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S. HRG. 113–637

PROTECTING SMALL BUSINESSES AND PROMOTING INNOVATION BY LIMITING PATENT TROLL ABUSE

HEARING

BEFORE THE

COMMITTEE ON THE JUDICIARY
UNITED STATES SENATE

ONE HUNDRED THIRTEENTH CONGRESS

FIRST SESSION

TUESDAY, DECEMBER 17, 2013

Serial No. J–113–43

Printed for the use of the Committee on the Judiciary

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PROTECTING SMALL BUSINESSES AND PROMOTING INNOVATION BY LIMITING PATENT TROLL ABUSE

TUESDAY, DECEMBER 17, 2013

U.S. SENATE,
COMMITTEE ON THE JUDICIARY,
Washington, DC.

The Committee met, pursuant to notice, at 10:19 a.m., in Room SD–226, Dirksen Senate Office Building, Hon. Patrick J. Leahy, Chairman of the Committee, presiding.

Present: Senators Leahy, Feinstein, Schumer, Durbin, Whitehouse, Klobuchar, Coons, Blumenthal, Hirono, Grassley, Hatch, Cornyn, Lee, and Flake.

OPENING STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM THE STATE OF VERMONT

Chairman LEAHY. Good morning, everybody. Senator Grassley and Senator Hatch and I have been over voting, so that is why we are starting a few minutes late. But I thank you all for being here.

I also wanted to check with Mr. Dwyer about the amount of snow we had back home, because if we ever get out of here, my wife and I want to go and spoil the grandchildren on the ski slopes back in Vermont, which is probably what Senator Hatch wants to do on the ski slopes out in Utah, too. So I was glad to hear about the 10 inches, which in Vermont is considered a heavy dusting, and in Washington it is considered "Snowmageddon." This is the only city I have ever known that will close down for two or three inches. That snow back home, we just take a broom and sweep it off the walks. But, anyhow, on to more serious things.

Last Congress, Members of this Committee and the Congress came together and passed common sense, bipartisan—Democrats and Republicans working together—reform to modernize our patent system. The *America Invents Act* has taken significant steps to improve the quality of patents that are issued by the Patent and Trademark Office. We have allowed outside parties to challenge the validity of a patent after it issues and improves the information available to patent examiners. This is the first real update of the patent laws in over 50 years.

But having done that, there are still bad actors who are abusing the patent system. I have heard from an increasing number of businesses in Vermont and across the country that are being targeted by so-called patent trolls. Instead of asserting a patent claim against the manufacturer of a product, entities are targeting small businesses that simply use the product, figuring it is better for them just to pay them something to go away when they would not

dare take on the manufacturer and could actually fight their spurious claims.

In Vermont, small businesses have received aggressive demand letters claiming payments of $1,000 per employee for using document scanners in their offices. Across the country, and also in Vermont, thousands of coffee shops, hotels, and retail stores received demand letters and were threatened with patent suits simply for using a standard, off-the-shelf WiFi router. Many of the letters are vague form letters. They have no description of how the recipient infringes on a relevant patent. I have also heard examples of patent assertion entities sending letters through dozens of differently named shell companies so that businesses that receive the letters cannot easily find out who sent them.

You do not have to be a patent expert to know what is going on. I mean, this is as close to robbery as you can think of. These actions abuse the patent system, trying to extort settlements from customers and small businesses that have no real means of fighting back. Predatory conduct that simply takes advantage of end users does not promote the important goals for which our patent system was intended, to advance science and the useful arts. I have to think how my parents with their small printing business would have reacted to something like this. They would not have had the ability to fight. But that is the same with small businesses everywhere.

Over the past eight months, I have worked with Senator Lee and others to develop legislation to address these abuses in the system and to have a bipartisan bill. Our bill targets the sending of misleading demand letters as a deceptive trade practice that can be penalized by the Federal Trade Commission. It protects customers who have been sued for merely using a product when the defendant really should be the manufacturer who made the product and is in a better position to argue whether their technology infringes a valid patent. But usually it does not, and, of course, that is why the trolls will not go after the manufacturer.

Our legislation promotes transparency so that those abusing the system can no longer hide behind shell companies to advance their scheme. It improves the PTO's outreach to business defendants and strengthens the post-grant review process implemented in the Leahy-Smith *America Invents Act* to improve patent quality.

It takes significant steps to address the problem of patent trolls and misuse of the patent system. But, importantly, the measures also are balanced. They are targeted to preserve the rights of legitimate patent holders whose inventions help drive our economy. If they are not protected, we do not have new inventions. So as we discuss proposals to address the problem of patent trolls, I urge the Committee to stay focused on that balance. I want meaningful but targeted reform that can actually pass and can be signed into law by the President.

To the witnesses appearing today, I thank you all for being here. I know it takes a lot of time out of your life, too. But it is important to us, and it is important to all Members of the Committee who want to reduce abuses in the patent system while ensuring that innovators and inventors continue to drive our economy.

[The prepared statement of Senator Leahy appears as a submission for the record.]

Senator Grassley, you have worked with me a long time on these things.

OPENING STATEMENT OF HON. CHUCK GRASSLEY, A U.S. SENATOR FROM THE STATE OF IOWA

Senator GRASSLEY. I have a longer statement I will put in the record. I have some things, though, I want to say right now.

First of all, this is a very important hearing, Mr. Chairman, so thank you. And since patents and our patent system are a very significant component of our American tradition of invention and innovation, we have got to make sure that it does not get harmed. And it is being harmed because the innovation and creativity that patents are supposed to protect are being threatened by purposely evasive and deceptive blanket demand letters and abusive litigation practices.

There has been an increase of 62 percent of all patent lawsuits filed in 2012 under patent assertion entities; 92 percent of these lose merit judgments. The bottom line is that patent litigation abuse imposes high costs on American businesses, wastes precious resources that ought to be used for research, development, job creation, economic growth.

The phenomenon of trolls has hit companies all over the country. I had a meeting on this with a lot of business interests in western Iowa, in Council Bluffs, where we heard stories. Then, in the meantime, I received a lot of letters. One letter, I have one long quote I want to refer to.

"Fighting frivolous and burdensome patent lawsuits threatened and filed by patent trolls is an extremely expensive distraction for a large cross-section of Iowa businesses. Rather than focus their efforts on important economic development catalysts such as innovation, job creation, and business growth, entrepreneurs and business owners from all industries and sizes are more frequently finding themselves diverting valuable attention and limited resources to defending expensive and unnecessary legal threats by patent trolls. Indeed, businesses, everyday Iowans, and Iowa's economy as a whole are adversely affected by the trolls' seemingly endless barrage of legal threats and frivolous suits. The trolls' misguided and unbridled mischief unnecessarily drives up costs that are, in part, passed on to Iowa's hardworking families and consumers."

I have another quote here that I am not going to give from BettrLife in Urbandale; another quote from Kinze Manufacturing. Maybe an important part of that quote would be to say that these trolls' experience has left a lasting impact . . . . "Contract negotiations with suppliers and service providers now routinely include allocation of liability in the event of patent trolling. These negotiations require additional resources and delay research, development, and production of new products." That is a partial quote, but just to show you that a small convenience store—well, a big convenience store in my—I mean, they have lots of stores throughout Iowa, Kum & Go, they talk about problems for their business. You know, people would not anticipate that when you got into these patent issues that a convenience store would be involved.

So this is very important, Mr. Chairman, and I have still got a longer statement to put in the record, but this gives you an idea of where I am coming from.

[The prepared statement of Senator Grassley appears as a submission for the record.]

Chairman LEAHY. Well, I think there is a strong feeling and a bipartisan feeling on this question of trolls, and I am glad that John Dwyer, who is the president and CEO of the largest credit union in Vermont, the Williston-based New England Federal Credit Union, is with us. He joined the credit union in 1987. He has held a variety of positions. He has served in his current role since 2010. He also serves on the Association of Vermont Credit Unions' Governmental Affairs Committee. He also served on the boards of the Greater Burlington YMCA, which is really a treasure in that area—it is something also strongly supported by my wife's family, too—and the Lake Champlain Regional Chamber of Commerce. He received his bachelor's degree from the University of Vermont, his MBA from RPI.

Mr. Dwyer, glad to have you here. Please go ahead. We are going to hear from each of the witnesses. Then we will open it up to questions.

STATEMENT OF JOHN DWYER, PRESIDENT AND CHIEF EXECUTIVE OFFICER, NEW ENGLAND FEDERAL CREDIT UNION, WILLISTON, VERMONT, ON BEHALF OF THE NATIONAL CREDIT UNION ASSOCIATION

Mr. DWYER. Thank you, Mr. Chairman.

Mr. Chairman, Senator Grassley, and Members of the Committee, good morning. Thank you for inviting me to testify today. As the Senator said, my name is John Dwyer. I am the president of the New England Federal Credit Union. We are known as NEFCU in Vermont. I am testifying today on behalf of the Credit Union National Association representing nearly 90 percent of America's 6,800 credit unions, State and federally chartered, and their 98 million members.

My testimony today will bring light to how patent trolls are targeting small credit unions across the country with demand letters and provide support for reforms that will offer some measure of relief for credit unions.

My credit union received a demand letter in June 2012 from a non-practicing entity whose only assets are a portfolio of highly questionable patents and claimed infringement without, we believe, having performed a proper investigation into whether NEFCU was, in fact, violating any of its patent claims. For the purpose of my testimony, I will refer to this entity as a "patent troll."

The demand letter was vague, misleading, and lacking in critical information. It broadly referenced patent claims that I have since learned have been canceled by the Federal Circuit. Moreover, the demand letter did not specifically identify what my credit union had allegedly done wrong.

For the record, my credit union has 23 ATMs used strictly for traditional banking transactions. The demand letter failed to identify any specific NEFCU ATM or indicate how NEFCU infringed

any specific claim. NEFCU has no attorney on staff, so we hired an attorney to help us with a reply.

The patent troll sent another demand letter a few months later, making all the same mistakes as were in the first letter, and not acknowledging our initial reply. My credit union is now in litigation with this patent troll. Therefore, there could be some questions this morning that I am unable to answer.

We soon learned our experience with this patent troll was not unique. In fact, the same demand letter was sent to almost every credit union in Vermont, including one without any ATMs. While we believe this patent troll must be stopped, unfortunately no end is in sight. In fact, as recently as this past September, this patent troll moved on to target small banks in Ohio and Pennsylvania. And while the vague allegations and invalid patents in a demand letter remain the same, the patent troll is now demanding $2,000 per ATM, and a couple months later, following up on that letter with an increased demand of $5,000 per ATM.

Reform and relief are desperately needed. Credit unions believe that true reform and meaningful relief will start at the beginning—the demand letter. These demand letter-writing campaigns work because patent trolls know that for a small credit union, an early settlement is much cheaper than a fight. Just to pick up the phone to consult with a patent attorney to determine the validity of the demand letter's claim and evaluate the demand costs tens of thousands of dollars.

Chairman Leahy, we support your legislation to address the problem of unfair and deceptive demand letters. At a minimum, demand letters should require specific information to the end user—in this case, me—such as a detailed description of each patent allegedly infringed and a detailed description of which product or feature is infringed, including names, model numbers, and how the claim corresponds to functionality.

We also support your bill's role for the Federal Trade Commission as an enforcement agency and encourage the addition of rulemaking to ensure that enforcement tools can evolve as patent trolls continuously modify their tactics.

Because information is key, if credit unions have any hope for dealing with demand letters, we also support the creation of a registry. A patent troll that sends more than 10 demand letters in a year should be required to enter all letters into the registry that would be publicly available and maintained by a federal agency.

