ensuring that this defense is not abusively pled.

Second, my amendment also provides the court with a range of options to address inequitable conduct. Under current law, establishing inequitable conduct in any claim can lead to the entire patent being found unenforceable.

This blunt remedy has no doubt enhanced the attractiveness of asserting it as a defense. My amendment would direct the court to balance the equities, to determine which of a number of remedies is the most appropriate to impose.

This would include permitting the court to hold only the claim in which inequitable conduct occurred unenforceable.

This will not only ensure that the punishment meets the level of conduct before the PTO, but it will also remove the perverse incentive to plead the defense hoping that an entire patent would be found unenforceable.

I urge the committee to support the amendment and yield back the balance of my time.

Chairman Conyers. Thank you.

Lamar Smith?

Mr. Smith. Mr. Chairman, I move to strike the last word.

Chairman Conyers. Without objection.

Mr. Smith. Mr. Chairman, I support the gentleman from California's amendment. The federal circuit has described the incessant pleading of inequitable conduct as a plague on the patent system.

The defense is pled too often and abused too often. The manager's amendment does a good job of reforming the terms by which the defense may be raised.

The gentleman's amendment is a good complement because it gives the court more discretion in applying an appropriate remedy.

It also raises the standard of materiality from what an examiner would consider important in reviewing an application to what is considered prima facie material information.

These are good changes that further ensure that the defense is only asserted to prove a genuine intent to deceive or mislead the PTO.

Mr. Chairman, I will yield back the balance of my time.

Chairman Conyers. Okay. Thank you very much.

Howard Berman for a minute?

Mr. Berman. Yes. The gentleman quite excellently explained what his amendment does beyond the manager's amendment. I support his amendment and urge its adoption.

Chairman Conyers. Thank you.

Yes?

Mr. Issa. Mr. Chairman, I move to strike the last word, and I will be brief.

Chairman Conyers. Mr. Issa, you are recognized.

Mr. Issa. Thank you, Mr. Chairman.

And as usually is the case, you should never take too long to take yes for an answer.

I do want to speak in support of Mr. Schiff's amendment and say only that I wish to continue working between now and the floor not only to accomplish what I believe Mr. Schiff is accomplishing in his amendment but also to deal with what is a secondary cause of the existing inequitable pleading, which is that often patent applicants either provide nothing in their wrapper in the way of other prior art, other information, so as to not "be accused of, in fact, knowing about somebody else's invention," or, in the alternative, deliver hundreds and hundreds of patents with no explanation.

I believe that there are two parts to this legislation. Mr. Berman has been very kind to work with me on both parts, and so has Mr. Schiff.

And that is that on one hand, we are dealing with the court side. On the other hand, we are dealing with the PTO and its ability to work with inventors and the public as a whole to get better patent quality and fuller disclosure.

Mr. Berman. Would the gentleman yield?

Mr. Issa. Yes, I certainly will.

Mr. Berman. The gentleman makes a very important point, and it is part of why I am not for repeal of the defense completely.

Two points that are in the manager's amendment that we haven't mentioned—one is authority in the regulatory authority for the PTO to establish clearer standards of what is expected of the patent applicant.

As we make it significantly more difficult to establish this defense, there is a concomitant obligation on the patent applicant, just as the gentleman said.

The second thing is that the patent office—where judges find that even in this higher standard the applicant has engaged in inequitable conduct, if the applicant's attorney was directly involved, the PTO—which is the place, like state bars are for the rest of us, that licenses patent lawyers—and the court is directed to send evidence of attorney participation in that kind of misconduct to the PTO for them to have the authority to look at for discipline.

I yield back. Thank you.

Mr. Issa. I thank the chairman and look forward to continuing to work on this bill in the bipartisan way we have as it goes to the floor.

I yield back.

Chairman Conyers. I thank the gentleman.

If there are no further comments—

Mr. Chabot. Mr. Chairman?

Chairman Conyers. Yes. The gentleman from Ohio, Mr. Chabot?

Mr. Chabot. Just very briefly, I move to strike the last word.

I would just tell the gentleman from California, I appreciate his efforts in trying to improve the bill. I would just note that later on in this hearing we will be offering an amendment to completely strike this.

I yield back.

Chairman Conyers. I thank the gentleman.

I merely want to indicate my total support for the amendment.

If there are no further comments on this perfecting amendment, all those in favor, indicate by saying, "Aye."

All those opposed, indicate by saying, "No."

The ayes have it, and the perfecting amendment is agreed to.

For what purpose does the gentlelady from California seek recognition?

Ms. Lofgren. Mr. Chairman, I have an amendment at the desk.

Chairman Conyers. Very well.

The clerk will report the amendment.

The Clerk. "Amendment to the amendment in the nature of a substitute to H.R. 1908 offered by Ms. Zoe Lofgren of California, Mr. Smith of Texas, Mr. Cannon of Utah, and Mr. Davis of Alabama. Page 52, strike line 17 and all that follows—"

[The amendment by Ms. Lofgren, Mr. Smith, Mr. Cannon, and Mr. Davis follows:]

********** INSERT **********

Ms. Lofgren. Mr. Chairman, I would ask unanimous consent that the amendment be considered as read.

Chairman Conyers. Without objection, so ordered.

And the gentlelady is recognized in support of her amendment.

Ms. Lofgren. Mr. Chairman, first, let me say how much I appreciate the efforts of Chairman Berman and Mr. Coble, yourself and Mr. Smith to bring us to this day.

This has been years of effort that we have participated in. And although this is not the final day that we will be visiting many of these issues, it is an important day as we move forward.

This amendment, I think, will greatly improve our bill, and I am appreciative of the very positive working relationship that produced this proposal with Mr. Smith and Mr. Cannon and, of course, Mr. Davis, as well as Mr. Berman.

This amendment is a close analog to the Senate version to fix a basic problem with patent law. By manufacturing venue, parties can skew the outcome of a patent case.

Forum shopping is bad for innovation and it is bad for the coherent development of patent law. And it is a growing problem.

I will give you an example. In 2003, there were 60 patent cases filed in the Eastern District of Texas. In 2006, 263 patent cases were filed in that district. And by

2007, 344 patent cases will be filed in Marshall, Texas. That is an eightfold increase in 4 years.

This is not an accident. Nationwide, plaintiffs win 59 percent of cases that go to verdict. In the Eastern District of Texas, however, the win rate is an eye-popping 78 percent. And this fact is not lost on patent plaintiffs.

Last month alone, 48 patent cases were filed in the Eastern District of Texas, more than double the number filed in any other jurisdiction in the United States.

The second-ranked jurisdiction, the Central District of California, saw only 19 cases filed. And of course, California is the home of Silicon Valley.

This has led patent trolls to form holding companies in the Eastern District for the sole purpose of bringing patent cases.

And one notorious example is the Zodiac conglomerate, formed of several smaller companies. None of these companies create any new technologies or produce any product.

All of these companies are incorporated in either Texas or Delaware, and they exist only to bring patent cases. So far, the Zodiac conglomerate has sued 357 companies, mostly in the Eastern District of Texas.

Manufacturing venue in this way isn't just inconvenient. It leads to overly aggressive litigation behavior that deters legitimate innovation, and it also leads to bad case law.

In fact, much of the reason why we are here today is to fix case law that originated out of bad trial court decisions. And if we don't fix venue, we could be repeating this whole exercise again in a few years.

And although an improvement over current law, H.R. 1908 does leave open a few loopholes such as these shell companies by the Zodiac conglomerate, and this amendment would close those loopholes.

Section B, the heart of the amendment, clarifies that a party shall not manufacture venue by assignment, incorporation or otherwise to invoke the venue of a specific district court.

C clarifies where cases may be brought based on the location and acts—defendant's operations and acts committed by the defendants. And it allows corporate plaintiffs to bring cases where they reside if they have actual research, development or manufacturing facilities.

This makes sense. When corporate plaintiffs have substantial evidence relevant to claims of infringement, they should be able to bring cases on their home turf. They shouldn't be able to bring cases wherever they file articles of incorporation.

Finally and importantly, the amendment lets individual inventors, universities and micro-entities bring cases where they reside, regardless of circumstances.

These plaintiffs, because of their specific elements, deserve more leeway in choosing an appropriate forum when dealing with a defendant who may have more experience in patent litigation.

And finally, Section D states that a court has the discretion the transfer a case to another court when the plaintiff brings an action in an inappropriate forum.

And I think it is important to say what this amendment is not. This amendment does not apply to civil cases generally, only to patent cases.

Since 1948, special rules have governed venue in patent cases, owing to their unique and complex subject matter. This amendment would have no application outside of the context of patent litigation.

And even in the context of patent litigation, this amendment reflects a policy choice to allow individuals, micro-entities and educational institutions, as I said earlier, to bring cases in the forum of convenience for them.

It was Congress's original intent in enacting special rules for patent venue that we end up with something like this, but opportunistic forum shopping has developed, and it is inconsistent with this intent.

In working with the chairman, he has noted, and I would say correctly, a glitch in the amendment that we will be able to fix, and I pledge that we will fix, as the process

proceeds. It is an oversight in drafting relative to foreign defendants with no presence in the U.S.

A minor technical amendment later will clarify that if a foreign defendant is subject to personal jurisdiction only under Section 293, venue will lie wherever they are subject to personal jurisdiction under that section. And I think this will resolve the accurate issue raised by Mr. Berman.

I would just, again, like to thank Mr. Smith, Mr. Cannon and Mr. Davis for their assistance in this and recommend support for this amendment.

I will just say, in closing, that Marshall, Texas, has become so famous that all the lawyers in California received in our monthly California lawyer publication in June—a front page of the article was Texas Hold'em, with tips for how to deal with patent cases in Texas.

That is how ludicrous this situation has become, and I think it is important that we stop that kind of situation.

And I yield back and thank the gentleman for recognizing me.

Chairman Conyers. Does Judge Louie Gohmert want to go before Lamar Smith?

Mr. Gohmert. Well, I believe I would like to do that, since I have had aspersions cast on our asparagus in East Texas.

Chairman Conyers. Well, in that case, the gentleman is

recognized.

Mr. Gohmert. Thank you, Mr. Chairman.

And I do recognize the difficulty of trying to fashion something with so many different interests, so many different problems, all within this—so many different types of patents—issues that are involved.

When it comes to venue, I do want to address some of the things that have been asserted. My friend from California had indicated that, gee, there was an eye-popping 78 percent winning percentage for plaintiffs in Marshall.

My understanding in the last—over a year, the percentage is 50 percent, which is better than any other statistics I have seen anywhere in the country.

And I would also point out that these are not, you know, back woods judges. I would submit that Leonard Davis, appointed by Bush; John Ward, appointed by President Clinton, are a couple of the best intellects anywhere in the country when it comes to federal courts.

They are quite good at these. I haven't heard anybody criticize their ability, their intellect. And what they did was start a rocket docket where they would push people to trial within a year, 2 years at the outside. Around the rest of the country, it is 2 years to 4 years.

And I would also direct people's attention to the fact, as I understand it, Texas Instruments in Dallas is part of

the Northern District of Texas, with the high-flying big city folks.

They couldn't get a case to trial—they couldn't get certainty on a patent. They knew that there were brilliant judges in East Texas, and so—and very fair and bipartisan.

They filed the first case in Marshall, as I understand it, and have gotten certainty. When you can push a case to trial in a year instead of 4 years, it provides a better system for everybody, especially if it is fair.

So the biggest complaint I have heard is from big, major firms who are not able to pad a case file with as much billing as they can in other jurisdictions like some in California or Dallas, where they are able to fight it out for years instead of months. And that is not necessarily good for anybody.

Having been involved as a judge in some—what some say was the biggest personal injury case—5,000, I think at one time, plaintiffs, hundreds of defendants—and weeding through those issues and bringing that thing to a conclusion after it had been pending for 11 years before I took it over, I have dealt with venue issues.

I have seen these kind of things. And it is important to have fairness. Since this is an amendment to the amendment, this is already a second degree amendment.

I have been advised efforts to clean up the language to

make it what I would submit would be more fair, so that it doesn't look so heavy-handed—for example, in Subsection D, it says that the district court may transfer that action to any other district or division where, one, the defendant has substantial evidence or witnesses.