Chairman Leahy, we also believe that your bill's language addressing customer stay exceptions could be very helpful in some circumstances. Unfortunately, most vendors have taken the position that small credit unions are on their own, disclaiming indemnification in connection with patent claims. Perhaps with stronger customer stay exception language, more vendors would step in to defend their end users against frivolous litigation. We encourage the addition of more end-user protections to assist those, like us, who do not have the resources or the market power to receive necessary assurances and indemnities from vendors.

Other proposed reforms will help credit unions as well. For example, Senator Grassley's bill to require heightened pleading standards and fee shifting will make a patent troll think twice

about harassing credit unions across the country with the same vague demand letter.

In conclusion, without relief, small credit unions everywhere will just have to cross their fingers and hope they do not receive a demand letter like we did. Addressing demand letters will develop a strong foundation for meaningful reform to curb patent trolls.

Thank you.

[The prepared statement of Mr. Dwyer appears as a submission for the record.]

Chairman LEAHY. Thank you, Mr. Dwyer.

Michael Makin is the president and CEO of the Printing Industries of America, a position he has held since 2002. He is also familiar with my own background as a son of printers. He is originally from Montreal. He formerly served as president of the Canadian Printing Industries Association. He has a degree in journalism from Carlton University in Ottawa and an MBA from the University of Phoenix.

Mr. Makin, good to see you again. Please go ahead, sir.

STATEMENT OF MICHAEL MAKIN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, PRINTING INDUSTRIES OF AMERICA, SEWICKLEY, PENNSYLVANIA

Mr. MAKIN. Thank you very much, Mr. Chairman and Ranking Member Grassley. It is indeed a privilege to address the Members of the Senate Judiciary Committee on a topic that is very near and dear to printers all across America. It is also an honor to speak on behalf of the largest graphic arts trade association, along with its affiliates from coast to coast.

If ever there was an industry that typified small business in the country, it is the printing industry. There are more than 30,000 printing plants all across the Nation in virtually every town and city. Our industry is predominantly a family owned industry with 80 percent of companies employing fewer than 20 employees. In the aggregate, 800,000 Americans earn their livelihood through printing.

The roots of our industry date back hundreds of years, yet its modern face is high-tech and innovative. It must be in order to survive. Today's print marketplace is all about using an innovative cross-media mix to drive the economy.

Unfortunately, we are also an industry that has attracted the attention of patent assertion entities or "patent trolls." We believe this is the case because we are, in fact, small businesses and vulnerable to predatory legal actions which threaten our very viability.

Prior to 2013, it was unheard of for printing companies to be accused of patent infringement. This is no longer the case. Currently we know of at least eight patent trolls that are seeking licensing fees from printers or threatening costly litigation. For small printers, especially, this is often their first experience with patent law and civil litigation, not to mention trolling. And they are astounded by the thuggish actions of these enterprises and the dollar figures associated with their demand letters.

One extortive letter issued to a Kansas printer with just 40 employees demanded $75,000 in licensing fees. If they did not pay

within two weeks, that would go up to $95,000. This is reprehensible.

Needless to say, threats of litigation are intimidating and place undue stress on an industry already struggling with low profits and challenging demand. Our average printers are forced to spend anywhere between $10,000 to $15,000 just to hire lawyers initially to protect themselves. One of our members in Colorado reports that he literally is bogged down under a stack of patent claim charts, and his business has had to take the back seat. This is a very common story all across America.

Keep in mind, Mr. Chairman, that patent trolls do not innovate, they do not promote economic growth, they do not contribute to the good of education or scientific research. Most importantly, patent trolls do not create jobs. Our businesses do. And yet their actions threaten job creation. They hinder entrepreneurship and, most frighteningly, intimidate hard-working Americans for standing up for their rights. I have heard from dozens of companies who are even afraid to share their experiences for fear of retribution.

In my written statement, I have included a chart that details the known patent infringement actions against the printing industry. Some of the technologies involved include:

Computer-to-plate work flow, which is a ubiquitous process that has been used in printing plants for more than 15 years;

Web-to-print ordering and inventory systems used in our industry, and countless others;

And quick response codes used in advertising mail, magazines, and other printed material.

I cite these examples, Senators, because I can assure you, if you were to ask small printers in the States you represent, the vast majority would tell you that they consider using the above technologies as essential to their business. That they now even fear being competitive because of patent trolls who have no intellectual or innovative skin in the game is also reprehensible in our view.

Our overriding position is that legislation should demystify the patent process for end users like small printing companies so that their burden can be minimized and their solutions less costly. A number of reforms are critical. Cracking down on the deceptive behavior that accompanies bad-faith demand letters is one example, and kudos to Senators Leahy and Lee for this provision. Reforming the system to include heightened pleading requirements to increase transparency, as promoted by Senator Cornyn. Allowing businesses threatened by similar suits to pool resources through an expanded permanent CBM review. Thank you, Senator Schumer. And adopting fee-shifting strategies, as supported by Senators Hatch, Cornyn, and Grassley, to deter frivolity within the patent system and to require trolls to put their money where their threatening mouths are.

To conclude, Mr. Chairman, without a doubt, both small business and innovation drive the spirit of our economy and the Nation, and both equally deserve to be protected from abusive patent trolls. We believe that a common-sense, practical solution that protects all users of the patent system is indeed possible. But time is of the essence. The longer we wait, the longer we will expose innocent companies to the peril of trolls, which flies in the very face of entrepre-

neurship and fair play. We urge the Committee to take definitive and bold action.

Thank you very much.

[The prepared statement of Mr. Makin appears as a submission for the record.]

Chairman LEAHY. Thank you very much.

I should also note we have received a number of written submissions for the record, and without objection, they will be included in the record. The staff will work out the appropriate place.

[The information referred to appears as submissions for the record.]

Chairman LEAHY. Dana Rao is the vice president of intellectual property and litigation at Adobe. He oversees all aspects of intellectual property and litigation matters. Prior to joining Adobe, he spent 11 years as associate general counsel of Microsoft where he worked on patent-related matters. He has his undergraduate degree from Villanova and his law degree from George Washington here in Washington, D.C.

Please go ahead, sir.

STATEMENT OF DANA RAO, VICE PRESIDENT AND ASSOCIATE GENERAL COUNSEL OF INTELLECTUAL PROPERTY AND LITIGATION, ADOBE SYSTEMS, INC., SAN JOSE, CALIFORNIA

Mr. RAO. Thank you. Mr. Chairman, Ranking Member Grassley, and other distinguished Members of the Committee, thank you for inviting me to testify on this important issue. I am appearing before you on behalf of Adobe, and I oversee all aspects of our intellectual property and litigation matters.

Adobe provides leading-edge software to consumers and career professionals like Photoshop and Acrobat. We are also a leading provider of digital marketing software, which provides software to retailers and Websites all throughout the world. Today Adobe employs over 12,000 people and makes over $4.4 billion of revenue.

With over 3,000 patents and applications, Adobe is a strong believer in the importance of the patent system to drive the innovation economy. The inventions of Adobe's scientists represent genuine breakthroughs in 21st century technologies. With our products, you can use a video of your face to animate a 3D figure. We can remove the blur from a photograph caused by your hand shake. And we can even predict the audience reaction to a blog you post before you post it, all through the magic of software.

And we rely on our Nation's patent system to protect these innovations and the investments we make and the jobs they create. Weakening patent protection from software would be shortsighted and would not help address the problem with patent trolls we are here to discuss today, as the House rightly decided in passing the *Innovation Act* with overwhelming bipartisan support.

There is a problem with patent trolls and the patent system. Trolls are bad actors who are taking advantage of the asymmetric costs in patent litigation to extort settlements, and they are dramatically increasing their activities. Before 2009, Adobe only had faced 19 suits in the history of its company. Today, this year, we have had over 20 lawsuits alone.

Nationally the picture is also darkening. In 2007, trolls had targeted 834 defendants. According to the GAO report, in 2011 this number quadrupled to over 3,000 defendants of patent troll litigation.

One study estimates that troll litigation is a $29 billion cost to our economy. And are start-up companies and entrepreneurs celebrating this trend? Not at all. Fifty-five percent of these patent troll litigations are targeting companies that are making less than $10 million. And only a fraction of these patent troll proceeds end up in the hands of an inventor. This activity is not benefiting the small guy. It is harming the small guy and the big guy alike.

The current patent litigation system is unbalanced in favor of trolls. Patent law has evolved to enable lawsuits to be filed with little diligence by the patent troll, high costs for the defendant, and no adverse consequences for a meritless suit.

We are pleased that Chairman Leahy and Senator Lee have introduced legislation to address this problem. Taken together with other legislation by Senators Cornyn and Grassley and Senator Hatch, we believe we have the tools for the comprehensive bill that we need to address this problem.

Strengthening patent laws' fee-shifting provision will be the most effective tool we can use to address and disrupt the trolls' business model. In one recent case against our company, a patent troll wanted to settle with us before reaching the merits of the lawsuit. After making a series of diminishing settlement offers to us, they granted us a covenant not to sue and settled for nothing, but only after Adobe had spent hundreds of thousands of dollars in defense costs. Pursuant to the existing fee-shifting standard in Section 285, we asked the court to make the patent troll pay. Regretfully, the court denied our motion, based on the belief that Section 285's high standard was not met.

This has to change. Section 285 needs to be amended so that fees in patent cases are appropriately shifted to the prevailing party unless the non-prevailing party can show that they have a substantially justified position. If you bring a patent lawsuit, you should have a substantially justified position. If not, you are likely filing a meritless lawsuit.

Fee shifting poses the only adverse consequence for the patent troll behavior. Without the risk of incurring shifted fees, trolls, who make no products and face no threat of a counterclaim, have nothing to lose.

This business model will continue to grow and attract new investors. We need to give the courts the clarity they need to fix this problem.

We also need to ensure that we can reach the real parties in interest behind these litigations. Otherwise, trolls hiding behind shell companies will not face any adverse consequences from these shifted fees. A discretionary bond provision, as provided in Senator Hatch's legislation, would effectively address this.

Another important measure is Chairman Leahy and Senator Lee's customer stay provision. Staying suits in favor of the manufacturer's case helps judicial economy and protects end users from unnecessary litigation.

Finally, we need to reform the patent litigation process. As a policy matter, we believe Congress should create heightened standards of quality throughout the patent litigation system to prevent abuse by trolls. Pleading reform and discovery reform are critically important to lower the costs of patent litigation for both plaintiffs and defendants.

Troll litigation is a tax on innovation and innovators. We must address it by changing the economics of the system. I respectfully ask for this Committee's help to end this burden on American businesses.

Thank you.

[The prepared statement of Mr. Rao appears as a submission for the record.]

Chairman LEAHY. Thank you very much.

Our next witness, the last one on this panel, is Philip Johnson, senior vice president and chief intellectual property counsel at Johnson & Johnson. He joined the company in 2000. Before that, he spent 27 years in private practice. He has extensive experience practicing patent law. He advised law makers serving on this Committee and others on patent issues, including serving on a committee of experts formed by the Director of the PTO to help implement the Leahy-Smith America Invents Act. He has a bachelor's degree from Bucknell and a law degree from Harvard.

Mr. Johnson, welcome. Thank you for taking the time to be here.

STATEMENT OF PHILIP S. JOHNSON, SENIOR VICE PRESIDENT AND CHIEF INTELLECTUAL PROPERTY COUNSEL, JOHNSON & JOHNSON, COALITION FOR 21ST CENTURY PATENT REFORM, NEW BRUNSWICK, NEW JERSEY

Mr. JOHNSON. Thank you, Chairman Leahy, Ranking Member Senator Grassley, and distinguished members of the panel. I appreciate very much the opportunity to testify today on the subject of protecting innovation and small businesses while deterring troll abuse. I am testifying here today as a representative of the 21st Century Coalition for Patent Reform, 21C, the Steering Committee of which also includes General Electric, Procter & Gamble, Caterpillar Tractor, Eli Lilly, and 3M.

By our definition, troll abuse is the misuse of a court proceeding, or the threat thereof, to press specious patent claims or defenses for the sole purpose of coercing an opponent to settle the dispute to avoid otherwise inevitable litigation costs. This abuse can be perpetrated by any litigant, and while the effectiveness of the tactic will vary based on the party's circumstances and means, the identification of the abuser turns not on who the party is but, rather, on how they behave.

The problem of patent litigation abuse is not new to the patent system, nor is it new to this Committee. You devoted a great deal of attention to the problem while developing the Leahy-Smith *America Invents Act*, and have already gone a long way toward giving the courts and the Patent Office the tools they need to address the problem.

But not everything that can be done has been done. One promising proposal in S. 1720, the Leahy-Lee bill, cosponsored by Senators Klobuchar and Whitehouse, would favor suits between pat-

entees and manufacturers of the allegedly infringing products over suits against customers. If drafted properly to automatically stay patent suits against off-the-shelf retailers and end users who are doing no more than using purchased products in the manner as instructed, the troll business model of suing many customers, but never their suppliers, could become a thing of the past.

The Leahy-Smith bill would also improve transparency of patent ownership, correct an error in the AIA relating to the estoppel to be applied in post-grant reviews, and properly direct the Patent Office to follow the same claim construction rules as applied in the courts and the ITC. In addition, the Leahy-Lee bill proposes to stem the use of bad-faith demand letters by authorizing the FTC to treat them as unfair and deceptive trade practices. With further development to address preemption, free speech, and safe harbor issues, we see this as a promising approach for dealing with this aspect of the patent abuse problem.

Until recently, I would have added to this list of remedies the modified attorney fees shifting proposals advanced by Senators Cornyn and Grassley in S. 1013 and Senator Hatch in S. 1612, but because the Supreme Court has recently agreed to hear two cases to address patent fee shifting, Congress should consider waiting for the Supreme Court to act in these cases before legislating on the subject. But whatever the Supreme Court decides, problems will remain when plaintiffs are structured as shell corporations so they can bring specious suits knowing that they have insufficient assets to satisfy any fee awards that they might incur. Of the three approaches suggested to address this aspect of the problem—joinder, bonding, or legal recourse against persons with a financial interest in the proceeds of the suit—our coalition favors the third. Treating this aspect of the problem as the collection problem that it is will preserve free access to the courts, not disrupt good-faith patent assertions, and be the most difficult for abusers to avoid.

Other proposals relating to heightened pleading standards, mandatory stays, and the specifics of managing discovery in patent cases should be referred to the Federal Judicial Conference for further development. Particularly troubling is the proposal to impose mandatory discovery stays pending Markman rulings, leaving very little discretion, if any, to the courts as to what is right for each particular case. Such an approach would be an open invitation to copyists to enter the U.S. market safe in the knowledge that the patent actions brought against them will come to a virtual standstill for an extra year or more while the parties wrangle over the meanings of patent claim terms. In the meantime, manufacturers' market shares, and the jobs they support, will shrink as the infringement continues.

Finally, especially now that the Supreme Court has agreed to hear an overall challenge to the patentability of computer-implemented inventions, 21C believes it would be best not to adopt Senator Schumer's proposals in S. 866 to expand and extend the transitional program for financial sector business method patents.

The innovation ecosystem in this country is extremely sensitive to changes in our patent system. With the help of this Committee, our country has come a long way by enacting the AIA and the pilot patent courts bill. Let us move forward with remedies that are

sharply focused on abusive behaviors, while exercising restraint as to those which may have broader ramifications on the innovation community and our economy as a whole.

Thank you very much.

[The prepared statement of Mr. Johnson appears as a submission for the record.]

Chairman LEAHY. Thank you.

I want to start with my questions. We have got a lot of people here, so we will try to keep on schedule.

I would also note that Senator Cornyn, as the Deputy Republican Leader of the Senate, may have to be leaving here at some point for a leadership meeting, which I understand he has worked very, very hard on this subject, and we will make sure both his statement and his questions will be in the record. And to the extent there are questions of members of the panel, I would urge them to answer them as quickly as they could.

Senator CORNYN. Thank you, Mr. Chairman. If I could just beg your indulgence a moment and thank the witnesses and the Chairman and the Ranking Member for taking up this important matter.

I would also like to note Harry Wolin from AMD from Austin, Texas, which is my home town, is here as a witness, and I have had a chance to thank him for his participation.

Thank you for your indulgence.

Chairman LEAHY. We are delighted he is here, and I appreciate your helping to arrange that.

[The prepared statement of Senator Cornyn appears as a submission to the record.]

Chairman LEAHY. Mr. Dwyer, let me ask you about your testimony about these abusive demand letters. I am hearing about this issue from a number of different businesses in Vermont and, of course, from across the country. The legislation Senator Lee and I introduced targets those abuses by saying that it is a deceptive trade practice to send these misleading letters. But, of course, we also want to be able to distinguish such letters from legitimate licensing inquiries.

Give me some examples of how demand letters that you found could be misleading or predatory or sent without any reasonable due diligence.

Mr. DWYER. Thank you, Mr. Chairman. I think the best way to frame that is that a person in my position, whether they are running a credit union or any other small business, when they receive a demand letter, they are in the immediate position of trying to understand what the claim is. What is the basis for the claim that the entity is infringing? What is the patent that is associated? What is the terminology in the patent? A letter should put the person who is receiving it in the best possible position to understand where we sit and not have to spend a lot of time and resources hiring somebody, in effect, to look up patent numbers, to try to understand what the context of those patents is, what the content of those patents is, and really evaluate whether your organization would be infringing on that. We think that is reasonable. I think it is reasonable to expect that that information would be provided in a basic demand letter.

Chairman LEAHY. I have had some people tell me they get this demand letter, and they try to find where it comes from, and the best they can do is trace it back to a mailbox somewhere or a shell company. My measure, which would ensure that current ownership information for a patent be listed on file with the Patent Office, would that help some of these concerns?

Mr. DWYER. It would certainly help. To understand the true—you know, the ownership structure behind—in most cases, the letter is going to come from an attorney, so who is the entity that is working with that attorney. To be able to understand that from day one in terms of when you receive the letter would be very helpful.

I work in financial services, and obviously financial services is arguably one of the most transparent companies or industries that exists.

Chairman LEAHY. If you send something out, the people have to know where it came from.

Mr. DWYER. Right. We need to tell our customers, we need to tell our members, what the basis is for almost everything we do with them, and that is the way it should be. When I get a letter claiming that I am infringing and referencing a patent, it would certainly be helpful to understand the clarity around why we would be—or why they think we are infringing.

Chairman LEAHY. And, Mr. Makin, I see these entities targeting the users of a product, not the manufacturer who made the product. My parents, as you know, as we have discussed before, had a small printing business, the Leahy Press, which is a venture they sold when they retired, but it is still operating in Montpelier, Vermont. But we certainly did not keep a patent attorney on staff, and I cannot think of many printing businesses that would, certainly not of the type you are talking about. I would think the manufacturer who made the product is in the best position to litigate.

Have your members experienced this problem of being targeted for products just because they are using them?

Mr. MAKIN. Absolutely, Mr. Chairman. It is the most frightening component of the patent issue because innocent companies—small printers, small American printers that employ, you know, 20, 30, 40 people, are being harassed by these entities claiming that they have infringed something. Printers do not go to work every single day, ladies and gentlemen, assuming that they are going to have to be dealing with a patent issue. It is not even on their radar screen. They purchase technologies, they purchase software from multibillion-dollar companies assuming that the due diligence is undertaken by those entities. And so for them to be held hostage with these shell letters is very intimidating, and it is reprehensible.

We are all about protecting innovation in America, Mr. Chairman, but that does not mean that small businesses have to be pursued in a very predatory, very threatening way, and it needs to change. And we are very pleased to see some of the provisions that you and your colleagues have introduced.

Chairman LEAHY. Thank you. I have other questions that I will submit for the record for the next two witnesses because their testimony has been extremely helpful, and some of these follow-up things will be even more important.

[The questions of Chairman Leahy appear as submissions for the record.]

Senator LEAHY. I will try to set an example with everybody here, and I will stop at this point and yield to the Ranking Member.

Senator GRASSLEY. Mr. Rao, you made clear that since you have so many patents, defending against infringers is a top priority for Adobe. Now, I want to say what a lot of people say would be bad if we went in the direction of some of this legislation. Some patent holders are concerned that proposals to heighten pleading requirements restrict discovery, institute fee shifting, that would hamper the ability of small inventors and other legitimate patent holders to enforce their patent rights.

I want to know your opinion, if you believe these concerns are justified.

Mr. RAO. Thank you, Senator Grassley, for the question. The provisions you just mentioned are designed to limit the troll abuse behavior that we are seeing today and we have talked about, and so I will just start by saying that, you know, as I mentioned in my oral testimony, 55 percent of these patent troll litigations are being targeted against small businesses. So reducing patent troll litigation will help small businesses and entrepreneurs and small innovators, first of all.

And, second, the reforms that you are talking about, the pleading reform and the fee-shifting reform, these will have beneficial aspects for many people who are trying to enforce patents. Fee shifting, I will note, also has—can have—a positive impact for the person trying to bring the patent. First of all, getting fees in other areas of law where fee shifting is allowed enables a small company to retain a contingency fee lawyer because the fees are very attractive. The millions of dollars in defense costs that can be won by a plaintiff in a fee-shifting case can be used in case the damages are small. So fee shifting can actually work in favor of the plaintiff.

The other point in Senator Hatch's fee-shifting standard—for example, he also has the conduct of the party as a factor for fee shifting. So one of the problems small inventors have when they bring lawsuits is that the defendants engage in dilatory tactics and they have discretion, and they are not going to shift the fees. All they have to do is look at that provision.

The discovery aspects of the heightened pleading and the case management, one of the other ways the defendant can use litigation tactics to defeat a small inventor is by dragging out the case and making it very expensive. So these discovery provisions that you have mentioned in these bills, they can actually lower the overall costs of the case for both the plaintiff and the defendant. This allows the plaintiff to get to the merits of the case sooner. The faster they get their claim construction, the sooner we are going to understand what the patent is about, and then they can start getting settlements. So these provisions actually help both sides.

Senator GRASSLEY. I am going to ask a question of Mr. Makin and Mr. Dwyer. I know that in general you would like to see patent troll abusers stopped before any litigation actually commences, because it is risky and costly to engage in that litigation. However, do you believe that the proposals to strengthen pleading requirements, institute fee shifting, and impose some discovery limitations

could have a beneficial impact in discouraging frivolous demand letters and reducing litigation, extortion, and abusive practices? And do you think that these reforms can make a positive difference? Mr. Makin and then Mr. Dwyer, and then that will have to be my last question.

Mr. MAKIN. Thank you very much, Senator Grassley. We absolutely support the measures that you have introduced. We do believe they will curb the activity.

Again, I stress that we need to have a balance in the system that preserves innovation but also does not hinder the growth of jobs in this country, which is the small business community. No printer is going to go out of their way to purposely infringe upon an issue. So all of the measures—heightened pleading, the fee shifting—they all make it more difficult for these vile creatures underneath the bridge to do the things that they are doing. It stops them from doing that. We are not against people having the ability to protect legitimate innovation in this country. What we are against is companies that purchase antiquated patents for the sole purpose of extorting money from small business. That is anti-American, and it is just wrong.

Senator GRASSLEY. Mr. Dwyer, whatever you have to add.