I would submit, having decided major venue issues where I have transferred it to other parts of the country, I am shocked that it would only say where the defendant may have these things.

It would seem if you really want to avoid the appearance that you are being heavy-handed for one side, then you would certainly want to say where substantial fairness may be accommodated—something along that line.

And I realize there are those that say well, the plaintiff has already chosen the place to file, but since this bill itself would very much restrict, as has already been pointed out, where they can file, well, certainly they are not going to file someplace that may be substantially more fair because of witnesses, evidence and accommodation of the parties.

They will have to file within this restricted area, but then at least, for goodness sakes, the judge's hand shouldn't be tied to only helping defendants from that point forward.

Ms. Lofgren. Would the gentleman yield?

Mr. Gohmert. Yes, I will.

Ms. Lofgren. And I thank the gentleman for yielding.

Let me just clarify that by my remarks, I meant no insult to any judge in Texas or anywhere else.

And I do think, however, that our bipartisan amendment does have merit in terms of venue rules generally. However, on the issue the gentleman has raised, there is a small difference between this amendment and the Senate.

And I would look forward to, if the gentleman is interested, a further conversation as we move forward in this process. I think that will happen in any case with the Senate. And it may be that we can do further refinements on this.

And as the gentleman knows, we work together on a subcommittee, and I would be happy to do that, and I hope that that will reassure him to some extent and would thank the gentleman.

Mr. Gohmert. And I do appreciate the gentlelady's comments.

And I see the time has expired. Could I have 1 more minute, if I could?

Just in conclusion, Mr. Chairman and other members, one of the issues that has been presented is that you have component producers, designers, manufacturers who say they do not have the legal wherewithal to be constantly dragged to the defendant's place of business where it can be dragged out

for 4 years or more, that they are going to lose those.

And so I know that big corporations would not want to be bullies, necessarily, but when they hire attorneys, that is their job, to win, ethically if possible.

So I would hope that we would be able to fix some of this language so that it does provide fairness, it does provide flexibility, so that it is not just a cram-down on people who have less resources.

And I yield back. Thank you, Mr. Chairman.

Chairman Conyers. You are welcome.

Mr. Howard Berman?

Mr. Berman. I move to strike the last word.

Not every component manufacturer is headquartered in the Eastern District of Texas, but the gentleman from Texas makes a point. I support the Lofgren Smith amendment.

Ranking Member Smith and the gentlelady from California, Ms. Lofgren, and I and Mr. Cannon have talked about this issue for a long time. There are a number of good changes in this amendment beyond what is in the manager's amendment, and I support it.

I have two concerns. One of them the gentlelady from California touched on, and the way she articulated the idea of a fix solves that problem.

The second actually was raised by the gentleman from Texas. I am against manufactured plaintiff forum shopping,

the creation of these shell kinds of things.

The language here regarding transfer of venue is not the same because a judge has discretion in deciding whether to transfer venue. However, the standards the judge is supposed to use are oriented to one side, to some extent.

And so I would ask the gentlelady from California and the gentleman from Texas if they would be—just to be open to working with us between now and the floor to see if there—we want to stop manufactured venue shopping, forum shopping, for plaintiffs, but we certainly don't want to create it for defendants.

And I just want to look at that language a little more carefully as we go down the road. But I think the language is good and—the amendment is good and I—

Ms. Lofgren. Would the gentleman yield on that point?

Mr. Berman. I would be happy to.

Ms. Lofgren. I would be happy—and Mr. Smith can speak for himself and the others—to do so. We have worked on this—but frankly, although this has been an issue for the last several years, the Senate's new action did spur late action, and I don't have pride of authorship, as I mentioned to Mr. Gohmert. I am sure Mr. Smith does not either.

My colleague, Mr. Watt, has just raised an issue relative—that he will speak to on administration issues that I think also merits further attention, as does the chairman's

comments.

So I think that as with so many other issues, including apportionment, that we have made a great stride with this amendment, but that is not to say that it is perfect, and there is further room for improvement.

And I thank the gentleman for yielding.

Mr. Gohmert. Would the gentleman yield?

Mr. Berman. I would be happy to yield, yes.

Mr. Gohmert. And I do appreciate your willingness to look at this further, and I am certainly honored and welcome the opportunity to work on the language.

Believe it or not, my interest is trying to be fair, and I know that is what you are trying to reach here, or you wouldn't have spent so much time on it.

So I would appreciate the opportunity to work with you on trying to fine-tune the language.

I yield back.

Ms. Jackson Lee. Would the gentleman yield, Mr. Berman?

Mr. Berman. Yes. I would be happy to yield.

Ms. Jackson Lee. I thank the gentleman.

And as I was listening to the gentlelady from California, I just wanted to add a point of inquiry that I think my distinguished jurists from East Texas highlighted in Section D.

And even though as I read the previous page, you had

asked the question whether or not this provision covers the small inventor or universities who then would be subjected to, I think, a discretionary determination as to whether or not the defendant has substantial evidence or witnesses—obviously, that discretion by the district court—but I don't know whether that plaintiff would have the wherewithal to make the argument to retain it in the district court.

And I do welcome the opportunity for the gentlelady from California, Mr. Smith from Texas and others to work and clarify this, because it does look like in Section D on page three that there is an imbalance.

And if this is trying to comport with the Senate language—I know the House is always fairer, and so I would much rather see us move fair language forward so that when we are in conference we can make this a balanced provision.

With that, I yield back to the gentleman.

Mr. Berman. Mr. Chairman, I yield back.

Chairman Conyers. Thank you.

Mr. Smith. Mr. Chairman?

Chairman Conyers. Lamar Smith?

Mr. Smith. Thank you, Mr. Chairman.

Mr. Chairman, the manager's amendment has improved the contents of H.R. 1908. We have made a number of revisions to modify the original language and balance the interests of the various patent constituencies.

However, we do need to revisit the venue provision in Section 10. My concern, and that of the amendment co-sponsors, is that the existing language needs to be tightened up by restricting venue choices for plaintiff trolls.

The amendment forbids parties from manufacturing venue by assignment, incorporation or otherwise invoking the venue of a specific district court.

It restricts venue to four basic options: First, where the defendant has its principal place of business or where the defendant is incorporated; for foreign corporations with a U.S. subsidiary, where the defendant's primary U.S. subsidiary has its principal place of business or where the defendant's primary U.S. subsidiary is incorporated.

Second, where the defendant has committed a substantial portion of the acts of infringement and has a regular and established physical facility that the defendant controls and that constitutes a substantial portion of the defendant's operation.

Third, where the primary plaintiff resides, if the primary plaintiff is a university or a college.

And fourth, where the plaintiff resides, if the plaintiff or one of its subsidiaries has a physical facility in the district dedicated to research, development or manufacturing that is operated by full-time employees, or if the sole plaintiff is an individual inventor.

In addition, the amendment permits the district court to transfer a patent action to where the defendant has substantial evidence and where it would be otherwise appropriate under existing law.

Mr. Chairman, in brief, I think the amendment does a good job of restricting venue options that have tempted trolls to file lawsuits in patent-friendly districts such as the Eastern District of Texas.

The language makes clear that defendants must have greater contact with the district in which suits are filed. We balance this objective by acknowledging that not all plaintiff inventors are trolls.

Companies or their subsidiaries that conduct research and manufacture may still file complaints closer to their base of operations. And independent inventors are protected, of course, as well.

In conclusion, Mr. Chairman, we may have to tweak this language some more between now and the floor, given the complexities involved, and as we have just discussed a few minutes ago.

But this is a good marker as we move forward, so I urge my colleagues to support the amendment.

And, Mr. Chairman, I will yield back the balance—

Mr. Issa. Would the gentleman yield?

Mr. Smith. And I will yield to the gentleman from

California, Mr. Issa.

Mr. Issa. I thank the ranking member.

And I, too, support the amendment and would hope only that, as you mentioned tweaks, that we could work on some limited tweak on the third exemption, the one dealing with universities.

At least at this point, I believe that it is overly broad in that it doesn't speak to a university in any particular role, but rather makes the assumption that all activities of a university would have a special exemption.

And I would hope that I could work with the gentlemen on both sides to ensure that this was limited only to a university acting in its unique as a university and not in all of its incarnations and incorporations.

And even though the University of California is near and dear to my heart, we all understand that these multi-billion-dollar portfolios don't always qualify for special exemptions in venue.

And with that, I yield back and thank the gentleman.

Mr. Smith. Mr. Issa, let me just say to you, I think you make a legitimate point, and we can add that to the mix as we go forward.

And I am sure that Ms. Lofgren and Mr. Berman and other co-sponsors of the amendment would be happy to discuss that subject with you before we get to the House floor.

Mr. Issa. And I thank the ranking member.

Mr. Smith. Mr. Chairman, I will yield back.

Chairman Conyers. Thank you.

Mr. Watt. Mr. Chairman?

Chairman Conyers. The gentleman from North Carolina, Mel Watt?

Mr. Watt. I move to strike the last word.

And I have two concerns, one of which I think we may have a solution to, but the second one may be a little bit more complicated and may require some additional research.

My first concern is that—and I always think that an individual plaintiff should be able to bring his or her lawsuit wherever they reside, because that is for the convenience of the individual plaintiff and the individual defendant, and then if there is a basis for moving the lawsuit to another location, then that can be resolved.

I am not sure that this language allows every individual to bring a lawsuit where he or she resides. It is addressed, to some extent, in this micro-entity language on page 54, but that is limited by the constraints on pages 55 and 56, as I read it.

So I think anything that removes the ability of an individual plaintiff to bring the lawsuit where he or she resides we need to correct.

And I believe, as I read this amendment, this amendment

would go too far in removing the right of an individual to bring the lawsuit where he or she resides. That is the first concern I have.

The second concern I have is that the language on page two of the amendment, lines 17, 18 and 19, limits plaintiff's—if the plaintiff or a subsidiary of the plaintiff has an established physical facility in such district dedicated to research, development or manufacturing that is operated by full-time employees of the plaintiff—I believe that the word administration should be in there also, because to restrict a plaintiff from bringing an action where the administrative office of the plaintiff is, if it is a legitimate office—I don't think anybody ought to be able to go and set up an office just to bring a lawsuit.

But to restrict bringing the lawsuit to places only where there is research and development or manufacturing I think goes way, way too far.

And I am hopeful that the gentlelady who has offered the amendment will just allow the insertion on line 17—after the words "dedicated to", just insert administration, comma in there, and I think that would correct that—

Ms. Lofgren. Would the gentleman yield?

Mr. Watt. I am happy to yield.

Ms. Lofgren. I wonder if—first, if I could address your first point.

Mr. Watt. I am happy to have you address both of them. I was going to yield to you to address both of them, so I will do that.

Ms. Lofgren. The point you were making about individuals I agree with, and I think Mr. Smith agrees with, and we believe is dealt with in the micro-entity definition.

However, as you pointed out, it is a complex section that refers to regulations issued by the director of the patent office as well as some other items.

So what I would suggest by way of process is that between now and our next iteration of this bill that you and I and Mr. Berman, whose staff actually developed the micro-entity provision in the manager's amendment, sit down, and if there is a defect that we are unaware of, that we resolve that between now and the floor.

On the issue of administration, I am not at all hostile to the suggestion that you have made. On the other hand, I don't have a definition before me for administration.

So what I would like to do is to make my commitment to you that unless there is—you know, maybe we need to define it. I don't know if we do or not—but that we would add that in, or at least define it in some way between now and the floor, rather than do this ad hoc here today, since we have not had a chance to discuss it before 10 minutes ago.

Mr. Watt. Reclaiming my time, I am happy with that. I

guess there is not really a definition of development or research either, unless it is somewhere else in the bill, but maybe we can turn our attention to all of those.

But with the commitment of the chair and the gentlelady who has offered the amendment, I am certainly content to allow this.

As I read this, this amendment would go too far in the direction of tilting venue to the defendants. And I don't think we want to be doing that, and I don't think that is the gentlelady's intention.

Ms. Lofgren. No. If the gentleman would yield further, I would just note that what we want to avoid is manufactured venue, which has, I think, pretty clearly occurred.

And we want to limit that when we have got basically not an individual inventor—and I understand Mr. Issa's point on the universities and the like—but really a different level of exchange in the patent field.