Mr. DWYER. I would be happy to add to that, Senator. I think it is important to state on behalf of CUNA and, arguably, all financial services companies that if part of the result of legislation is to add to the cost for the side—in this case, the plaintiff, that plaintiff then has to really think through the complete process, not just the ability to send a letter, which costs a buck, but all of the costs that can be the result of what happens when they go forward with litigation. So we are supportive of steps that are put in place to ensure that there is more balance. I think balance is an important word in this context.

Thank you.

Senator GRASSLEY. Thank you, Madam Chairman.

Senator FEINSTEIN [presiding]. Thank you very much.

Senator Coons, you are next.

Senator COONS. Thank you, Senator Feinstein, and I want to thank Chairman Leahy for holding this important hearing and to the witnesses for sharing your experience with us today. As some of you know, I was in-house counsel for eight years to a materials-based science company that relied very critically on its patent portfolio for its growth and its ongoing innovation.

The patent system in our country offers a basic trade-off to inventors: Share with the world your greatest discoveries, and you get a right to exclude others from practicing that for a limited period of time. In fact, this is enshrined in our Constitution in Article I, Section 8. It is a very important foundational idea that has led to entrepreneurship and innovation in our country. And for many sectors of our economy, patent protections are absolutely critical to promoting innovation, and I think the title of today's hearing suggests two complementary goals, as you have stated: that we want to limit patent troll abuse while also protecting small business and promoting innovation.

From individual inventors who are just trying to solve everyday problems to those who are discovering new pharmaceuticals or

medical devices, certain companies and, indeed, whole industries, rely on our patent system to attract investors and to create jobs.

And if intellectual property rights are to have any meaning, they have to be enforceable. That means giving valid patent owners sufficient access to the courts to deliver justice when they need it, whether through injunctions or litigation.

But in different sectors, patents play different roles. For other sectors, some companies value secrecy over the right to exclude, so they choose trade secret protection over patents, for example. Other companies value speed to market, and so the long time required for quality patent issuance means they do not choose to pursue patents.

Ultimately, unfortunately, as you have described in detail, our system has been subject to some abuse. Baseless demand letters and frivolous lawsuits have harmed innocent end users and added little value to our innovation economy.

Our task, I think, is clear but not easy, which is to provide relief to small businesses and start-ups that are innocent end users without weakening the economic value of U.S. patents, and I would like to thank Mr. Dwyer and Mr. Makin for giving some examples from credit unions and from printers.

In my view, strengthening the American patent system begins with ensuring that we provide full funding for the Patent and Trademark Office and for the federal courts to ensure, as Mr. Johnson suggested, that the judiciary is able to play its appropriate role in managing litigation and to ensure that the patents that are being enforced are sound and solid rather than the lesser-quality ones that were referred to by Mr. Makin.

In my view, we are just beginning now to see the impact of the Leahy-Smith *America Invents Act*, which has a number of provisions designed to increase patent quality, not least among them pre-issuance submissions, post-grant reviews, inter partes reviews, and the transitional program for CBM, or covered business method, patents. Each of these programs creates new hurdles for patent applicants and patent holders, and our hope is that, in return, we will have higher patent quality in the market.

So as we consider the proposals before us, I think we need to understand the impact of these changes of the law, which was really recently enacted and is only newly having an impact on the patent system.

Let me, if I might, turn to some questions. Mr. Johnson, you of the panel offered an interesting definition of a patent troll, which I think is an important thing for us to focus on. You focused on distinguishing a troll from a valid patent owner based on their behavior, on their litigation behavior, which also implies that there are valid patent owners who also pursue patent litigation and that we are at some risk if we do not correctly distinguish between them.

Our current patent laws protect against infringement by companies that make, use, or sell infringing products, and so our court challenges protecting the innocent end user without destroying that right.

How do you suggest, Mr. Johnson, that we draw a line between innocent end users and companies that are profiting from the use

and sale of infringing products in a way that does not hurt innovation but defends the truly innocent end user?

Mr. JOHNSON. Well, you are absolutely right. There is a fine line between someone who is zealously advocating a position on behalf of their client, believing that the patent is infringed, and one who crosses that line and overadvocates. But that line can be crossed by defendants as well as plaintiffs. Large, well-heeled companies faced with a small business trying to enforce a foundational patent against them can press defenses, take unending appeals, and also engage in behavior that I believe is abusive.

So we have to look at the merits of the behavior. Unfortunately it is not as easy as categorizing people by who they are or what their business structure is. We have to look at what they are actually doing, which is why the fee-shifting approach has some strong advantages, because fee shifting only kicks in after the case is over and you know and the judge knows whether or not the case was frivolous or not.

Now, I do see the problem for some of the end users and small businesses who say that is a very expensive trip for us to go on in order to end up there. But certainly it will deter frivolous assertions to some degree, I think coupled with the customer stay provisions so that these actions do not proceed against the banks and the printers themselves but, rather, the manufacturers of the technologies, because, after all, these end users are only using these products in the manner in which they were intended and as instructed by the manufacturer. The real dispute should be between the patent owner and whoever is manufacturing the product and providing it with those instructions, not against the innocent end users. And so the customer stay provisions, I think, and end-user provisions are very important so that these cases can be consolidated and fought out where they ought to be. Those two things alone will go a long way toward helping this problem.

Senator COONS. Thank you, Mr. Johnson. I look forward to having another round of questions.

Chairman LEAHY. And I appreciate your answer because it anticipated one of the questions I was going to ask you. Thank you very much.

Senator Hatch.

Senator HATCH. Well, thank you, Mr. Chairman.

Mr. Chairman, I ask unanimous consent that we place in the record from the American Bankers Association, American Insurance Association, the Clearinghouse, Credit Union National Association, Financial Services Roundtable, Independent Community Bankers of America, National Association of Federal Credit Unions, National Association of Mutual Insurance Companies, to mention a few, in the record at this point.

Chairman LEAHY. Without objection. Some of them may already be, but we will make sure——

Senator HATCH. I think they may be.

Chairman LEAHY. They will be.

[The information referred to appears as a submission for the record.]

Senator HATCH. Let me go to you, Mr. Rao. The idea of using mandatory fee shifting to discourage frivolous patent litigation is

not a new concept. In fact, Senator Leahy and I first introduced the proposal back in 2006 in that patent reform bill at that time. Our fee-shifting language, similar to the test used in current law, would require courts to award attorneys' fees to the prevailing party in cases where the non-prevailing party's legal position was not substantially justified.

The House of Representatives recently passed its own patent bill by a bipartisan vote of 325–91, which includes a fee-shifting provision similar to the 2006 Hatch-Leahy or Leahy-Hatch language in my bill, the *Patent Litigation Integrity Act*.

Now, you stated in your written testimony that the standard for fee shifting in current law is too high. In your experience, why would changing the legal standard in the *Patent Act* make fee shifting a more reasonable option in patent cases and do more to address the threat of patent trolls?

Mr. RAO. Thank you for the question. In one recent case we just had, a patent troll was suing Adobe, and when we were approaching the merits, approaching claim construction, the patent troll said, "I do not want to have my patent examined, so I am walking away," gave us a covenant not to sue, and it was settled for nothing.

Unfortunately, as I mentioned earlier, we had already spent hundreds of thousands of dollars at that point defending ourselves, and we moved for fees. Under the current fee-shifting standard, you have to show that the case was exceptional, so that they had to have an objectively unreasonable position.

Well, the court found that since they had not gotten to the merits of the case because the patent troll walked away before they got to the merits of the case, they could not find exceptionality, so no fees were shifted.

Under your language, where the prevailing party would get the fees, unless the non-prevailing party could show substantial justification, in that case we were the prevailing party—right? The patent troll walked away from the lawsuits—we would have gotten the fee shifted, and the money would have moved over and the patent troll would have had to pay those fees. The patent troll could not contest that because they did not get to the merits, so they would not be able to show that they had a substantial justification in their position.

So in that case, this is a perfect example of ensuring that people who have got meritorious patent claims are going to be protected, but if they do not have meritorious patent claims, they are not going to be protected, and the new standard that is articulated in these various bills would protect us in that situation.

Senator HATCH. Well, thank you. Many patent trolls are shell companies with few or no assets, and any court-ordered award still leaves defendants holding the bag. In my view, fee shifting without the option to seek a bond is like writing a check on an empty account. You are purporting to convey something that is not, and to obtain a fee award against a judgment-proof troll, some have argued for expanding the rules on joinder instead of bonding.

How do you compare the House and Senate joinder proposals with the bonding provision I am advocating for in the bill that I have presented?

Mr. RAO. Well, first, I would absolutely agree with you that some manner of reaching the real party interest is critical to give life to fee shifting. If you are just awarding fees, the companies we are being sued by were set up two days before the lawsuit. They have a filing cabinet who is their CEO in a closet in Texas. There is nothing there. There is no money there. Getting a fee award against them is meaningless. So you need a way to reach the real party, the investors who are driving this problem.

When we talk about the right way to approach it, we really think the bonding approach is the correct way. The problem with joinder is there are due process issues with bringing people into the case after the judgment. So you have to join these people, whoever they are, at the beginning of the case, or at least give them notice, and that means in every single case you have to notice everybody who might possibly be an interested party, even if you do not know if you need fee shifting. And then you have to give them the opportunity to renounce their interest or engage in the process before you can join them.

So you are either—you are going to have to set up a complicated process for the defendant to join these interested parties, which is going to be burdensome and expensive for the defendant, and they would have to do it in almost every case.

The bonding procedure that you have outlined is much simpler. You have a hearing. The court has total discretion. They may order bond. And there are a bunch of factors the court has to look at before they decide to order bond. And the factors that are outlined in your proposal protect the small inventor. They protect universities, they protect people who have the ability to pay. So it is a hearing. Both sides would make the argument. The court decides if a bond is appropriate or not. And the courts are smart. They know what they are looking for in these situations. They know what a patent troll looks like. And if it is a small start-up that is entrepreneurial, they are not going to require a bond because they know it is going to burden their non-patent activities.

But they look at that company, and they see it is Search Retrieval, Incorporated, LLC, who has only been in existence for a week, they are going to say, you know, in this particular case we probably need a bond. And so that is why we think your bond provision is much more effective.

Senator HATCH. Well, thank you.

Thanks, Mr. Chairman.

Chairman LEAHY. Thank you very much.

Senator Hirono.

Senator HIRONO. Thank you, Mr. Chairman.

I recognize that patent law is a very specialized area of the law, and it is very complicated, complex. So I want to be sure to understand the impact and potential unintended consequences of changes to the patent law.

Mr. Johnson testified that the innovation ecosystem is very sensitive to changes we make to the patent law, so, you know, I want to understand what the impacts might be, and I certainly would want to hear the perspective of, for example, small universities that engage in this kind of research. I would like to hear from the entrepreneur, the small inventors, before we go forward in a big

way. And I am glad that the Chairman mentioned that what we are after is, of course, addressing the problem of the patent trolls. None of us support those kind of activities. I think, though, that—Mr. Chairman, I appreciate your saying that we would like to fashion a bill that is focused on the problem that we are seeking to address.

Mr. Dwyer, you testified that you support the bill's provisions relating to the FTC being empowered to pursue—to be engaged in getting after patent trolls, and also you support the disclosures and demand letters, et cetera. Do you think that it would be a good idea to also empower State Attorneys General to also be able to enforce these kinds of provisions?

Mr. DWYER. Senator, honestly, I am not an attorney, and I do know that, obviously, in Vermont we have recently passed legislation to provide Vermont companies defenses in the situation of a patent troll sending letters to Vermont companies. So with regard to what State Attorneys General can do to follow up, I think the real risk is that if this is handled on a State-by-State basis, it would add to the complexity that we are very much trapped in in terms of the patent law.

Patent law is federal law. It is something that is decided by Congress. So for States to try to put in place enforcement capacity or for a State's Attorney General to do so, they are oftentimes working in situations where the case is in federal court so that it may not be as—there may not be as much capacity.

With regard to the FTC and the regulatory authority, CUNA is supportive of that. It is fair to say that whatever—if there is legislation passed, that the tactics that are utilized by some of the people and some of the entities we are discussing will be modified, and they will work within the legislation that is passed. And so for FTC to have the authority or the rulemaking authority on a limited basis, very structured perhaps, but to be able to adapt to those changes could assist companies like mine from having to come back and see you again, perhaps.

Senator HIRONO. I was going to ask you, Mr. Dwyer, this question, because you noted in your testimony that perhaps a mandatory joinder would be a way to go. But you are not an attorney, so perhaps Mr. Johnson might want to respond to this, because the State provisions that we are contemplating only come into play if a manufacturer actually agrees to step in, and many of them may not want to get involved. And I do not know how this option of a manufacturer stepping in, therefore resulting in a mandatory stay of those proceedings on the end user, how that would help small businesses. But maybe a mandatory joinder would work better for small businesses. Mr. Johnson, would you like to opine?

Mr. JOHNSON. Sure. The biggest problem with joinder is that you have to have venue in order to go forward with the proceeding. So someone who is so inclined can structure the assertion so that joinder of other parties will not be available in the jurisdiction that they choose, so it is easily avoided, which is why we do not prefer joinder. There are other issues that have been mentioned about the need for notice if you are going to collect from people, but I do not believe you need to join them in order to get that.

Senator HIRONO. Since you are responding right now, Mr. Johnson, are you aware of efforts within the judiciary and also in the Patent and Trademark Office to address some of the concerns that are being raised in today's hearing?

Mr. JOHNSON. Yes, I am. The Federal Judicial Conference is in the process of addressing many of the issues, especially relating to pleading, the pleading requirements, and also discovery, the asymmetries in discovery and the best ways in which to efficiently manage discovery in patent cases and in other complex cases. And, in fact, there are advisory committee recommendations out that are currently going through the public hearing process. The comment period is open until February. This is the normal way that we manage the court docket and court procedures, through the Federal Judicial Conference process.

Senator HIRONO. I am running out of time so—well, it looks as though my time is up. So is it your view that because of the very sensitive nature of the innovation ecosystem, we should ask the appropriate questions and understand what the ramifications of what we are contemplating would be before we go forward in a rapid way? I will put it that way.

Mr. JOHNSON. Absolutely. While we are focusing on one kind of case, the troll type of case here, there are hundreds or thousands of different kinds of cases involving different technologies, different plaintiffs, different businesses. And it is very dangerous to try to enact a one-size-fits-all-type approach, especially when it comes to procedures and other things. And the courts, fortunately, have the discretion under the rules to treat each case the way that is best for them.

Senator HIRONO. Thank you.

Thank you, Mr. Chairman.

Chairman LEAHY. Thank you very much.

Senator Lee.

Senator LEE. Thank you, Mr. Chairman, and thank you, Mr. Chairman, for letting me work with you on this legislation, which I think is very important. And I want to thank all of our witnesses as well for coming. This has been informative.

Mr. Johnson, let us pick up with you sort of where you left off. I am curious to know why you seem to believe that the courts, rather than Congress, should address these issues and why we might want to wait for the Supreme Court, for example, to address the issue in the Octane Fitness case and the Highmark case this year before we act? I mean, after all, they are interpreting law, and we make the law. So to the extent there is ambiguity in the law that is requiring them to address it, why couldn't we or why shouldn't we just address it on our own?

Mr. JOHNSON. Well, you certainly could. The issue here is whether the exceptional case standard has been interpreted too strictly by the Federal Circuit in its decisions, and the Supreme Court seems likely to reinterpret that in order to lower the standard for fee awards to hold that exceptional cases are more of the kinds of cases we have heard about. And if they do that, Congress may feel that it is not necessary to act in that way. It is not that Congress cannot or could not do that, but then by waiting for the Supreme Court to act, you will be able to decide whether the way that they

have acted is a better way to go forward than whatever legislation you may wish to write.

Senator LEE. Right. But you would not disagree that we could also just decide that we want to clarify the issue on our own?

Mr. JOHNSON. That is the way our government works, yes.

Senator LEE. Mr. Rao, I wanted to address with you the argument that some have been making that perhaps we need to give the AIA a chance to work, that, you know, it has been just a couple years since it was passed, and maybe the AIA can take care of many of these problems that we are trying to address through this legislation that we are talking about at this hearing today. What do you say in response to that?

Mr. RAO. Well, the AIA has been enacted and some of the provisions have been enacted over a year ago, and a lot of what we are talking about today in terms of litigation reform and the fee-shifting standard were actually discussed during the AIA and decided—we did not move forward on them. So those issues were actually discussed, and we did not move forward on them, and the provisions we have in the AIA were there to address part of the problem but not all of the problem.

Senator LEE. A different set of problems related specifically, more specifically, to litigation involving patents.

Mr. RAO. That is right. And that is the topic we are here to discuss today, is how do we rebalance the patent litigation system, which has really been untouched by Congress, to ensure this activity that we have all been hearing about today is no longer economical for these patent trolls. And that is the legislation today we will address. The AIA, which is really focused on harmonization and patent quality, is not going to address this patent troll industry.

Senator LEE. And as you know, one of the litigation reform measures that Chairman Leahy and I have included in this legislation deals with the customer problem, when the customer is sued, and allows for a stay to be issued in those circumstances. Can you just describe for me the kind of scenarios in which this might be of help to a company like yours?

Mr. RAO. Sure. So as I mentioned, we sell enterprise software to retailers, retailers across the country. In one case, we have had to grant indemnification to 10 of our customers. They ended up in six different courts across the country. And so we filed declaratory judgment in one of those courts because we wanted to defend the product in one court. It makes it very expensive for a manufacturer to have to defend their customers all across the country, and it makes it—frankly, some manufacturers were reluctant to step in, which are some of the problems we have been hearing about today.

So the ability to get a stay granted allows us to focus the resources on one place. It is good for judicial economy. Only one judge has to hear. It is the same patent, same product, the same validity issues, same infringement issues all being decided in one place. And then we can take that decision, and then all the other cases can leverage the information from that.

So we really think it is helpful. It certainly would help Adobe in its cost management. But we do actually look at it as more of a case management issue as opposed to actually addressing the patent troll economics that we have talked about today.

Senator LEE. And collateral estoppel would apply as to the issues in common.

Mr. RAO. Correct.

Senator LEE. Finally, what do you say to those who criticize this provision by saying there is a risk that defendants will collude—collude so as to put off the litigation, collude by agreeing to a stay where it might not be appropriate?

Mr. RAO. Well, first I would say the provision is drafted very clearly to balance the patent holder, the manufacturer, and the customer's interests. There are three parties who have interests here, and so in order to get the stay, the automatic stay, the customer and the manufacturer have to consent in writing. They have to agree to be bound by the issues. It has to be the same patent or product. And then the patent holder can get the stay lifted. They can move in the second action and say, look, this is not going to resolve a major issue, so the stay can be lifted. Or there is going to be some sort of manifest injustice or prejudice, and so the stay can be lifted. So there is protection built in there for the patent holder in case that sort of collusion occurs.

I will say from an economic perspective, it is rare as a manufacturer I am going to step into a case, spend my own money for something I am not actually liable for.

Senator LEE. Fair point. Thank you very much.

Thank you, Chairman.

Chairman LEAHY. Thank you very much, Senator Lee, and thank you—I thanked you before you came in, but I want to thank you personally for all your help in developing this legislation.

Senator Feinstein.

Senator FEINSTEIN. Thank you very much, Mr. Chairman, and thank you for holding this hearing. The one thing that I find there is agreement on with the California constituency in this area is please have another hearing. And as you know better than anybody else, this is such a difficult, complicated arena that I have got universities weighing in, and they want an opportunity to come to the table. And so I hope that there is another hearing.

One of the things that I have found and that I am very concerned about is that the Patent Office, the Patent and Trademark Office, in 1990 was changed through a 69-percent user fee surcharge so that it became funded entirely through fees paid by its users. So it became independent from government largesse.

So what has happened? By 1992, $886 million in fees that were paid for the operation of the Patent and Trademark Office had been diverted to other uses, and that has been a consistent thread.

Now, the procurement of permanent office space for two new satellite offices has been put on hold because of sequestration, and this is for an agency that receives no taxpayer funds. They are in Colorado and Texas. Detroit has gone ahead. And the office in San Jose, California, has only gone ahead because San Jose is picking up the charge along with California. And San Jose, the city, is providing pro bono office space. It should not be that way.

So it is my intention to introduce a bill that hopefully will become an amendment on one of these that will contain a provision that these patent fees cannot be diverted, that the Patent and Trademark Office should remain wholly self-supporting. And I hope

you, Mr. Chairman, will take that into consideration as you move your bill.

I also wanted to go into this very convoluted process of joinder, which I hear a lot of different things about. A company with analytics in San Diego told my office of a case where they were sued for infringement, and they actually managed to obtain an award of costs against the plaintiff for filing an unjustified action. However, the plaintiff had only $600 in their account. Now, if a separate interest like a hedge fund was financially backing the litigation, the proposed joinder reforms would have permitted this computer to seek recovery of the award against the backer.

Now, a number of start-ups and small companies have criticized the reform as being drafted overly broadly, encompassing shareholders and investors. Language has been proposed, as I understand it, that would keep paragraph 11 of this part of Senator Cornyn's bill, including an owner, co-owner, assignee, or exclusive licensee of a patent, but would replace the reference in paragraph 13 which covers "any person with a direct financial interest in the outcome of the action" with a "third party providing funds for the litigation in return for an investment in the financial outcome but that has no other involvement in the litigation."

So my question to all of you is: Would this be an acceptable compromise? Mr. Johnson, you are smiling.

Mr. JOHNSON. Well, it is an interesting proposal, and we have always felt that, rather than joinder, recourse is what is needed, and that the one way that you can get recourse is to go after the people who have a stake in the proceeds of the litigation.

I am not sure I followed your substitution exactly, but it sounded like that is what you were after as well, and provided appropriate notice provisions were in place so that they knew that they were on the hook in the event that a fee award was not going to be satisfied, I think you could overcome due process issues, which are always a concern, and go after them. And I think that the result would likely be that when they put together these investment vehicles, they would assure that the plaintiff was funded at least enough to cover a fee award or they would take that into account. And so I do think that the parties would be able to collect the fees if that language could be worked out.

Senator FEINSTEIN. Could Mr. Rao just respond?

Chairman LEAHY. Sure. Mr. Rao.

Senator FEINSTEIN. Mr. Rao, would you respond? I would like to have your—I am not sure of it myself. That is why——

Mr. RAO. So as I understood the language, I think it said that instead of having a direct financial interest, third parties would be—could be joined to have no other interest in the litigation but were funding the litigation, I think is——

Senator FEINSTEIN. That is correct.

Mr. RAO. So I would worry a little bit about this idea that they have no other interest in the company. It seems fairly easy, then, for the patent troll backer to have some other—if this is the law, to say, oh, I have some other interest now, so I cannot be joined because I am really not this "no other interest" party.

Senator FEINSTEIN. Which I do not want to have happen.

Mr. RAO. Right, exactly. So that would be my concern with that approach.

Again, I would say, if your start-ups and small companies are worried about being dragged unnecessarily, that Senator Hatch's bonding provision actually explicitly removed them from somebody who might get a bond, and so we do not have a joinder issue, they would not be someone the court would attach a bond to because they have other activities unrelated to patent licensing or patent litigation, and then the bond might avoid all of this complication.