And so I don't want to unfairly skew this to corporate defendants, but I do want to deal with the manufactured venue abuses.

And the points the gentleman has raised are thoughtful, as always, and I am confident that we could work through them between now and the floor.

Mr. Watt. And I want to reassure the gentlelady that I am not supporting manufactured venue either.

Ms. Lofgren. Right.

Mr. Watt. I am as opposed to that as she is. But we have got to be careful that we don't go too far in reacting to that.

And with her assurances and the chairman's assurances, I am happy to support the amendment with the understanding that well continue to address these two concerns that I have expressed.

And I will yield back.

Chairman Conyers. Thank you.

The gentleman from Virginia, Mr. Scott?

Mr. Scott. Thank you, Mr. Chairman. I move to strike the last word.

Mr. Chairman, if you look at the underlying bill, you have two ways to get venue, in a jurisdiction where either party resides, or in the judicial district where the defendant has committed acts of infringement and has a regular established place of business.

That pretty well limits forum shopping to places where you have got a regular and established place of business and have been committing acts of infringement, or just two jurisdictions where either party resides. That is more normal jurisdiction.

This is much more restrictive. And if you just look at the different ways that a corporation incorporated and

primary place of business in Alaska—where could you file?

Under number one, principal place is in Alaska, incorporated in Alaska, or a foreign corporation with a United States subsidiary with a lot of subsidiaries—that you can only go there the primary subsidiary is. And there you are back to Alaska.

Or number two, it starts off all right, where the defendant has committed a substantial portion of acts of infringement. Well, period.

But you keep going: But only if you have a regular and established physical facility that the defendant controls and constitutes a substantial portion—if it is just some portion but not a substantial portion of your operations, number two doesn't kick in.

Number three just applies to higher education. And number four we have talked about a little bit. It is where the plaintiff resides but only basically if the plaintiff is running a business. If you just own a patent and are not running a full-time business, you are back to Alaska.

This is, Mr. Chairman, I think, too restrictive. I think the underlying language is much more appropriate. And therefore, I intend to oppose the amendment.

Chairman Conyers. Thank you.

Mr. Cannon. Mr. Chairman?

Chairman Conyers. Yes, Chris Cannon?

Mr. Cannon. Thank you, Mr. Chairman. I ask unanimous consent to include my written statement in the record.

And I would just like to make a couple of comments.

Chairman Conyers. Without objection.

[The opening statement of Mr. Cannon follows:]

********** COMMITTEE INSERT **********

Mr. Cannon. In the first place, I want to thank you, Mr. Chairman, and the ranking member and Mr. Berman, who has worked exceedingly hard on this, as has Mr. Smith over a long period of time, and Mr. Coble has worked on this since I got to Congress. This goes way back, these issues.

I appreciate this issue coming to a head today and all the work that has gone into it. I just want to make a couple of points.

I have never wanted to demean any judge, certainly, or any district, but I would like to draw the committee's attention to an article in the Texas Lawyer, or at least a quote from that.

The first part, I think, is highly consistent with what Mr. Gohmert said. Unlike the Northern District of California, which has its own patent rules, courts in the Eastern District of Texas typically try to set a trial date in a patent case within 18 months or less from the filing date. Now, that is entirely consistent with Mr. Gohmert's view.

But the next line I think is where we can't have a conclusion but I think we should be informed, and that is this threat of imminent trial is the "guns ahead" that the patent pirate needs to execute his strategy.

What we need is a system that works and that is fair and that is reasonable. We have been through incredible

gyrations on this amendment. It is a well-reasoned, thoughtful amendment.

And as the note passed to me by my chief of staff points out, economic development should not be focused on abusive lawsuits. And we need to have a system that protects all of America.

I think this venue provision, after great thought and some further consideration that has been raised in this hearing—or in this markup so far, will lead us to a much, much better system that will encourage innovation and protect people that innovate.

And with that, Mr. Chair, I—

Mr. Gohmert. Would the gentleman yield?

Mr. Cannon. I would be pleased to yield.

Mr. Gohmert. And the gentleman from Utah makes a great point. The quick trial date can be a gun to the head that a plaintiff can use.

And in fairness and in trying to strike a balance, the gun to the head of the plaintiff is the deep pocket defendant that can drag it out as long as possible.

Mr. Cannon. That is more like a corrosive acid than a gun, but—

Mr. Gohmert. Exactly. Well, corrosive acid works, but obviously, you know, I have seen many plaintiffs have to drop out because the defendant was successful in dragging out

enough years they simply—so striking the balance in there between the two is the difficulty.

Mr. Cannon. Reclaiming my time, that is exactly the case. And I don't mean to demean, again, as I said earlier, the Eastern District of Texas, except to say that we ought to have a system which, in net, gives us a better outcome.

And I think this whole bill does that. I think this provision that we have before us right now, which may be perfected between now and the floor, also does that.

And I urge support of this amendment and yield back—

Ms. Lofgren. Would the gentleman yield?

Mr. Cannon. Certainly.

Ms. Lofgren. Just briefly, I thank the gentleman for his comments and also for his hard work in collaborating on the amendment.

And just noting—every place in America has a representative in the House, and I remember a few days ago saying, "Who represents Marshall, Texas?" And it didn't occur to me that it would be a colleague on the House—and I wanted to—

Mr. Cannon. And, reclaiming my time, a former judge himself.

Ms. Lofgren. Right. And so I want to commend the gentleman for his spirited defense of his district, which I do respect. We all have districts.

And I thank the gentleman for yielding.

Mr. Berman. Would the gentleman yield?

Mr. Cannon. I am sorry, who is asking me to yield?

Mr. Berman?

Mr. Berman. I thank the gentleman for yielding. And I just apologize for taking the gentleman's time, but the gentleman from North Carolina and the gentleman from Virginia have raised issues which I sympathize with.

In the area of patents, what we learned from these National Academy of Science and FTC reports and so much else that has been written is you have this notion of non-practicing entities.

The gentlelady from California talked about some outrageous cases of it. They are not the patent applicants. They acquire patents, set up corporations in particular areas.

I mean, the real goal is how do you protect a real inventor and a real business and a real university in terms of plaintiffs' rights and get at these phony—"phony" is the wrong word. But I mean, they are assigned patents. They acquire patents. They set up—their place of business is an office with a desk and a big file drawer. And they look where to locate based on where, if their letter demanding royalties for infringement isn't complied with, they can bring a suit.

So I think to the extent this needs adjustment, we have got some time to look at it. But I share your concerns about are we over balancing here, and I think the gentlelady from California does, too.

Mr. Cannon. Reclaiming my time—

Mr. Watt. Mr. Chairman, I ask unanimous consent the gentleman have an additional minute.

Chairman Conyers. Without objection.

Mr. Cannon. I think in anticipation of moving this issue forward, I am pleased to yield to the gentleman, Mr. Watt, for—

Mr. Watt. And it may not take an additional minute. I just want to express my concern that the gentleman thinks that an expeditious trial is a gun to the defendant's head.

That, I can tell you, does not comport with my experience at all.

Mr. Cannon. Reclaiming my time, let me just point out I would never suggest such a thing. I was only pointing out an article, and in the peculiar world of patents, I think it actually acts in that way.

And I think there actually are some very famous cases that indicate that that was, without impugning any judge with particularity, the intention of the system.

But I would be happy to yield to the gentleman if he would like to respond.

Mr. Watt. I am sure you could point to examples that confirm exactly what you said, but in the interest of fairness, there are a lot of examples where just stringing a case out endlessly by the defendants with deep pockets have the counter effect.

So our purpose here is to get to a balance that makes sense. And I just got a little—

Mr. Cannon. Reclaiming my time, with the gentleman I absolutely agree on this point, having seen the abuses on both sides.

Mr. Watt. Right.

Mr. Cannon. And with that, Mr. Chairman, I yield back.

Mr. Gohmert. Mr. Chairman? In view of—

Chairman Conyers. Mr. Gohmert?

Mr. Gohmert. —the Eastern District coming up again, could I ask unanimous consent to give just a couple of statistics in 30 seconds?

Chairman Conyers. Of course.

Mr. Gohmert. Thank you.

In the Eastern District of Virginia, the rocket docket is an average of 9.4 months from the filing to trial, and so the 15.9-month average in the Eastern District actually ends up being more of a compromise.

Let's see, it is 11.3 in the Western District of Wisconsin. So once again, I am defending my district, but I

am also about fairness, and it does appear it is a pretty fair district these days.

Thank you. I yield back.

Chairman Conyers. Ladies and gentlemen, the question is on the perfecting amendment offered by Zoe Lofgren.

All those in favor, signify by saying, "Aye."

All those opposed, signify by saying, "No."

The ayes have it. And the perfecting amendment is agreed to.

Mr. Chabot. Mr. Chairman?

Chairman Conyers. And the chair recognizes Steve Chabot, the gentleman from Ohio, for an amendment.

The clerk will report.

Mr. Chabot. Mr. Chairman, I have an amendment at the desk. It is number 048.

Chairman Conyers. The clerk will report the amendment.

The Clerk. Amendment to the amendment in the nature of a substitute to H.R. 1908 offered by Mr. Chabot of Ohio. Page 22, insert the following—"

[The amendment by Mr. Chabot follows:]

********** INSERT **********

Mr. Chabot. Mr. Chairman, I ask unanimous consent that the amendment be considered as read.

Chairman Conyers. Without objection.

The gentleman is recognized.

Mr. Chabot. Thank you, Mr. Chairman.

This amendment does a straightforward amendment, and I want to note and thank the gentleman from Indiana, Mr. Pence, for his leadership and his considerable assistance in its drafting and work on it.

The amendment simply strikes the best mode requirement contained in Section 112—the specification requirement.

Striking this requirement would go far in limiting the ability of a third party to use the best mode requirement against a patent applicant after a patent has been granted.

Under existing Section 112, a patent applicant is required to specify, as part of the patent application process, "the best mode contemplated for carrying out his or her invention," or, in other words, an applicant must specify the best way to use the invention.

Up until the 1950s, the best mode requirement was limited to applicants seeking a machine patent. The best mode requirement enabled an examiner to better differentiate one invention from another.

In 1952, the best mode requirement was expanded to cover all types of inventions, not just machines.

Since that time, the best mode requirement has not been used to distinguish one invention from another as intended, but has, in fact, been used increasingly by defendants in litigation as a reason to find a patent invalid or unenforceable.

During the prosecution of a patent, the best mode disclosure requirement requires a patent examiner to read the mind of an inventor at the time of the filing.

It requires the patent examiner to make a subjective determination as to whether the applicant fully disclosed the method of using an invention at the time.

Rather than helping a patent examiner, the best mode requirement has allowed defendants in litigation to shift the focus of the proceeding away from the real issue at hand, the infringement, and place it on the state of mind of the inventor.

A judge is forced to look at historical facts to better determine the intent of an applicant. As a result, parties are forced to expand additional time, energy, not to mention costs.

The United States is the only country to impose a best mode requirement.

If we are shifting our system to better conform with practices around the world, and it is my understanding that that is one of the intentions of this legislation, then we

should eliminate the best mode requirement.

But more importantly, we should take the subjective elements out of the application process, elements that shift the focus away from the issue of the patent and place it on the state of mind of the applicant at the time of filing.

If we are serious about decreasing the cost of litigation, let's start with striking those elements that we know have been the source of that increase in cost.

I think it is important to emphasize that there are other more objective criteria in Section 112 that obligate an applicant to disclose the method for using the patent. That is the enabling requirement.

Under Section 112, applicants are required to specify the invention in "full, clear, concise and exact terms as to enable any person skilled in the art to which it pertains."

Thus, the public benefits from the invention regardless of whether the best mode requirement is maintained.

Let me just add that by maintaining the best mode requirement even with certain limitations, there is still the opportunity for a third party to argue through misconduct on the part of the patent owner that the owner did not disclose a better mode of using the invention.

Elimination of the best mode requirement was just one of several subjective elements of the patenting process that the National Academy of Sciences recommended.

This amendment heeds their advice, and I ask my colleagues to support true patent reform by supporting this amendment.

And I yield back the balance of my time.

Chairman Conyers. I thank the gentleman and recognize Howard Berman.