Senator FEINSTEIN. Thank you.

Thank you, Mr. Chairman.

Chairman LEAHY. Thank you.

Senator Flake.

Senator FLAKE. Thank you, Mr. Chairman.

Mr. Johnson, it seems that the root of the problem is vague and broad patents, some of which are close to expiration. The *America Invents Act* was designed to correct some of that and to improve the quality of these patents.

How has that helped? Mr. Rao seemed to suggest that the *America Invents Act* still will not get at some of these litigation issues? Do you share that view? Or has it been given time to work? And what can be done besides that?

Mr. JOHNSON. Well, first of all, I do not know whether I agree with him, but I can say the *America Invents Act* established three new post-grant proceedings which are available to people, including people in litigation, if they start them in a timely manner, so they can take the patent back and challenge the patent in the Patent Office in an administrative proceeding. So the idea was indeed that you provide a lower-cost forum to bring some of these issues to bear, and perhaps that will result in the cancellation of any overly broad or invalid claims so that that will be cheaper and quicker than what would happen in court.

That is especially true where there are issues of prior art involved, which there always are. But I do think that that is one way the *America Invents Act* will help.

Of course, the real force of the *America Invents Act* is going to a first-inventor-to-file system with objective patentability requirements and getting rid of secret prior art so that the Patent Office will be able to do a complete examination and do a better job at getting patents out that are truly enforceable.

Senator FLAKE. Thank you.

Chairman LEAHY. Thank you very much.

Senator Klobuchar.

Senator KLOBUCHAR. Thank you very much, Mr. Chairman. I am proud to cosponsor your bill and know that this is a really important issue in my State. We have many, many companies that are innovative, and it is one of the reasons our unemployment rate is down to 4.8 percent, the fact that we have invented things and make stuff and export to the world. In fact, at 3M, we actually have more patents than there are employees, so we like to say that we have a patent for each employee.

I just met recently with about 30 patent lawyers—it was a lot of fun—back in my home State for over an hour, and we talked about this problem. And I thought one of the most startling statis-

tics was that last year 62 percent of all patent lawsuits were filed by patent trolls compared to 19 percent in 2006. So if that statistic does not hit home, I do not know what will.

One of the most amazing stories I heard was a case that Smith's Medical, which is a Minnesota medical device company, has brought against them for infusion pumps that they make to save the lives of patients, including premature babies. They were sued by a patent troll who is asserting a patent for a fuel delivery nozzle, and the cover page of the patent has a diagram of a tractor-trailer on it. They have been forced to divert millions of dollars and R&D resources away from innovative new solutions and instead are defending against this lawsuit. So I love that example because it just shows how out of bounds this is.

The American Intellectual Property Law Association estimates that the median litigation cost of a patent case is now $2.6 million, an amount that has increased by more than 70 percent since 2001. So that is why I am so glad that we are moving forward with these issues.

Now, my first question would be of you, Mr. Johnson, that example I used. As a medical device manufacturer, how do you respond to these? How do you settle them? And I am especially interested—and this goes into the small-company issue about the stay that I know both the big and small companies are interested in, because the customer stay, I think, would help to do a better, more unified defense against these atrocious suits. Mr. Johnson?

Mr. JOHNSON. Thank you. If you do not mind, I will not comment on the tractor-trailer patent because my company is a defendant——

Senator KLOBUCHAR. Oh, really?

Mr. JOHNSON [continuing]. Because we also provide drugs that are infused into the human body, which is alleged to be a "container," according to the plaintiff. So I will not comment on that.

But I will say that the considerations involving suits brought by non-practicing entities against a company are quite different than when you are a manufacturing entity and you have built a market and you have products out there and then someone enters that market who infringes. When they enter the market, especially for a medical device type of product, you usually cannot get a preliminary injunction because the public interest is to keep medical products on the market, at least until it is proven that they are infringing. And so you are after, in that kind of case, as quick a resolution as you can, not only to stop the bleeding if they are taking your market share, but to collect lost profits and hopefully to get a permanent injunction.

Now, the provision that you mentioned, the discovery stay, is really very hard on manufacturers because it will add 12 to 18 months to the length of a case. The case will come to a virtual standstill while people wrangle over the meaning of patent claim terms, and all the while the infringement will continue, the market share will be lost, the jobs will be threatened, and with no real advantage, because once—they come to a decision on what the claims mean, then you start your case. And so that is very bad for manufacturing patentees, and there was a provision—there is a provision in the *Innovation Act* which starts to address the problem, but

stops by saying it is only in cases where there are preliminary injunctions. And that is not enough. We need to protect all patentees who are selling products, who have competitive entries, infringing products entering their markets where they are enforcing their patents.

Senator KLOBUCHAR. Anyone else who wants to comment on this?

[No response.]

Senator KLOBUCHAR. Okay. I think one last question I have is that I think we need to be mindful of the importance of these intellectual property rights and the correspondence, the demand letters that take place each and every day among patent owners and innovators to assert their patent rights in good faith. And how can we better ensure that patent licenses are based on the true value of the inventions claimed in the patents rather than on the hold-up value as measured by what a defendant is willing to pay in order to avoid the cost of litigation? Do you want to tackle that, Mr. Johnson? It is this balance of asserting rights but trying to take on the patent troll issue at the same time.

Mr. JOHNSON. Sure. That is the trick, isn't it? For one thing, we know that certain things are required in order to run a patent troll business model. You have to assert your patents against hundreds or thousands of people, not just a few license offers but very large numbers of license offers, and you have to make it clear that you are offering—that the reason they should settle is to avoid the costs of litigation, not because of the merits of the patent.

So when we look at this, when we start seeing these mass demand letters, the widespread blanketing of industries as we have heard about today, that is an immediate tipoff—and with very low license demands, it is an immediate tipoff that that is what you are looking at. And then we can look at the behaviors themselves. We have heard it detailed today. The lack of information, the misrepresentations, the deceptions are all part of that business model. So we focus on that bad behavior and address that bad behavior. We can leave the rest of American business to operate pretty much as it does now. We offer licenses. We receive offers of licenses. We freely communicate with our competitors to advise them and be advised of patents. We negotiate hundreds of licenses. We pay royalties. None of the problems we have heard about affect legitimate business. And so as long as we target this at the troll behavior, the rest of business should be okay.

Chairman LEAHY. Thank you.

Senator Hatch, you said you had another follow-up question. Go ahead, please.

Senator HATCH. This has been a very good panel, as far as I am concerned. I think you all have acquitted yourselves very, very well.

I have been asked to ask this question on behalf of Senator Cornyn. Mr. Rao, in your view, are the reforms in Senator Leahy's bill adequate to address the threat from patent trolls that you confront? And if not, why not?

Mr. RAO. Thanks for the question. So I actually do not think they are adequate to solve the entire patent troll issue, even with Senator Klobuchar's examples that sort of remind us why. So in order

to disrupt the patent troll problem that we have today, we have to look at the economics, and the economics are they face no risk from bringing these lawsuits. And when their hedge fund investors are choosing to invest in patent litigation as an asset class, as we have heard, they are doing it because there is no risk to them. They know that if they can invest in the patent troll industry, a public company that just asserts patents, there is no downside. It is all upside. They either walk away from the case, or they collect nuisance settlements, or they get the occasional big judgment. But there is no penalty for their activity.

So unless we introduce some economic consequence into this behavior, it is not going to stop. So we absolutely need a fee-shifting provision. Obviously we have talked about the bonding provision is important to actually reach back to the real parties of interest. And then even the heightened pleading issue is really important. As Mr. Johnson just said, part of the patent troll activity is sending out hundreds of demand letters. Well, they can do that right now because there is no requirement under the current law that they state with any particularity what their claim is, what the product is at issue, you know, even—they may accuse Adobe. They say, "It is all of your products." Well, it is not all 200 of our products. It is one product that might infringe, but they are not required to say. If they were required to say that in the law, it would be very hard for them to send out 200 letters with that kind of level of detail, and that would also help disrupt this model.

Senator HATCH. Thank you.

Chairman LEAHY. Thank you. I thank this panel very much, and we will keep the record open for questions. I thank all the Senators who came here. We will take a three- or four-minute break while we bring the other panel up. And I am going to ask Senator Coons—I have to be at another event for a little bit—if he could take over as Chair.

I would ask the panel to stay. I have just been advised that Senator Schumer asked this panel to stay. Mr. Rao and Mr. Johnson, if you could stay. Apparently——

Senator COONS. I will offer another question, if I might, Mr. Chairman, since we are asking the panel to stay.

Chairman LEAHY. You are going to be chairing, so why don't you move up here? And Senator Schumer and Senator Durbin are coming back to ask questions.

Senator COONS [presiding]. If I might continue with this panel simply by asking one question. Mr. Johnson, at the very conclusion of your response to questions, I think posed by Senator Hirono, you closed with a very intriguing question. You stated, and I think I am roughly paraphrasing, that it is very dangerous to enact a one-size-fits-all solution, and it has a potential for a negative impact on the whole ecosystem of patenting and innovation.

Could you expand on that a little bit as we wait for my senior Senators?

Mr. JOHNSON. Certainly. You mentioned how important it is for innovators to get patents that they know that they can enforce, and many of the provisions that we have talked about today—heightened pleading standards, stays of discovery, core discovery limitations, and the like—while they may be appropriate for certain

cases—and the troll cases are what people have had in mind—they may be completely inappropriate in other cases, such as the case we talked about with Senator Klobuchar, where you have someone who is suffering competitive harm, where you have extreme needs to move forward with the case rapidly in order to get the competitive relief that you need.

And there are many other different kinds of cases. I mean, we have talked about the need, for example, to move the cases expeditiously. Many cases do not turn at all on claim construction issues. Yes, it is part of what has to be done. But many cases involve whether the party is already licensed. Or perhaps there is not really a dispute over liability; the dispute is really over damages. And the parties, if they move quickly to the damages issue, might be able to resolve the case. But instead, if you have a one-size-fits-all approach to patent cases, you end up going down a road you do not need to go down in order to resolve them.

Senator COONS. Mr. Johnson, I have heard concern, as has Senator Hirono and Senator Feinstein, from the university in my home State, from a number of small inventors, and from some very large players in medical devices and pharmaceuticals who express concern that some of these provisions, while they might be very effective in ending truly meritless patent troll litigation, which have the unintended negative consequence of preventing a truly valid patent holder from protecting their patent rights.

How would you narrow the provisions here in a way that deals with the behavior that you described in your opening as patent trolling without preventing those who need the financing to continue to invest, to continue to innovate, who are genuinely contributing to the innovation economy without harming them and their interests?

Mr. JOHNSON. Well, the obvious way to do this is to narrowly focus the provisions so that they are not going to affect people who are true innovators, who have meritorious or good-faith claims. And we have talked about having fee shifting decided at the end of the case, when you know whether or not it was a frivolous case, as one approach to that. Other approaches are to look at the kinds of behavior and recognize who is truly innocent, such as the innocent end users. That is not going to affect basic innovation.

But as to some of the other provisions that start to impinge on the ability of the patent system to work for innovators, I think we should be restrained when we look at those. It is important to everyone in this room and everyone in the country that universities be able to continue to innovate and rely on the patent system. Companies, down-the-stream people who take the insights from universities and invest into turning them into useful medical devices or pharmaceuticals, are the future of health care in this country. It is what is going to lower the cost of health care and keep us healthy. We cannot do anything to upset the ecosystem and to cut off the flow of innovation from the small companies, the start-ups, the universities, and independent inventors. We have to be very protective of them.

Senator COONS. Well, thank you, Mr. Johnson. I share that concern that we both meet the very real concerns and threats facing completely innocent end-user small businesses without causing

needless harm to what is a very vital and, I think, somewhat fragile ecoystem that is unique and vital to our economy.

I believe next is Senator Blumenthal.

Senator BLUMENTHAL. Thank you, Mr. Chairman.

I think we all approach this subject with a lot of humility because we know how important it is to American invention, job creation, and economic growth, but any of us who have been in litigation for a while also know that frivolous is often in the eye of the beholder. And one of the extraordinary, distinguishing features of American democracy is our court system, which gives to everyone an equal right to be heard and essentially leaves a level playing field so that everyone has that right to assert the claims that the law gives to that company or individual without undue burdens.

And so I guess I am wary of overkill. I am wary of unintended consequences and of limiting rights without knowing what the end results are going to be. And as each of you knows, because each of you has been both, I think, the beneficiary and perhaps the defendant in cases where rights are asserted, we have a very important obligation here to assure that we do no harm. First of all, do no harm.

So let me ask you, Mr. Rao, do you see any unintended consequences, any overbreadth here in the legislation either that has been passed by the House or now before this Committee?

Mr. RAO. Thank you for the question. We agree that the patent system is complicated, and we do not want to take measures that go too far, and Adobe certainly believes that the judiciary has an important role to play in case management. But we do believe it is also Congress' responsibility to act when there is a problem, and I think there is very clear evidence on the record that there is a problem and something needs to be done.

When we talk about fee shifting, which is one of the places where people talk about barriers to access, again, I will note that fee shifting is present in other areas of the law besides patent law. There is already fee shifting in the patent law. And patent law is, frankly, unique in how high the burden is to get fees with the word "exceptional."

So restoring patent law to mimic some of the other areas of the law having that fee-shifting standard be similar, I think we can take some comfort that there are other areas of the law where consumers are regularly being able to file lawsuits. Under the *Fair Debt Collection Practices Act*, for example, there is fee shifting. But they can file it, and they are not concerned about the fee shifting. And, frankly, they are getting their cases heard because there is fee shifting, because the damages are low. A contingency fee lawyer is going to look at the shifting fees and say, "I now have an opportunity to make some money off of this case."

So we can take some comfort from other areas of the law and say fee shifting has not suddenly barred the access to justice from these plaintiffs, and there is already fee shifting in the patent law. So I think we do need to act. I think there is a current and real present problem, and I think fee shifting is a fairly safe way to address it. And it certainly goes right to the heart of the economic problem we have.

Mr. MAKIN. Senator, if I might.

Senator BLUMENTHAL. Yes.

Mr. MAKIN. The notion of everyone having access to the courts is great and it is part of the American system, but unfortunately you have to have money to do that. And small businesses are not equipped to utilize the current court system in this situation. And it is really—as we continue to debate the merits of whether we are going to disenfranchise this community or disenfrachise that community, we are going to continue to see innocent players hurt—innocent players so hurt that they could actually go out of business because——

Senator BLUMENTHAL. I understand that innocent players are hurt by the costs of having to defend what are regarded as frivolous lawsuits, and I think we have a responsibility to impose responsibility so as to alleviate those costs where they are truly frivolous. But I think that our system also has trusted in the discretion of courts to dismiss cases. That is part of this democracy as well, that we accord a great deal of discretion to courts to look to the merits and see whether, in fact, claims, valid claims are stated under the law. That is the standard.

And so I think that, you know, I am just looking for a limited solution to the problem that you have very well outlined here.

Mr. Johnson, do you have any additional comments?

Mr. JOHNSON. I do agree with Mr. Rao that fee shifting encourages plaintiffs with meritorious cases to bring their actions and discourages plaintiffs who see their actions as frivolous to withhold bringing action. And in that sense, I do think it is a good balance, it is a good shift.

But I would point out that the proposals that have been made so far are far from the English rule of automatic fee shifting. There is some question, given the limitations relating to whether the defense—or the claim was substantially justified or whether there was undue hardship as to how often fees actually will be shifted.

Senator BLUMENTHAL. Thank you. My time has expired, but I want to thank each of you, and I would personally join a number of my colleagues in seeking some additional perspectives. And I think your thoughts and observations have been very illuminating. I think that the Committee would benefit by hearing perhaps some additional views as well, and thank you, Mr. Chairman.

Senator COONS. Thank you, Senator Blumenthal. I share your concerns about the need for some additional voices.

Senator Durbin.

Senator DURBIN. Thank you, Mr. Chairman. I thank the panel for your patience. I stepped out for a moment, but I was here for some earlier testimony.

It strikes me when we try to take the high-altitude long view of this, we are talking about access to our government, in this case access to the court system—a concern that we share at the legislative level when people argue that, "Unless I can hire a lobbyist, I do not have access to Congress. How do I petition for redress of grievances?" The same question could be raised, of course, on the executive branch.

And so I start with some skepticism when the premise is to reduce the access to the judicial system. And in this case, Mr. Johnson, I want to make certain that you and I are on the same page

here, or at least understand the terms similarly. We are shifting the presumption, are we not, when it comes to this question of fee shifting? Currently, as I understand it—you are a practitioner and I am an observer for the most part here. Currently, if I want to prove up attorneys' fees, I have got to come up with this exceptional test, which, as you mentioned, is going to be brought before the Supreme Court. As I understand the Goodlatte, Cornyn, and Hatch provisions, the presumption shifts and says that I have to prove as the party who is being asked to pay, losing party paying, I have to prove, as you mentioned here, reasonable justification under law or fact and special circumstances that make the award unjust. There is a shift of presumption, is there not?

Mr. JOHNSON. You understand it absolutely correctly. That is what is happening.

Senator DURBIN. So since the trolls are not represented on this panel, perhaps on a later panel, but I want to try to raise the point that I have been told by people in Illinois, that when you think of the mendacious, meddlesome lawsuits that cost money and take time and are unfair and so forth, the complaints that I have received about this loser-pays fee shifting have not come from categories that I consider to be adequately described that way.

For example, I received a letter yesterday from Northwestern University, the University of Chicago, and the University of Illinois saying that fee-shifting provisions in the Goodlatte bill would "create a powerful disincentive for universities to enforce their patent rights." The argument, I believe, is that you need pretty deep pockets to live under this new system, fee-shifting system, because you may end up, if it does not turn out your way, holding a pretty big bag of obligations. Is that true?

Mr. JOHNSON. Well, I am surprised they feel quite as strongly about it because they have many litigations, and generally if you see yourself as bringing meritorious cases, you are going to come out above instead of below the line in the end. But I would think in terms of access to the courts they would be much more concerned about the possibility of having to post bonds under some of the proposals because bonding is extremely expensive and in some of the proposals would be required in every case without any showing at all that there was anything wrong with the claim that was being brought. And if you take a small business or a university, the cost of a bond can be the full amount of the bond plus additional charges on top, which will have to either be posted or assets will have to be frozen in order to satisfy the bond. So that to me is a much bigger issue in terms of access to the courts than the fee-shifting issue.

Senator DURBIN. Understood. This is clearly high-stakes legal poker when we are talking about this. But in addition to the universities, many small start-ups and independent investors have come in with the same worry about fee shifting.

I would like to address the change in discovery that has been proposed in the House bill and Senator Cornyn's bill, because the argument comes from Illinois Tool Works—and you may be familiar with the company—a large manufacturing employer in my State. They are concerned about this provision and urge that it not be included in the Senate bill. The letter that they sent me said

this provision would unnecessarily increase the cost of litigation when you limit the discovery to meet the Markman ruling, Markman test, between competitors where the issues can be easily defined or where the defendant can prove through discovery that no infringement occurred.

Mr. Johnson and anyone else on the panel, do you agree with this company's conclusion that this stay of discovery provision could have the effect of prolonging litigation and making it even more expensive?

Mr. JOHNSON. Yes, it will in every case.

Senator DURBIN. Is there anyone who disagrees?

Mr. RAO. We do. We actually think that Markman is something that is part of every case, and so everybody has to reach this point. And we also have found—and I think it is fairly common—that once the parties agree what the patent is about, then there are a lot of cases that end at that point because now we know what the patent holder thinks, what the court thinks the patent is, and now the patent—either the plaintiff or the defendant is in a better position and cases go away. We had a case recently where we had Markman, we had a good ruling in our favor, so the plaintiff stipulated non-infringement. The case was over. They appealed it. And the case just ended right there.

So we actually think in a lot of cases it will actually shorten time, because you get to the merits of what is the patent about. And then once you know what the patent is about, it also reduces the cost of discovery because now discovery can be focused on the particular infringement theory that fits this claim construction.

Senator DURBIN. So I am just going to close by recalling some words from law school. I believe the goal is to create a chilling effect on trolls who are misusing and abusing the system. It seems to me that it goes too far and it reaches into possibly meritorious cases that would be discouraged if not stopped by these rules that are really put in place to try to deal with the exceptions rather than the rule.

Thank you, Mr. Chairman.

Senator COONS. Thank you very much for your questions, Senator Durbin.

I believe next in the first round of questions is Senator Schumer.

Senator SCHUMER. Thank you. And first let me thank you, Mr. Chairman, and the previous Chairman in this hearing for holding the panel for me, and that it benefited both Senators Blumenthal and Durbin, who came in as well. So thanks. And I want to thank Chairman Leahy for his hard work on these issues and convening the hearing, and our witnesses for being here today.

I have been very concerned about the problem of patent trolls for years, and I think it comes down to two problems: one, there are poor-quality patents out there being abused, and most businesses, especially small businesses, cannot afford to lay out the legal costs to see if they can win.

Another way to put it is this: Getting hit with a patent lawsuit is like being forced onto a highway that has only two exits, both of which exact a high toll. You can pay the plaintiff either as a settlement or in licensing fees, or you pay your lawyers to litigate the case and hopefully win. And we all know that patent litigation

costs a fortune. It is often marginally cheaper and certainly less risky for a defendant to pay up front and make the case go away. So it is no surprise that the patent trolls take advantage of this, and there is a cottage industry of patent trolls now.

This is particularly galling when patents that are being used to sue are of poor quality to begin with. A recent PricewaterhouseCoopers study noted that patent trolls lose 85 percent of the time when they assert business method or software patents. But we never see that most of the time because small businesses cannot afford to call the trolls on their bluff because of the high cost of litigation. Eighty-five percent are not good patents. That is outrageous.

My concern over this issue is why I fought to have Section 18, the Schumer-Kyl Covered Business Method Patent Program, included in the *America Invents Act*, and the CBM has worked. Everyone agrees it has worked. It has provided a cost-effective administrative review for the types of poor-quality patents that cover intangible methods of doing business. The existing review program under Section 18 has only been operational for about a year. It is working well and as intended. Nearly 100 requests for review have been made with the PTO, and the cases are proceeding smoothly.

So the CBM provides a cost-effective off-ramp from the patent litigation highway. That is why I introduced the Patent Quality Improvement Act earlier this year to expand it and make it available to all poor-quality business method patents, not simply those that read on financial products or services. We need to make it permanent.

The expansion of Section 18 is especially important for small businesses who cannot afford to engage in lengthy litigation in hopes of prevailing.

For any business that actually has been sued, it provides a cheaper exit strategy. More broadly, the very existence of this off-ramp discourages patent trolls from suing using invalid patents. If a troll knows he can no longer trap a defendant in expensive litigation, his interest in the suit will diminish.

At the end of the day, if we do not address the fundamental problem of patent quality, trolls continue to abuse poor-quality patents, and we will be right back having the same debate. A patent reform bill that does not address patent quality is like treating the symptoms instead of the disease.

I understand my proposal is not without detractors, but if anyone thinks they have valid patents, they should not be afraid of a preliminary proceeding. The only people who are afraid of this know their patents are invalid. And it is really a shame that those who believe in valid patents are so strongly defending the invalid patents as well. I find that appalling, frankly.