Mr. Berman. Thank you, Mr. Chairman. And I move to strike the last word.

And I rise in opposition to this amendment and urge the committee to reject it.

The whole tradeoff in this patent system is that we grant the patent applicant when a patent is issued monopoly rights for a period of time where he or she, or whoever they assign that patent to, has the exclusive rights to exploit that patent.

At some point, when that patent expires, it is in the public domain. And part of the tradeoff here is that in—and the reason for the best mode requirement, which in one form or another has existed since 1793, is that the public and those people interested when the patent expires have the ability to take advantage of that invention and the innovation behind that invention and continue to spread, disseminate, refine and advance that particular invention.

Repealing the best mode requirement completely undermines that tradeoff and is a mistake.

If this amendment is turned down, I believe that there will be an amendment which deals with the abuses of the best mode requirement in litigation which I would—I personally would support and recommend that the members of the committee support.

But this outright repeal goes too far. Harmonization is not the central thrust of this patent reform legislation. It is trying to maximize the innovation and the progress of our technologies, incentivize our inventors.

You can't both get a patent and hold onto the best way to produce that invention as a trade secret. You can say, "I forget the patent and I am going to keep a trade secret." Or you can say, "I want that exclusive right for a period of time, and there won't be a trade secret."

But you can't have it both ways. Repealing the best mode requirement moves in the direction of trying to have it both ways. I think it is harmful to the technological advance and the whole logic of why we have patents in the first place.

And I urge opposition to the amendment and yield back.

Chairman Conyers. Thank you.

Lamar Smith?

Mr. Smith. Thank you, Mr. Chairman.

Mr. Chairman, my friend from Ohio's amendment would strike the best mode requirement from the so-called

specifications section of the patent act which sets forth certain information an inventor must provide in his patent application.

One of the requirements is that the applicant must describe the "best mode" by which the invention may be "carried out."

The Federal Trade Commission, the National Academies and other mainstream groups have criticized current best mode practice because it encourages unnecessary litigation over what the inventor contemplated when he submitted his application.

Chairman Berman and I thought a different best mode amendment would be offered, and I think it will be offered shortly by Mr. Pence of Indiana.

That amendment would eliminate best mode as a defense in infringement suits while retaining its use as a requirement when filing an application.

This would eliminate it as a useless distraction in lawsuits while retaining it as a way of sharing information about an invention, an important component of the patent system.

The gentleman from Ohio's amendment completely eliminates best mode as a specifications requirement. This will provide less information about inventions and will draw additional opposition to this bill.

Mr. Chairman, I think it best that we not approve this amendment. And I say to my friend from Ohio that is the most gentle way I can put it.

Mr. Chairman, I will yield to the gentleman from Indiana, Mr. Pence.

Mr. Pence. I thank the ranking member for yielding, and I will be very brief.

As has been alluded to, I may have more to say on this topic. I just want to thank Mr. Chabot for his strong advocacy of this issue and speak in favor of the Chabot amendment.

I strongly support the full repeal of best mode. As Mr. Chabot pointed out in his very eloquent statement, it is not a requirement in Europe, Japan or the rest of the world.

And while the purpose of this legislation is not entirely to harmonize our system with the balance of the industrialized world, it certainly is a critical element of, I think, what the long-term vision of the two principal authors of this bill as well as Mr. Coble's longstanding work in this area have intended.

I believe it imposes extraordinary and, in my view, unnecessary costs on the inventor. It adds a subjective requirement in the application process.

And I respectfully offer that the existing enablement requirements in patent law—the public interest is adequately

met in ensuring the quality technical disclosures for patents.

That being said, I strongly support the Chabot amendment and urge my colleagues to do likewise and yield back to the gentleman from Texas.

Mr. Smith. Mr. Chairman, I just want to say that I understand the gentleman from Indiana's support of the Chabot amendment, but if it does not pass, I certainly look forward to his offering a compromise amendment of the kind I just described.

I thank Mr. Pence for his comments.

Mr. Chairman, I will yield back the balance of my time.

Chairman Conyers. Thank you very much.

The question is on the perfecting amendment offered by Mr. Chabot.

Those in favor will signify by saying, "Aye."

Those opposed will signify by saying, "No."

The noes have it, and the amendment is not agreed to.

The chair recognizes the gentleman from Indiana, Mike Pence.

Mr. Pence. Mr. Chairman, I have an amendment at the desk.

Chairman Conyers. The clerk will report.

The Clerk. "Amendment to the amendment in the nature of a substitute to H.R. 1908 offered by Mr. Pence of Indiana.

Page 60, insert the following after line 4—"

[The amendment by Mr. Pence follows:]

********** INSERT **********

Mr. Pence. I would like to ask unanimous consent to waive the reading of the amendment.

Chairman Conyers. Without objection, so ordered.

The gentleman is recognized.

Mr. Pence. Mr. Chairman, this amendment is probably the least surprising amendment I have ever offered in my 7 years in Congress.

Having had wonderful prelude statements in the previous debate, let me speak very briefly to it and urge my colleagues to support the Pence amendment. It also deals with the issue of best mode.

And let me begin by thanking you, Mr. Chairman, for moving this legislation today.

But also I want to especially thank what in other circumstances would be an odd couple partnership of the gentleman from Texas and the gentleman from California, whose direct work in communication with myself and my office has been exemplary in this cause.

And I am grateful for that, grateful for their leadership on this important bill.

This amendment reflects much of that dialogue on this issue. As was just mentioned, I was happy to support Mr. Chabot's amendment to repeal best mode in totality.

However, that amendment having failed to receive a majority today, I would bring this amendment as an

alternative.

The Pence amendment provides a way of addressing best mode short of full repeal.

And I would say to the members of the committee that this amendment has been drafted in direct consultation with the majority and minority committee staff, and I hope that it will be accepted by members of the committee in that spirit.

The Pence amendment retains best mode as a specifications requirement for obtaining a patent. Therefore, it maintains the idea that patent law should provide motivation for a patent applicant to provide an extensive disclosure to the public about the invention.

And as I said, I still strongly support full repeal of best mode, but inasmuch as best mode is not possible today, let's at least move the ball forward on best mode and provide best mode relief for the parties who suffer under the litigation it causes during patent disputes.

The Pence amendment removes best mode specifically—as Mr. Berman alluded, it removes best mode as a legal defense to infringement in patent litigation.

Increasingly in patent litigation, defendants have put forth best mode as a defense and a reason to find a patent unenforceable. It becomes literally a satellite piece of litigation in and of itself and distracts from the actual issue of infringement.

The best mode question is, by definition, subjective. It requires a judge to insert him or herself into the mind of the inventor to determine the inventor's intent at the time of application and decide whether the inventor fully disclosed the best mode of his or her application.

It can only be established with circumstantial evidence, and it therefore requires extensive pretrial discovery. This adds, in many cases, extraordinary cost to litigation, on top of the extra time and resources required to defend against a claim of failure to furnish the best mode.

It is in the interest, I believe, of a fair and efficient patent system that the best mode requirement no longer be available as a defense and the Pence amendment at least takes this step forward, and I urge my colleagues to support it.

I hope, Mr. Chairman, that we can embrace this amendment, and I would also add I hope we can move as amended patent reform out of this committee and to the floor.

In that respect, I encourage all of my colleagues to vote for the Pence amendment so that this patent reform bill can move forward with some relief on best mode in the litigation context and which I believe even absent full repeal is still a good compromise and respects the very spirit of compromise that has brought us to this point today.

And I yield back.

Chairman Conyers. Thank you so much.

The chair advises the members of the committee that Mr. Berman and Mr. Smith and myself all support the Pence amendment.

Is there any other discussion? Otherwise, I am going to—

Mr. Schiff. Mr. Chairman?

Chairman Conyers. Who raised their hand? Let's see.

Adam Schiff is recognized.

Mr. Schiff. Thank you, Mr. Chairman. I just had a quick question. I, I think, was inclined to support a repeal of best mode, and I am very interested in the Pence amendment, and it may be an even better approach.

I am a little unclear, though, about what it does. You are still required to essentially state your best mode in your application, but it can't be raised as a defense—

Mr. Berman. Would the gentleman yield?

Mr. Schiff. Yes.

Mr. Berman. That is a very good question. Essentially, it takes it out of the—the best mode requirement—out of litigation.

It is a Patent and Trademark Office issue to persuade the examiner you have submitted the best mode for doing your invention, and it is settled in that context, not in litigation afterwards.

Mr. Schiff. So it would come up in the context of the application process? Someone would challenge whether the best mode was—

Mr. Berman. No. Well, to the extent you have a challenged process in the application process, people can raise it, but it is decided by the examiner.

Mr. Schiff. Or in this interparties process.

Mr. Berman. Well, that is another issue that is interesting. In discussions with Mr. Pence on this amendment, I have to say that we didn't intend that it be an interparties reexam issue either.

It was truly going to be whatever the processes are for getting information to the patent examiner, including information that the applicant did not show the best mode, the issue would be decided there.

There may need to be some tweaks in the language down the road to ensure that it is also not an interparties reexam issue.

Mr. Schiff. Okay, thank you. Just one last clarification. What remedy does the patent examiner have if the patent examiner finds that the applicant hadn't disclosed best mode?

Mr. Berman. He sends the application back and says, "Do you want your money back, or are you going to give us the best mode?"

Mr. Schiff. I thank you.

And I yield back.

Mr. Chabot. Mr. Chairman?

Chairman Conyers. Yes, Mr. Chabot?

Mr. Chabot. Move to strike the last word.

Chairman Conyers. The gentleman is recognized.

Mr. Chabot. Thank you, Mr. Chairman. I will be brief.

I want to, first of all, commend and thank the gentleman from Indiana for considering this amendment. We also consider it. We ultimately came down in agreement on the prior amendment but in disagreement on this amendment.

And our reason is I believe this compromise language fails to truly address the problem of frivolous litigation, which is one of the things that we are attempting to deal with in this legislation—the additional time and expense and cost.

And although the amendment purports to limit best mode from being used against a patent owner, the amendment in our view does not sufficiently preclude a defendant from using the inequitable conduct defense as a way to address an alleged failure to disclose the best mode.

So whereas we understand that the gentleman, you know, has made an attempt to improve the legislation, we just don't feel that it goes far enough, and for that reason we are not supportive of this particular amendment.

I yield back.

Chairman Conyers. Thank you very much.

Yes?

Mr. Sherman. I agree with Mr. Chabot and Mr. Berman. I think our intention here is to achieve the goal Mr. Berman set forward, which is the PTO should insist upon getting the best method.

But we don't want it raised in litigation either explicitly or through the back door of inequitable conduct.

And perhaps Mr. Pence and Mr. Berman can work together so that—as I understand the intent of your amendment, it is to make this a non-litigation issue, and we can do that both with regard to an explicit attack but also as some sort of factor or the key factor in any claim—

Mr. Berman. Will the gentleman yield?

Mr. Sherman. I will yield to Mr. Berman.

Mr. Berman. The gentleman more precisely raises the issue that I was trying to address in my response to Mr. Schiff.

It is my intention to see what we need to do to make sure that best mode is not part of the defense of inequitable conduct and to make it clear on that point, and I do that notwithstanding the fact—well, I won't give all the reasons notwithstanding, but particularly notwithstanding the fact that the gentleman from Indiana who is offering this

amendment supported Mr. Chabot's amendment, but in recognition of the fact that the gentleman from Indiana indicated his hope that this bill will eventually move out of this committee in the short term.

Mr. Sherman. Will the gentleman yield? I will simply state that I think that the idea is a good one. I am glad that Mr. Berman will work with the gentleman from Indiana to effectuate it.

And I hope that the author of the bill would be receptive to good ideas even if he thinks they come from sources opposed to the bill.

With that, I will yield—

Mr. Schiff. Would the gentleman yield?

Mr. Sherman. Yes.

Mr. Schiff. I thank the gentleman for yielding.

Mr. Berman. That would be a really good idea.

[Laughter.]

Mr. Schiff. Mr. Chairman and Mr. Sherman, I think we could easily draft language dealing with the—excluding this from interparties review and also providing in terms of inequitable conduct that an allegation on best mode would not constitute prima facie evidence of unpatentability, as we have redefined the inequitable conduct defense.

Mr. Berman. If I may, would you yield? The one thing I have learned from this experience is nothing can be easily

drafted.

[Laughter.]

Chairman Conyers. Does the gentleman yield back?

Mr. Sherman. While nothing can be easily drafted, knowing that the gentleman from Indiana and the gentleman from the San Fernando Valley are working together, I am sure that they can overcome even the tallest obstacles to good draftsmanship.

And I yield back.

Chairman Conyers. I thank the gentleman.

The question is on the perfecting amendment offered by Mr. Pence.

All those in favor will signify by saying, "Aye."

All those opposed will signify by saying, "No."

In the opinion of the chair, the ayes have it. The amendment is agreed to.

And the chair recognizes the gentlelady from Texas, Sheila Jackson Lee, for an amendment.

Ms. Jackson Lee. I thank the chairman.

Let me thank the mover of the bill, Mr. Berman, and Mr. Smith.

And let me begin by calling my amendment up—that is, 480.XML.

Chairman Conyers. The clerk will report.

The Clerk. "Amendment to the amendment in the nature of

a substitute to H.R. 1908 offered by Ms. Jackson Lee of Texas. Page 16, insert the following after line 11: (1) Review Every 7 Years. Not later than the end of the 7-year period beginning on the effective date under subsection (k), and the end of every 7-year period thereafter—"

[The amendment by Ms. Jackson Lee follows:]

********** INSERT **********

Ms. Jackson Lee. Mr. Chairman, I ask unanimous consent that the amendment be considered as read.

Chairman Conyers. Without objection, so ordered.

The gentlelady is recognized in support of her amendment.

Ms. Jackson Lee. I again reinforce my appreciation for this very long period of time. I think Mr. Berman mentioned in his opening comments that he had been working on this for 5 years.

And I think it is a testament to the importance of this question, but it also is a recognition that this is a question dealing with the patent law that has advocates and opponents on many sides of the industry.

I think it would be simplistic to suggest slogans that would favor—or that are favored by the media and other observers of the patent reform process that the issues fall down amongst industries.

Industries are too complex and important to be reduced into sound bites like farmer versus tech, or tech versus trolls.

There are technology and pharmaceutical providers on all sides of virtually every issue involved in this debate. They all play an important part in our innovation ecosystem, a system that is critical to tomorrow's technology, which itself is key to our nation's economic strength and ability.

I am reminded that Article 1, Section 8, Clause 8 of the Constitution confers upon the Congress to promote the progress of science and useful arts by securing for limited time to authors and inventors the exclusive rights to their respective writings and discoveries.

Previous amendments that we have just debated really frame the debate that we have and the concerns that even those of us who are supporting this legislation will continue to have.

The innovation ecosystem today will produce tomorrow's technological breakthroughs. The ecosystem is comprised of many different operating methods.

It is for that reason that we need to vet patent reform proposals thoroughly, to ensure that sweeping changes in one part of the system do not result in unintended consequences on other important parts.

This is particularly true in the case of determining the proper measure of damages. Any legislation relating to determining a reasonable royalty should ensure that all inventors can obtain adequate compensation for infringement of their patent.

I am pleased that the continued discussions that we have had as it relates to the codification of the apportionment principle, which should have been undertaken only to address inconsistencies, have been responded to in the manager's

amendment so the entire market value now is a basis upon which we might be able to assess a reasonable royalty. That is a great concern.

And I imagine, Mr. Chairman, that it will continue to be a concern as we move toward the floor and then finally to a signing of the bill.

I think that it is key that we must, as the Constitution mandates, examine the patent system periodically to determine whether there may be flaws in its operation that may hamper innovation.

On the other hand, Mr. Chairman, we must be mindful of the importance of ensuring that small companies and others have the same opportunities to innovate and have their inventions patented and that the laws will continue to protect their valuable intellectual property.

Mr. Chairman, you are to be commended for your yeoman efforts to in seeking to broker consensus on the subject of damages. It still remains a concern for me and, I imagine, others.

The complexity stems not from the unwillingness of competing interests to find common ground, but from the interactive efforts of patent litigation reform on the royalty negotiation process and the future of innovation.

Important innovations come from universities, medical centers and smaller companies that develop commercial

applications from their basic research, but also from the divide, if you will, amongst those who are large companies on the question of damages.

It is very important that we take care not to harm the incubator of tomorrow's technological breakthroughs.

It is for this reason that we need to evaluate and periodically reevaluate the patent royalty system competing to ensure that the major changes made to Section 5 do not result in unintended consequences to other important—

Chairman Conyers. Will the gentlelady yield to me? It is her intention that she recommend a periodic 7-year study?

Ms. Jackson Lee. My amendment, Mr. Chairman, would help to ensure that the brave new world of the 21st century would do that.

My amendment operates as a safety valve and measures that would reexamine, as you have indicated, the royalty damage formula in the bill. And I would hope that my colleagues would view this amendment as constructive.

And, Mr. Chairman, as I close, as you have indicated, I would simply say for those who are confident of the future, my amendment will give them vindication.

For those who are skeptical that the new changes will work, my amendment will give them the evidence they need to prove their case.

For those who believe that maintaining the status quo is

intolerable, my amendment offers a way forward. I would ask my colleagues to support the amendment.

I yield back.

Chairman Conyers. I thank the gentlelady. And I can report to you that both the chairman of the subcommittee and the ranking member and I are enthusiastically in support of your study proposal.

And with that—

Mr. Watt. Will whoever has the time yield just for a question?

Chairman Conyers. Well, nobody has it right now.

Mr. Watt. In that case, I move to strike the last word.

Chairman Conyers. Oh, Mel Watt. Of course.

Mr. Watt. I am just wondering whether the list of amendments indicates that there are two separate amendments, one relating to studying the damages and one relating to studying the first to file provision.

It sounded to me like—I mean, we have only one of those amendments in front of us.

Ms. Jackson Lee. I have called up the one relating to damages. You should have the one on damages.

Mr. Watt. No, I didn't get that one.

Chairman Conyers. Are you proposing we take them both at the same time?

Mr. Watt. I was just trying to figure out whether they

were combined into one amendment and whether it might be appropriate—

Ms. Jackson Lee. They are in different sections, but we would be happy—since I have—

Mr. Watt. —to consider them en bloc.

Ms. Jackson Lee. —a third amendment, I would be happy to put these en bloc, if the body would—

Mr. Watt. The one that I got distributed to me related only to first to file. It didn't relate to damages, and it sounded like the gentlelady was debating the one related to damages.

And I am just thinking that maybe in the interest of time we could take them both up en bloc.

Chairman Conyers. Without objection, consent is granted for that.

Let's take them both.

The chair has noted in his experience that the closer it comes to lunchtime, the more quickly the legislative process advances.

Mr. Watt. Is the chair and all of the people that you described supporting both amendments?

Chairman Conyers. Yes, they are.

Mr. Watt. In that case, I move they be considered en bloc.

Chairman Conyers. Without objection, so ordered.

Ms. Jackson Lee. I thank the distinguished—

Mr. Feeney. Parliamentary inquiry?

Chairman Conyers. Of course.

Mr. Feeney. Have both amendments been reported?

Chairman Conyers. Only one has been reported.

Ms. Jackson Lee. That is correct.

Chairman Conyers. And we will ask the clerk to report the other at this point.

Ms. Jackson Lee. Thank you.

The Clerk. "Amendment to the amendment in the nature of a substitute to H.R. 1908 offered by Ms. Jackson Lee of Texas. Page 30, insert the following after line 25: (e) Review Every 7 Years. Not later than the end of the 7-year period beginning on the date—"

[The amendment by Ms. Jackson Lee follows:]

********** INSERT **********

Ms. Jackson Lee. Mr. Chairman, I ask that the amendment be considered as read.

Chairman Conyers. Without objection, so ordered.

The gentlelady will be given an additional few minutes to comment on both of these amendments now en bloc before the committee.

Ms. Jackson Lee. Mr. Chairman, thank you very much.

We have had, over the period of weeks and months that we have had in the 110th Congress to discuss this bill, a number of positions on the impact of the first to file question, particularly as it reaches a variety of segments that are impacted.

That would include, in this instance, universities. Many times, you have work published before the invention is patented. This will study the impact of that.

I know the manager's amendment has extended the time for first to file, and I thank the chairman of the subcommittee and ranking member for that.

And I think this is a constructive addition to ensure this process, for I hope that we will not wait as long as we have waited in the past to respond to constituents' concerns on patent reform and may have the opportunity to improve these bills as we go forward.

With that, I would ask my colleagues to support the two amendments.

And I would yield back to the distinguished chair.

Chairman Conyers. I thank the gentlelady.

Lamar Smith?

Mr. Smith. Mr. Chairman, I just want to say I support this amendment. It directs the PTO to study two important provisions of the patent reform act. It can't hurt, and it might well do some good.

I will yield back.

Chairman Conyers. The chair is prepared to call the question on both of the Jackson Lee amendments. Both call for reviews and studies.

And the question on her perfecting amendment will be voted on.

And those in favor of approving the amendments will signify by saying, "Aye."

Those opposed, by saying, "No."

The ayes have it. And the amendments are agreed to.

I thank the gentlelady.

Mr. Chabot. Mr. Chairman?

Chairman Conyers. Who seeks recognition?

Mr. Chabot. Here, Mr. Chairman.

Chairman Conyers. Ah, Mr. Chabot?

Mr. Chabot. Thank you, Mr. Chairman. I have another amendment at the desk, number 49.

Chairman Conyers. All right. The clerk will report.

The Clerk. "Amendment to the amendment in the nature of a substitute to H.R. 1908 offered by Mr. Chabot of Ohio. Page 30, insert the following after—"

[The amendment by Mr. Chabot follows:]

********** INSERT **********

Mr. Chabot. Mr. Chairman, I ask unanimous consent that the amendment be considered as read.

Chairman Conyers. The gentleman is recognized for 5 minutes in support of his amendment.

Mr. Chabot. Thank you very much, Mr. Chairman.

And I think the previous discussion that we had during the best mode debate on the amendments I think does, to some extent, illustrate why we need to completely get rid of the inequitable conduct defense and how the inequitable conduct defense can be misused.

Now, the amendment that I am offering now has, to some degree, been dealt with already by Mr. Schiff's amendment, but mine would go further and get rid of the inequitable conduct defense altogether.

It is very straightforward. As I said, it simply prohibits the inequitable conduct defense from being asserted by a defendant during litigation.

As we talk about reform today, I want to emphasize the important grant of trust that a patent conveys on a patent holder. Its significance should not be taken lightly.

A patent is a measure of trust between the public and an inventor. The public is the beneficiary of the invention. The inventor is the recipient of the right to exclude others from using the invention for a specific period of time.

To receive this special grant of trust, inventors are

under an obligation under Section 32 of Title 35, Regulation 1.56 of the CFR and the other ethical obligations to deal fairly and honestly with the patent office and to disclose all relevant and material information known at the time to the patent examiner.

Wrongdoers or perpetrators of fraud are subject to sanctions, including civil and criminal penalties for serious acts of misconduct or fraudulent behavior.

In litigation, the courts have recognized a breach of this duty of candor and fair dealing in the form of an affirmative defense, the inequitable conduct defense, which may be asserted by a defendant to an infringement claim.

Despite its good intentions, the inequitable conduct defense has been asserted more frivolously and at increasing rates by defendants in litigation.

As a result of more time and energy and cost being expended to ascertain the intent of a patent owner or inventor at the time of filing, the very real threat of an inequitable conduct allegation has forced patent applicants to disclose excessive amounts of information, regardless of whether it is relevant or material to the invention at hand.

This papering up of the examiner has resulted in increased burden on examiners who are forced to wade through this information, which in turn results in delays in patents being issued.

In certain instances, not enough information is disclosed. Either way, the threat of misconduct against an applicant prevents any meaningful dialogue from occurring between the examiner and applicant, harming examiners and owners and ultimately the public.

While I support any and all sanctions for any intentional misconduct and misrepresentations, I am concerned that this recognized defense is contributing to the number of weak patents that are being granted by examiners, which is ultimately contributing to the increased time and costs of litigation.

Without the threat of misconduct hanging over them, patent applicants will feel free to more fully discuss and work with an examiner rather than just submitting meaningless information. In this case, less is better.

This amendment will also assist in reducing litigation costs. Without the availability of this defense, litigants will be better able to focus on the patent and claims at issue rather than unnecessarily diverting the focus of the litigation and precious resources.

And I urge my colleagues to support patent reform by supporting this amendment.

I yield back.

Chairman Conyers. I thank the gentleman and recognize Howard Berman.

Mr. Berman. Thank you, Mr. Chairman.

Existing law provides the defense of inequitable conduct in a patent infringement case to challenge whether or not the applicant has met his or her duty of candor. We have made a series of changes to deal with all kinds of issues that have been pointed out.

Let me just summarize those changes off the top of my head, to the extent that I can. First of all, we have required that the—and remember, this defense has to be proven by clear and convincing evidence, not a preponderance of evidence.

We have said you have to plead it with particularity—in other words, no more just assert the defense, go out, take discovery, huge amounts of time searching and fishing for something that can provide a case for inequitable conduct. You have got to plead it with particularity.

Secondly, we have clarified the standard in the manager's amendment for materiality.

We started out with an importance standard, but as a result of Mr. Schiff's amendment we have increased that to a prima facie case about whether or not the matter would have been patented if what had been withheld by the applicant had been in front of the examiner.

We separated the opponents who criticized—the people who want this change—many of them oppose other parts of the bill,

but they very much want this change—have been saying we shouldn't let people infer intent based on the materiality.

So we have created a separate requirement that you have to prove intent, and you cannot infer intent from the materiality of the material withheld from the patent examiner or the false information given to the patent examiner.

One of the big concerns about the defense of inequitable conduct is when a huge amount was at risk, you wouldn't get your patent. The claim in the patent you wouldn't get. You wouldn't get any of the other claims in the patent.

And if you had related patents, all of those could be struck down, and those were the court's only choices.

Mr. Schiff's amendment—yes, it was Mr. Schiff's amendment, not the manager's amendment, that provided a series of lesser alternative sanctions for this.

But I don't want to present a bill on the House floor that says we are taking away the duty of candor when someone has egregiously violated the standards they are supposed to comply with in providing the information regarding whether or not the tests for patentability have been met.

I don't think our colleagues should want us to get rid of that. I think it is a bad move. And I hope the amendment is rejected.

Thank you, Mr. Chairman. I yield back.

Chairman Conyers. Thank you.

Lamar Smith?

Mr. Smith. Thank you, Mr. Chairman.

Mr. Chairman, the gentleman from Ohio's amendment forbids litigants from asserting the inequitable conduct defense in patent disputes.

While there has been abuse in this area through the years, the manager's amendment addresses the necessary reform in a good balanced way. The problem is that defendants always allege this in pleadings and its review is based on trying to determine the subjective belief of the patentee, that is, what he or she was thinking when they wrote the application.

Most interested parties want this to be simplified by reducing the subjective element of the process. The manager's amendment codifies the inequitable conduct doctrine by making the defendant infringer plead with particularity. He must prove his case by clear and convincing evidence.

Finally, the changes also define materiality and intent and mandate that all evidence be turned over to the PTO for further review, if necessary. This ensure that only genuine misrepresentations will result in a patent-holder losing their patent, but it does not eliminate the defense all together, which this amendment does, a change that suggests we are being cavalier about misconduct before the PTO.

Now, for these reasons, Mr. Chairman, I think we need to

resist this amendment.

And I will yield back the balance of my time. I will yield the balance of my time, Mr. Chairman, instead, to the gentleman from North Carolina, Mr. Coble.

Mr. Coble. I just want to weigh in. I thank the gentleman for yielding.

I don't want this day to be recognized, Mr. Chairman, as piling onto Mr. Chairman. I feel like we are piling onto him. But I believe this matter is addressed adequately, as the gentleman from California said, in the amendment in the nature of the substitute, and I oppose the amendment.

I will yield back the balance of my time.

Chairman Conyers. And the gentleman yields back.

Mr. Lungren. Mr. Chairman?

Chairman Conyers. Who seeks recognition?

Yes, the only attorney general from California we have ever had is recognized.

Mr. Lungren. Thank you, Mr. Chairman, the only chairman of the Judiciary Committee we have at the present time. I appreciate that.

Because I don't want to see all this piling on, even though I find difficulty in supporting his amendment, I would like to yield to the gentleman from Ohio to see if he can get out from under the pile.

Mr. Chabot. Well, I thank the gentleman for that.

I have thought long and hard of this, but I decided not to ask to have the gentleman's words taken down about the cavalier comment. I am not a cavalier kind of guy.

But this amendment, first of all, in response to a couple of things that were said, doesn't touch Rule 156. The duty of candor and all the other ethics rules remain in place.

The substitute amendment that we referred to as that that kind of took care of things simply codifies one interpretation of the status quo. This change, unfortunately, does not get us where we need to be in terms of limiting the assertion of the defense by a third party.

The National Academy of Sciences, back in 2003, in a report, recommended that Congress eliminate the subjective elements of the patenting process and these subjective elements have been the source of additional time and effort during patent litigation.

The amendment that I have offered recognizes the National Science recommendation and the problem that the availability of this defense presents. By eliminating this defense all together, we rid the patent process of another element that a party can use to divert the focus away from the patent and claims in suit and on to the state of mind of the patent owner, which ultimately forces parties to expend additional time and money in litigation, as I have mentioned.

Eliminating this defense does not diminish the significance of the patent process or the rules that can govern honesty and fairness and candor in the application, examination, reissue or reexamination proceedings.

There are ethical rules, as I said before, as well as civil and criminal penalties to address wrongdoing. Those aren't changed at all by this amendment, by adoption of the amendment. Those rules remain in place.

This amendment, in no way, shape or form, diminishes the significance of the obligations imposed on an applicant and, for that reason, I would urge my colleagues to support this amendment.

And I yield back to the gentleman from California.

Mr. Berman. Would the gentleman yield? We are piling on.

Mr. Lungren. I would be happy to yield to my friend from California.

Mr. Berman. Just to clarify two points my friend from Ohio made and they were good arguments, but, one, the National Academy of Sciences said repeal it or reform it. We are choosing to reform it in the manager's amendment and in the Schiff amendment.

And, secondly, a duty of candor without the ability of the challenge becomes a pretty weak duty in this area. I mean, I do think there is a—in the cases where the omissions—

the refusals to supply information, the intentional material withholding of information or providing of improper or wrong information to the examiner, leaving some opportunity to raise that in this new and reformed way I think gives meaning to the duty of candor that it wouldn't have without it.

Mr. Chabot. Would the gentleman from California yield?

Mr. Lungren. I will be happy to yield to my friend.

Mr. Chabot. I thank the gentleman.

Relative to the repeal or reform, again, for the arguments that I have already made, I just don't think that this is sufficient reform and the penalties for those that would carry on inappropriate behavior or misconduct are still present.

So the public is still completely protected, even if this amendment passes and we repeal the defense.

And I thank the gentleman for yielding, and I yield back.

Mr. Lungren. I yield back the balance of my time.

Chairman Conyers. I thank the gentleman.

The question is on the perfecting amendment offered by Mr. Chabot.

All those in favor, say, "Aye."

All those opposed, say, "No."

The noes have it, and the amendment is not agreed to.

The chair recognizes the gentleman from Georgia, Hank

Johnson.

Mr. Johnson. Yes, Mr. Chairman, I have an amendment at the desk.

Chairman Conyers. The clerk will report the amendment.

The Clerk. "Amendment to the amendment in the nature of a substitute to H.R. 1908 offered by Mr. Johnson of Georgia and Mr. Feeney of Florida. Page 24, beginning on line 12, strike—"

[The amendment by Mr. Johnson and Mr. Feeney follows:]

********** INSERT **********

Chairman Conyers. I ask unanimous consent that the amendment be considered as read, and recognize the gentleman from Georgia.

Mr. Johnson. Thank you, Mr. Chairman.

Mr. Chairman, I want to thank the subcommittee chair, Mr. Berman, and also Representative Tom Feeney from Florida for their efforts to put together this bipartisan amendment.

Apportionment of damages has been a very controversial and divisive issue for many patent-holders. There are those who believe the current system allows for excessive awards partly due to the complexity and growing sophistication of technology and the sheer number of patented components in products, such as cell phones, automobiles and computers.

Yet, there are those whose products may encompass very view patented components and who expect the same level of protection and assurance that, if their product is infringed, they will be adequately compensated.

We have two sides who want to accomplish the same thing—a reasonable royalty for their patented inventions—but they present vastly different views on how damages should be assessed.

While the objective remains the same, the path to get there is different. I believe that this amendment meets both parties' concerns in the middle.

Once the court finds that the plaintiff is entitled to

damages and begins to assess reasonable royalty damages or actually instructs on reasonable royalty damage, the current language would mandate that the courts conduct an apportionment analysis, mandatory.

However, the Johnson-Feeney amendment would allow judges the discretion to determine how the assessment should be conducted either through an apportionment analysis, an entire market analysis, or other factors, including the 15 factors set forth in the Georgia Pacific case.

The legislative history, should this amendment pass, will make references to the factors within Georgia Pacific as permissible factors in the decision for damages.

And it is my hope that members of the committee will support this bipartisan amendment.

I yield back the balance of my time.

Chairman Conyers. I thank the gentleman.

And I recognize Lamar Smith.

Mr. Smith. Thank you, Mr. Chairman.

I support the gentleman from Georgia's amendment.

Apportionment of damages is the most controversial component, I think, of H.R. 1908. During the past 2.5 years, we have struggled to write a provision that offers guidance to judges and juries who must determine the true worth of an invention when it has been incorporated in a product that contains other patented devices or methods.

I would be reluctant to support any change to the apportionment treatment in the manager's amendment. However, I think this amendment does represent a beneficial tweak.

The amendment simply emphasizes that apportionment analysis is not appropriate in every case and that the judge should be given discretion in applying it.

I think that is a fair adjustment, Mr. Chairman. So I support the amendment.

And I will yield the balance of my time to the gentleman from Florida, Mr. Feeney.

Mr. Feeney. I want to thank the ranking member and, also, Chairman Berman for working with all the members of the committee on this and other important issues that we have had concerns about.

And I want to thank Congressman Johnson for offering this amendment with me. I appreciate that.

I should say, however, that I think that we should go further in working on the apportionment language and I have been in constant discussions with the leadership of both parties and am still hopeful that we can make further revisions, because there are certain serious concerns about the impact as we make this dramatic change to patent law, the biggest change since 1952.

Even under the updated provisions in the manager's amendment, the court was still required to conduct an

apportionment analysis in each and every case.

This amendment by Congressman Johnson and I would preserve some judicial discretion in determining a reasonable royalty and give the court a choice between one or all approaches laid out in the bill, apportionment, market or other relevant factors.

This would be important to give the court flexibility to consider a variety of approaches in order to choose the one that is best suited to the individual case. That will ensure the courts will continue to have some discretion rather than be forced to give one factor more weight than others.

I do continue to have concerns, however, because I don't think any of us really knows what the outcome of our new apportionment approach is going to be and I think that Congresswoman Jackson Lee's 7-year study will be helpful for future Congresses to come back and revisit this issue.

But in the meantime, we are in a whole new world of uncertainty in terms of what our language in this bill will ultimately mean.

In the subcommittee, I tried to make the point that the language in the bill could unduly diminish the value of certain patents by encouraging courts to subtract any value contributed by prior art. A lot of experts have voiced serious concerns, including Chief Judge Paul Michel of the federal circuit court of appeals, the court which hears the

patent appeals in the United States.

And so I do appreciate, again, working with the ranking member, Mr. Berman, Mr. Coble and others. This additional language gives me some comfort that as the bill moves forward, we will hopefully see even more changes and improvements.

And with that, I would yield back to the gentleman from Texas.

Mr. Smith. Mr. Chairman, I will reclaim my time and yield to the ranking member of the I.P. Subcommittee, Mr. Coble.

Mr. Coble. I thank the gentleman from Texas for yielding, and I will be very brief.

I simply want to extend or echo the comments made by the gentleman from Florida. I think this is a good amendment, a step in the right direction.

But, Mr. Chairman and Ranking Member, I know there are members of the patent community who believe that it does not go far enough, and we can address that subsequently, hopefully, Mr. Chairman.

And I thank the gentleman for yielding.

Mr. Smith. And, Mr. Chairman, I will yield back.

Chairman Conyers. I thank the gentleman.

Howard Berman?

Mr. Berman. Mr. Chairman, I move to strike the last

word.

I am not going to use this opportunity to discuss why apportionment is so important. We have a number of recent cases, a trend of developments which indicates that particularly in cases where products with many components are manufactured, that some very bizarre and wrongheaded trends are developing, and this apportionment language is designed to correct it.

What I do want to do in this time is to profusely thank the gentleman from Georgia and the gentleman from Florida for offering this amendment, because this amendment, I believe, is—it is not a tweak. It is a substantial step in giving the trial judge the discretion, when a reasonable royalty is the true measure of damages, to look at the entire market value, to look at apportionment, as we have described it in the bill, or to look at other factors. The trial judge has that discretion.

If the trial judge thinks apportionment is the appropriate remedy, then Congress, I think, has an appropriate right to prescribe how they do apportionment.

And my commitment to the gentleman from Georgia and the other members of the committee who are concerned about the way that language is written is to keep talking to them and work with them and to try and come to a reasonable resolution, but a resolution that deals with the problem we

have seen in these cases, where a patent on a small part of the final product, the value is measured—in the IBM-Alcatel case—I mean, the Microsoft-Alcatel case, they took the value of the computer to measure the royalty rate from a small part of the source code on an interchangeable MP3 compression system and came to a judgment it was $1.5 billion.

If that were just an aberration, it would let the whole process work. But consistently we are finding that that becomes the problem here. That is what the apportionment is designed to do, but we are going to give the trial judge the discretion to decide when with this amendment.

I support this amendment. I am very grateful and I know the gentleman from Georgia and the gentleman from Florida and others on the committee have been very concerned about this and it is an ongoing process. It is a work in progress and we will keep talking to try and come down to some accommodation which deals with the reasons for this language, but in a way that makes people less nervous.

I yield back.

Chairman Conyers. I thank the gentleman.

And I yield to Judge Louie Gohmert.

Mr. Gohmert. Thank you, Mr. Chairman. I would move to strike the last word on this amendment.

And I do appreciate the gentlemen from Georgia and Florida and, also, Mr. Berman, your open-mindedness.

This is such a tough issue on apportionment and I know there have been a lot of people that have been screaming for changes in the area of apportionment of damages for the very kind of abhorrent results that have been mentioned.

But I have actually looked at maybe trying to craft an amendment that would utilize parts of the Georgia Pacific factors. Those have been the law for some time. They have been utilized and some disagree and think they give too much discretion.

But it struck me that perhaps this is a bit like, as it was ultimately gone to, taking so much discretion away, it would be like saying the umpire in baseball will not be able to have any discretion. We have got a little button here and if the pitcher doesn't hit the button, it is not a strike.

I think we get back to having more of a strike zone that can be hit with this amendment, but I do think it would be better with a little more tweaking to try to avoid the abhorrent results the other way or doing too much damage to the patent business, because this is, as Mr. Berman indicated, even this amendment is a big change from the amendment and the amendment is an extraordinary change from the current law.

So I hope and I would love to be included in trying to craft what will work without doing too much damage to the law, because here again, going back, whether it is venue,

whether it is apportionment of damages, best mode, people do need some certainty or a little more finality in knowing what it is they are dealing with in order to be fair.

And I have to say, Mr. Chairman, this seems to be one of the least political debates we have had where it really feels like most of the members of the committee are just trying to come to a fair conclusion and I appreciate very much the committee's effort in that regard and we will continue to work on that.

Mr. Johnson. Will the gentleman yield?

Mr. Gohmert. Yes, Mr. Johnson.

Mr. Johnson. All right, thank you, sir.

I just want to respond to the assertion made earlier that the amendment would require an apportionment analysis by the fact-finder as to damages, and it would not.

It would simply give the fact-finder of damages the ability, the flexibility to decide damages based on an apportionment analysis or other factors or the entire value analysis.

So I think it is a pretty flexible approach that has been built into the legislation and then I would ask that it be passed.

Mr. Gohmert. Okay. Thank you.

Ms. Jackson Lee. Would the gentleman yield?

Mr. Gohmert. Yes. I would yield to my friend from

Texas.

Ms. Jackson Lee. I thank the gentleman very much.

We have come to a point—there are one or two more amendments, but we have spent a sizeable bit of time on this question of damages, because as we have come in a bipartisan way to support the bill, I think all of us are still grappling or reviewing.

And I respect the chairman of the subcommittee and the ranking member and the chairman of the full committee and ranking member of the full committee, because they are listening.

And I want to thank the distinguished gentleman from Georgia and the gentleman from Florida, because the main elephant in the room, if I might say that, and my good friend from Texas might be thinking I am referring to a certain group, but I am not, the largeness of the issue in the room is the Georgia Pacific in codifying that and that is something that had a great deal of support from those who were concerned.

I think the gentleman's amendment providing the discretion to the court goes a long way, matched with this idea of studying how we can be more effective in the damage assessment.

And I am reminded by many of the Post-It analysis that talks about how you assess a product that has been invented

and whether or not you take the holistic product as opposed to looking at pieces that might already exist.

I think your amendment, along with amendments that have been offered, move this legislation forward and I think that it gives us a greater opportunity to again review how the damage process should work so that our original premise, what patents are all about is moving this country forward technologically and have some good breathing room, if you will.

So I think your amendment is a good breathing room amendment and I am very pleased to rise to support it and remain committed to studying and working on this damage question as we move this legislation forward.

I thank the gentleman from Texas for yielding and he obviously knows that the elephant I am speaking about is the other elephant in terms of its size.

I thank the gentleman from Texas.

Mr. Gohmert. My time has expired. Thank you, Mr. Chairman.

Chairman Conyers. Thank you very much.

Brad Sherman?

Mr. Sherman. Move to strike the requisite number of words and to speak in favor of this amendment.

Chairman Conyers. The gentleman is recognized.

Mr. Sherman. Commend the gentleman from Georgia for

bringing up this amendment.

The bill's most controversial aspect has been to move toward apportionment and away from the Georgia Pacific factors. This amendment moves us back closer to the Georgia Pacific factors.

And I have only been on the committee for a short time and my own view is when an Eskimo is in the room, it tells you the room is too cold, it is a cold room. And I saw 3M and Motorola come into my office and say, "This bill is unfair to plaintiffs."

And I almost keeled over, because these are the same folks who have been telling me for 10 years, when I wasn't on this committee, that everything is unfair to defendants and that plaintiffs and trial lawyers are ruining America.

So I took some notice of what they had to say. I would like to see us provide the strongest—I mean, I approach this without my colleague, Mr. Berman's knowledge of patent law, but perhaps I share with him a strong belief that we should do everything possible to protect intellectual property.

That is, in part, because our districts are so involved with copyright holders and with universities, but, also, I come, as Betty Sutton and so many on this committee do, with a strong concern for our international competition and the huge trade deficit.

And I think it is important that we avoid anything that

would be viewed as downward harmonization on any aspect of intellectual property and that when we look to future competition, we see that our future competitors may very well move from manufacturing to being able to integrate and market, but they will not be able to match the United States in terms of our ability to invent.

And so we have to protect inventors if we are going to protect our international position. And I think that this amendment moves in the direction of causing this bill to protect inventors and thus protect our international position.

So many of those who manufacture in the United States do so because they invent in the United States and its important to protect inventors/manufacturers.

I think that this amendment is wise. I especially commend the author of the bill for, as I understand, accepting it and moving this bill in the right direction.

And I yield back.

Chairman Conyers. I thank the gentleman.

The question is on the—

Mr. Watt. Mr. Chairman?

Chairman Conyers. Who seeks recognition?

Mr. Watt. To your right over here.

Chairman Conyers. Okay. Mel Watt?

Mr. Watt. I move to strike the last word. I won't take

5 minutes, Mr. Chairman.

I just want to express my thanks to the chairman, also, for being flexible in this area and rise in support of the amendment, but express that there are still some ongoing concerns that people are expressing about subparagraphs 2 and 3, and I hope we will continue to look at that, as the chair has indicated he will, as we move through this process and make sure that we have got the right formula.

But the amendment certainly moves us back in the direction that I think is more comfortable for a lot of the interests in this area and I support it.

And I yield back the balance of my time.

Chairman Conyers. I thank the gentleman.

The question is on the perfecting amendment offered by the gentleman from Georgia, Mr. Johnson.

All in favor will signify by saying, "Aye."

All opposed, by saying, "No."

The ayes have it, and the perfecting amendment is agreed to.

The chair is pleased to now recognize the distinguished gentleman from Virginia, Rick Boucher.

Mr. Boucher. Mr. Chairman, thank you very much.

And I, too, want to congratulate and commend subcommittee Chairman Berman and the balance of the leadership of the committee for the fine work they have done

in bringing this very constructive patent reform measure before us this morning.

The amendment that I am offering—oh, and, Mr. Chairman, I have an amendment at the desk.

Chairman Conyers. That is a good idea. Okay. The clerk will report the amendment.

The Clerk. "Amendment to the amendment in the nature of a substitute—"

[The amendment by Mr. Boucher follows:]

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Mr. Boucher. And I ask unanimous consent that it be considered as read.

Chairman Conyers. Without objection, so ordered.

The gentleman is recognized.

Mr. Boucher. Well, thank you very much, Mr. Chairman.

This amendment prohibits prospectively the award of patents for tax planning methods. These patents on tax strategies limit the ability of taxpayers to determine their tax liabilities in the manner that is the most efficient for them given their financial situation.

When a patent exists on a particular tax strategy, the taxpayer or the accountant who prepares the return on behalf of that taxpayer could not use the strategy without paying a licensing fee to the owner of the patent and that licensing fee would then be in whatever amount the patent-owner requires.

Among other inequities, these patents are a trap for the unwary small practitioner accountant who may well have mastered tax law and tax practice, but heretofore has never had to worry about the patent law, and, just through his own creativity, may clearly see a strategy that would benefit his client and implement that strategy to his broad disadvantage and that of his client, when later the accountant and perhaps the client would become subject to a patent infringement action.

So not surprisingly, the accounting profession is strongly in support of the amendment that I am offering today.

Fundamentally, patents on tax strategies limit the ability of taxpayers and the accountants who they employ to freely interpret the tax laws and find the most efficient means of lessening or avoiding tax liability.

If a patent exists on a particular method, the taxpayer would have to pay what could be a very large sum or perhaps forego the use of that clearly appropriate strategy all together. And I suggest that such a barrier to the ability of every American to find creative ways to apply the tax code in order to lessen liability in a way clearly contemplated by the Congress when tax provisions were adopted is contrary to sound public policy.

Approximately 60 tax method patents have been issued to date. More than 85 are presently pending at the patent office. And unless this amendment is adopted, many more in the future will be awarded.

Mr. Chairman, the problems addressed through this amendment will not be resolved simply by passing the underlying bill and thereby improving patent quality.

If tax methods are patentable, patents will be issued as long as the strategies are original, non-obvious and otherwise satisfy the requirements of the patent law.

Nothing in the underlying bill would alter that outcome.

The only way to eliminate the award of new tax method patents is to make them non-patentable. That is what this amendment would do.

The amendment addresses the same concern as a separate bill that I previously introduced along with our committee colleagues, Representatives Goodlatte, Sherman, Cannon, Chabot, Davis, Pence and Gohmert, and I thank each of these committee members for their constructive work on this matter.

Mr. Chairman, I urge adoption of the amendment and I would be happy to yield to the gentleman from California.

Mr. Berman. I thank the gentleman for yielding. I support the amendment.

There is a conceptual question here. Do you exclude from patentability a particular area? I don't believe these things meet in the context of what we think of as an item that can be patentable, this mental process that develops, this original tax strategy as something that should be patented. But given what has happened, they have been patented and this amendment comes to grips with that reality and seeks to address it.

It is not the first time. We have already exempted from patentability medical procedures. Can you imagine having to pay a royalty every time that particular heart operation that was patented by someone is utilized to save a life?

Here, the analogy might be should only the clients of the accountant who thought about how to get the earned income that partners in certain kinds of equity funds and hedge funds and real estate funds have, strategies to get that earned income treated as investment income, should only the clients of that accountant who first thought of that get it or should all people in that class get it or should no one get it?

But the point is not about the particular strategy. This is not something that should be patented and the gentleman's amendment I think makes sense and I urge the committee—

Ms. Lofgren. Would the gentleman yield?

Mr. Berman. I would be happy to yield to the gentlelady from California.

Chairman Conyers. I will yield 2 additional minutes.

Ms. Lofgren. Thank you, Mr. Boucher.

As Mr. Boucher knows, I agree with what he is attempting to accomplish here. I mean, it is just absurd to think that you could patent these tax planning methods.

I have felt some concern about the method being used for the Congress to actually take this step. I am mindful, however, that the amendment, as written, does not violate TRIPS. That was an issue that was of earlier concern.

And because I feel that the underlying merits are so

strong on the actual tax planning, I don't want to oppose the amendment, but I did want to put on the record my concern that if Congress goes down the path of outlawing or prohibiting patents on various things, it is a path that overall we don't want to follow, I think, and I don't think that the gentleman disagrees.

So if this is a one-time exception, it is a meritorious one, but I just wanted to get those concerns on the record, as I do not vote against the amendment.

And I thank the gentleman for yielding.

Mr. Boucher. I thank the gentlelady for her comments and let me assure her that while there is precedent for Congress declaring particular applications to be non-patentable, this should not be a common practice and truly is an exception, and I thank the gentlelady for her remarks and her support of what we are attempting to do.

Mr. Coble. Mr. Chairman?

Mr. Boucher. And thank you, Mr. Chairman. I yield back.

Mr. Coble. Go ahead, Lamar. You wanted to go first.

Chairman Conyers. Lamar Smith?

Mr. Smith. Mr. Chairman, thank you.

I support Mr. Boucher's and Mr. Goodlatte's amendment. Initially, Mr. Chairman, I was concerned that the amendment would violate our treaty obligations under TRIPS, the

intellectual property component of the GATT amendment.

I have since been assured by any number of individuals that this is not the case.

Like other supporters of the amendment, I am concerned that the ability of inventors to secure patents for tax strategy methods may complicate the filing of tax returns. I also oppose any constraints that might discourage tax preparers from giving their clients the best advice possible.

Mr. Chairman, I will yield to the gentleman from North Carolina, Mr. Coble.

Mr. Coble. I thank the gentleman for yielding, and I will be very brief.

My initial response, Mr. Chairman, was to have this matter addressed under a freestanding bill, H.R. 2365, where it is addressed, but Mr. Berman and Mr. Smith both accept the amendment and I will not insist upon that.

And I will yield back to the gentleman.

Mr. Smith. And, Mr. Chairman, I will yield now to the gentleman from California, Mr. Sherman.

Mr. Sherman. Thank you. I thank all the authors of this amendment for telling my fellow CPAs that it is tough enough to learn tax law, we don't have to learn patent law, too.

America has had a schizophrenic view toward tax shelters and tax planning techniques. One group views them from a

populous perspective as an evil raid on the treasury, the other from the view that everyone has a constitutional right to try to arrange their affairs so as to minimize taxes.

The one thing that these two schizophrenic views can agree on is that we shouldn't allow the patenting of tax reduction techniques. If tax reduction techniques are a raid on the treasury, then we do not allow someone to patent burglary tools, you cannot patent cocaine manufacturing techniques, and it is against public policy to allow the patenting of tax reduction techniques.

The purpose of patent law in the Constitution is to aid the development of the arts and sciences and one could argue that it is not the business of the federal government to aid the development of tax shelters.

If, on the other hand, you view tax reduction techniques as protected by the 16th Amendment the same way other constitutional rights are protected, imagine if a defense attorney, a criminal defense attorney came up with the idea that the 14th Amendment applies the Fifth Amendment to the states and, therefore, provides, in every state, a right against self-incrimination.

Would we have to pay that criminal defense attorney a fee if your criminal defense attorney alleges a right against self-incrimination in state court? Are we going to make all our constitutional rights dependent upon paying a fee to

whichever lawyer comes up with the best arguments in favor of them?

So whether we regard tax reduction as a constitutional right which should be available to everyone or whether we regard tax sheltering as a nefarious activity not to be promoted, we need to support this amendment.

And I commend the gentleman from Virginia, first, for putting forward the bill and now for putting forward as an amendment.

And I yield back.

Chairman Conyers. Ladies and gentlemen, we have only one amendment remaining, the gentlelady from Wisconsin, but let's—oh, there are two amendments. I am surprised.

The question now is on the perfecting amendment offered by Mr. Boucher.

Those in favor will say, "Aye."

Those opposed will say, "No."

The ayes have it. The perfecting amendment is agreed to.

And the chair recognizes now the gentlelady from Wisconsin for her amendment.

Ms. Baldwin. Thank you, Mr. Chairman. I have an amendment at the desk.

Chairman Conyers. The clerk will report.

The Clerk. "Amendment to the amendment in the nature of

a substitute to H.R. 1908, offered by Ms. Baldwin of Wisconsin—"

[The amendment by Ms. Baldwin follows:]

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Ms. Baldwin. Mr. Chairman, I ask unanimous consent that the amendment be considered as read.

Chairman Conyers. Without objection, so ordered. And the gentlelady is recognized.

Ms. Baldwin. Thank you, Mr. Chairman.

I do intend to withdraw this amendment after a brief discussion. But before turning to the amendment, I want to thank you and particularly to thank Chairman Berman for being so willing to discuss modifications and improvements to the patent reform bill before us today and I appreciate those opportunities even though they have not produced a number of crucial changes that I sought.

I represent a district with a large public research university, a widely respected entity devoted to technology transfer from the public university setting to the marketplace, and many, many high tech and biotech startups.

Looking at these startups, they are often organizations with just a couple of employees, a scientist, an engineer. They don't have legal departments and their survival as they work to commercialize an invention depends upon investors, venture capital.

In turn, venture capitalists and investors will not ante up in an environment of uncertainty regarding the intellectual property at stake and, for that reason, Chairman Berman, you and I have engaged in some lively discussions

about several sections of this bill, the second window, now the alternative language to second window, and, also, prior user rights.

Turning to the amendment, the amendment before you involves the bedrock principle of the U.S. patent system is publication and disclosure. Our Constitution enshrines the critical idea that innovation is stifled if innovators cannot build upon the research that preceded them.

My amendment would encourage inventors' publication and disclosure in two ways. First, it would remove provisions in the bill that would expand prior user rights in U.S. patent law to include all patentable subject matter.

Expanding prior user rights would give preference to those who begin substantial preparations for commercial use of an invention, even if they are not the one who actually created the innovation.

This preference would encourage inventors to keep their innovations secret or else risk having someone else begin commercial preparations before the inventor has had the time to assemble and file a patent application.

This preference is in direct conflict with the fundamental principle of patent law—encouraging disclosure. It would encourage inventors to protect their creation as undisclosed trade secrets rather than as a publicly known patent, thereby denying innovators the ability to build on

the existing body of knowledge.

Non-private institutions, like universities, which perform much of the basic research carried out in this country, depend upon publication and disclosure to advance research.

The emphasis on trade secrets over patent protection created by prior user rights would undermine these institutions' important contributions to society. Removing the expansion of prior user rights will encourage innovation.

Second, my amendment would require that the assistant secretary of patents and trademarks conduct a study on whether prior user rights laws in other countries promote innovation, the creation of startup companies and technology transfer.

As I indicated at the onset, I intend to withdraw this amendment, but I would hope between now and floor consideration that we will have the opportunity to try to further resolve some of the outstanding issues that I have raised.

And I would be happy to yield some of the balance of my time to Mr. Berman before withdrawing my amendment, if he is interested.

Mr. Berman. Well, number one, as long as put the term "relatively" by the word "lively," because all discussions on this are relatively lively, at best.

But I have enjoyed working with the gentlelady from Wisconsin. She is a strong advocate of her view. I think there is a basis for the expansion of prior user rights, but I want to keep working with her between now and the floor on the other issue involving inter-parties re-exam.

I do think we have come to a particular accommodation there, but I am open to hearing any other arguments. I do note that since the gentlelady referenced the bio startups in Wisconsin, that bio indicates that our changes in that area have done the job and dealt with their concerns on that issue and express their support for the post-grant process this bill now has.

But we are going to work together on this all the way through and I appreciate your withdrawing the amendment at this time and look forward to continuing to work with you.

Ms. Baldwin. Thank you.

Mr. Chairman, I withdraw my amendment and would yield back any remaining time.

Chairman Conyers. Without objection, so ordered. And the gentlelady's comments are warmly received.

The chair recognizes the gentleman from California, Brad Sherman.

Mr. Sherman. Thank you. I have an amendment at the desk.

Chairman Conyers. The clerk will report it.

The Clerk. "Amendment to the amendment in the nature of a substitute—"

[The amendment by Mr. Sherman follows:]

********** INSERT **********

Mr. Sherman. I ask unanimous consent that the amendment be regarded as read.

Chairman Conyers. Without objection, so ordered.

The gentleman is recognized.

Mr. Sherman. I will offer this amendment and then I will withdraw it. I have been asked to speak very quickly.

First, by way of digression, let me further praise the gentleman from Georgia's amendment in that it not only moves us toward protecting inventors, but leaves us with a bill that may deal with some of the outrageous damages that have been awarded in certain high tech cases, which Mr. Berman mentioned earlier.

As to my amendment, the bill does not change the way we deal with infringers whose infringement is intentional. We allow treble damages in intentional cases.

But the bill does continue the practice of allowing an infringer to say, "Well, I wasn't intentional because I didn't know, because I didn't do a patent search." What you don't know can't hurt you or at least it can't hurt you trebly.

What my amendment would do is allow the court to allow treble damages to a patent-holder when the patent is infringed by a person who would have known that they were infringing had they exercised due diligence under the circumstances and done a competent patent search.

It eliminates or is designed to eliminate the disincentive to doing a patent search and eliminate the incentive for doing a patent search secretly or through another entity and then claiming that you never had done the patent search.

So I look forward to working with Mr. Berman in order to accomplish these objectives, but I realize that my amendment is rather new and deserves a full analysis before it is added to the bill.

Mr. Berman. Would the gentleman yield?

Mr. Sherman. I will yield to the gentleman.

Mr. Berman. I just learned about this amendment yesterday. I have had a chance now to look at the specific provisions.

It is a very interesting idea. On both sides of this equation, we want to disincentivize purposeful, blind ignorance, and your amendment recognizes that. The laundry that is using some solvent might have a different burden than a substantial manufacturer with the resources.

And so, again, because I don't know the consequences in all different sectors and would like to have more chance to look at this, I am pleased you are willing to withdraw it. But there is a policy issue about incentivizing "the user's duty" to find out whether they are getting into an infringing area that I think we ought to pursue and I will look forward

to working with you on it.

Mr. Sherman. Reclaiming my time.

The current draft of the amendment is designed to deal with that by indicating that the amount of search is dependent upon the size of the infringer's business operations relevant to it.

And with that, I yield back.

Chairman Conyers. I thank the gentleman for his moving the proceedings along, very much.

If there are no further amendments, the question is on the amendment in the nature of a substitute, as amended.

All those in favor will signify by saying, "Aye."

Those opposed, by saying, "No."

The ayes clearly have it. The substitute amendment, as amended, is agreed to.

A reporting quorum being present, the question is on reporting the bill, as amended, favorably to the House.

All those in favor will signify by saying, "Aye."

Those opposed, by saying, "No."

The ayes have it, and the bill, H.R. 1908, as amended, is ordered reported favorably to the House.

Without objection, the bill will be reported favorably to the House in the form of a single amendment in the nature of a substitute, incorporating the amendments adopted here today.

Staff is directed to make any technical and conforming changes. And all members will have 2 days, as provided by House rules, to submit additional views.

There being no further business before the committee, this hearing stands adjourned. This meeting stands adjourned.

[Whereupon, at 1:21 p.m., the committee was adjourned.]