So let me ask a few questions of our witnesses. I do not have too much time left.

Mr. Makin, I was pleased to see an endorsement of the CBM expansion in your testimony. I would like you to explain why it is helpful for businesses like those—like your members to have it. And, Mr. Dwyer, credit unions are exactly the type of small businesses the CBM program is intended to help. Do you agree that making it more widely accessible would be a useful tool in your

fights against patent trolls? Mr. Dwyer first, then Mr. Makin, and that is my final question.

Mr. DWYER. Senator, first of all, thank you for your efforts in providing both credit unions and banks the Section 18 tool that you described. It is very effective in providing financial institutions a way of, as you said, addressing the validity of the patents early on, and it is a tool that we all appreciate. We do not take a position, as I speak for CUNA, in the expansion of it. It is really not a position that we are involved in.

Senator SCHUMER. Mr. Makin.

Mr. MAKIN. Thank you, Senator Schumer. Obviously we applaud your fortitude on this issue. It is not a politically popular position, but we think it is the right position. You are exactly right that small businesses in America are being held hostage by the patent trolls who count on leveraging fear and the fear of the litigation system to their benefit. They want people to settle. They want the low-hanging fruit. They want to intimidate people.

Senator, Tony Soprano has nothing on these patent trolls. They are thugs and reprehensible entities. And for us to just debate the merits of very esoteric patent legislation when real people in this country are hurting through no legitimate fault of their own, it is un-American and it is wrong.

And so we do need to have off-ramps, to use your eloquent words, to be able to get out of that system. We want to avoid litigation at all costs. Small companies, printers, you name it, they are not interested in going into litigation. They are afraid. So all these measures after the fact of fees, et cetera, are too late. We have already seen the problem.

Senator SCHUMER. We have seen in New York many high-tech businesses put out of business by illegitimate patent trolls, new start-up businesses. We have also seen companies that will not even start up because they know they will be pounced upon by these patent trolls, and a new business that is just starting up cannot afford to hire the lawyers. And I have to say, a lot of companies I work with in New York, they are protecting their own patents. But it is really wrong for them to say, "I want my protection to be so complete and so great that I am going to allow the patent trolls to continue." I find it disgraceful. Disgraceful. Because this is hurting start-up businesses, high-tech businesses, the future of America. It is the little people who cannot afford the suits.

Mr. MAKIN. Right.

Senator SCHUMER. The future of America. So your words were very strong, Mr. Makin.

Mr. MAKIN. Thank you.

Senator SCHUMER. I tend to think they were appropriate in this particular case, and I would urge those larger companies, those large universities that have the ability and have counsel on their staff to look at this carefully for the good of the country. It does not hurt you to go to court. It hurts the small businesses that are represented here. And, again, in New York, when you ask our high-tech businesses, our booming high-tech businesses, what is their number one problem, it is probably getting good people. That is why we need an immigration bill. Their number two problem is the patent trolls. Seriously.

Thank you, Mr. Chairman. Sorry I went on. I feel really strongly about this issue.

Senator COONS. Senator Lee has got a second question.

Senator LEE. Thank you very much, Mr. Chairman.

First of all, I would like to ask Mr. Rao and Mr. Johnson if they would like to respond to the argument that we need to expand CBM and also, secondarily, whether that impacts, whether that lessens the need for patent litigation reform like fee shifting or anything else.

Mr. RAO. I will go first. So I do think that CBM, the Covered Business Method Patent Program, was sort of referred to as an off-ramp, but it is still expensive. You still have to hire a lawyer to prepare the petition. You still have to spend hundreds of thousands of dollars to go through the process. So it is not a free process. It is not a solution for small businesses to say, "I can avoid a patent troll litigation without spending any money." And typically people are only going to file this while they are in litigation. No one is going to incur this cost, especially not small businesses, just because they got a letter. They are going to incur this cost if they have been sued. So they are already in the mix once this has happened, and that is why we think the other provisions are much more important because they are a disincentive and a disruption to the business model. Fee shifting is a disruption to the business model, and without that disruption, these acts are going to continue.

And I think Senator Klobuchar's example of the medical device patent troll is another example of you may take away a particular field from the patent troll, but if you do not disrupt the business model, they are just going to move to another place that is not covered and then flourish there.

So we really need to address the economics as opposed to just this one particular issue.

Senator LEE. Mr. Johnson, do you concur with that?

Mr. JOHNSON. The covered business method patent provision is a transitional program that was put into the *America Invents Act* because of a very small class of patents that was perceived to have quality problems, having been issued after the *State Street Bank* decision and before *In re Bilski* cabined down the number—the type of patents. And therefore, it's titled a transition program, it was designed to sunset, and it was designed to address a very narrow slice of financial services business method patents, and the legislative history on that is very clear.

The rest of the *AIA* puts in overarching post-grant proceedings, the post-grant reviews and the inter partes reviews that are available for all patents, in the case of inter partes reviews for the life of the patents.

Senator LEE. And do any of those reforms obviate the need for any of the reforms we are discussing today?

Mr. JOHNSON. No. The reforms that we have recommended assume that those programs will stay in place and that they will be part of the solution going forward, but that more is needed.

Senator LEE. Thank you. And, Mr. Rao, how do you respond to the argument that access to justice will be limited? You know, whether it is Brigham Young University or some other university

or some other entity or individual who wants to sue, do they still have access to justice? And how do you respond to this point that their access to justice will be unfairly, unjustly limited by fee shifting?

Mr. RAO. I think we have discussed the issues around how fee shifting can actually help plaintiffs have access to justice because with the ability to get fees from the defendant, they are going to be able to retain contingency fee lawyers who are going to be able to take the fees in case the damages are low. So I think the point we have not, maybe, discussed as much—Mr. Johnson did touch on it—is why the fee-shifting standard is not a burden for the universities. And, again, the fee-shifting statutes that we have been discussing all have this provision that says if you have got a substantially justified position, the fees are not going to shift. The court has discretion to not shift the fees. And if your university—Adobe collaborates with a lot of universities. A lot of the technologies that enter into our products like Photoshop are the result of university collaborations. We license patents from universities. These are high-quality patents. I do not really feel that they should be the ones who are worrying about meeting this bar. This bar is fairly low. And it seems to us that the universities are going to be able to meet it.

Senator LEE. With regard to some of the pleading requirements and the filing requirements that we have talked about, aren't we really talking about infringement here? In a real property context, if somebody infringed your property, you would want to identify the metes and bounds of the property alleged to have been infringed. Isn't that all we are doing here? And wouldn't it be unwise for us not to require that kind of metes and bounds description?

Mr. RAO. Absolutely. We do believe that the heightened pleading requirement that we have been discussing is merely setting forth the basic information that we think they should know anyway, any patent holder has to know anyway, in order to satisfy the federal rules. They need to know this information. Unfortunately they are not required to disclose this information today, and so this heightened pleading requirement will force them to say what the patent is, who they are, is there a real party of interest. They have to say what product is being accused, and, amazingly, today they do not have to say what product is being accused. And they have to allege a theory of infringement, which is very helpful for the defendant to understand why they think the product is being infringed.

So these are the basic requirements that we think should be part of every patent case, and very similar to the real property concerns that you mentioned.

Senator LEE. Thank you. I see my time has expired. Thank you, Chairman.

Senator COONS. Thank you, Senator Lee.

Senator Whitehouse.

Senator WHITEHOUSE. Thank you, Chairman.

Rhode Island is facing this same problem. Darrell Ross is the CEO of Ross-Simons, which is a big retailer of jewelry. He writes that "At Ross-Simons, we have been the target of a number of these frivolous patent troll threat letters and lawsuits, faced with years of expensive litigation versus paying a license fee. We often

settle even though we believe the underlying patent is of highly dubious quality. This is extremely frustrating and diverts capital that could otherwise be used to invest in our business, to create jobs, refurbish stores, and better serve our customers."

We have a start-up accelerator named Betaspring, and Allan Tear, who is its founder, states "Small businesses, like the tech start-ups we work with, are forced to settle these challenges out of court as they lack the financial resources necessary to fight back against patent troll's frivolous infringement claims. That is billions of dollars every year that could go toward developing innovative new products and services that is instead going to patent trolls."

David Baeder is the founder and CEO of a Cranston-based messaging technology and communications company called Alert Solutions. He says, "Alert Solutions has received a number of threat letters from patent trolls claiming infringements related to things as basic as sending emails and faxes."

And I could go on. We have industry leaders like Charlie Kroll and Kathy Shields who have written about this in the *Providence Business News*. We have a good *Providence Journal* commentary on this by Rhode Island business advocates Michael Beckerman and Paul DeRoche. And I would ask unanimous consent that letters of support from the Greater Providence and Newport County Chambers of Commerce be added to the record.

Senator COONS. Without objection.

[The letters appear as submissions for the record.]

Senator WHITEHOUSE. I raise all that to say that, you know, I think Rhode Island is very much with you and attentive to these concerns. But I would humbly suggest some advice to you, and that is that, first off, you have a pearl beyond price. You have a bill that the House has passed. The House has not been very effective at passing legislation recently, unless it is the 42nd repeal of Obamacare, as you may have noticed. So being able to get a bill through the House is very significant.

You now need to get a bill through the Senate, and it will then go to conference with the House bill, and that conference will be a very important conference. You do not want to vindicate your ire at the deplorable conduct of these patent trolls at the expense of getting a bill through the Senate, because you do not get to conference if you do not get that. So be as flexible as you can be to get a bill through the Senate that can then get you into conference with the House.

And do bear in mind, as you face these choices, that there are very strong interests here in Washington that have very strong ulterior motives to try to knock down and diminish the civil justice system as much as they can because, frankly, big corporations do not like being sued. They like coming to the branches of government where they have greased them with campaign contributions and lots of lobbyists and super PAC threats and all that good stuff. They do not like getting in front of a civil jury, for instance, where if you try to tamper with them, it is a crime and where they have to stand equal before the law with ordinary mortals.

So beware of pushing or being pushed too far into that fight. That is not a fight you need to have. You need to get a bill through the Senate that gets you into conference with the House. And then

the conferees, I think, can work on sensible legislation that will help get after these patent trolls while protecting the innocent garage inventor who is still, I think, at the heart of all of your concerns. It is not any of your desire, as I understand it, to roll over the garage inventor who has a legitimate claim but no resources, really, to defend it with. So for what it is worth, Mr. Chairman, those are my hopes for progress going forward.

Senator COONS. Thank you very much, Senator Whitehouse, and thank you very much to the four members of our first panel. This has been a broad and rich and informative conversation, and I look forward to our second panel, which also includes a wide range of practitioners. I think a number of us have expressed concerns that we still want to hear from, at some future hearing, representatives of universities and small inventors, but I look forward to the second panel and we will thank the first panel.

Senator COONS. Ladies and gentlemen, I would like to continue this hearing and proceed to the second panel, if we might. Folks, if we could have order in the room, please, so we could proceed with the second panel of this hearing.

Let me briefly introduce our next three witnesses and then ask you to proceed in series to your opening statements.

First, Dr. Steve Bossone is the vice president for intellectual property at the biotech company Alnylam in Cambridge, Massachusetts, and you will correct my pronunciation if that was wrong, Dr. Bossone. Dr. Bossone has unique experience on this panel as he has worked both as a lawyer and a scientist in the field of biotechnology. He joined Alnylam in 2010 and previously was senior patent attorney at Shire. He began his career at Millennium Biotherapeutics, where he worked as a scientist in oncology. Dr. Bossone received his doctorate from SUNY Stony Brook and law degree from Suffolk. Thank you for joining us today.

Mr. Harry Wolin is senior VP and general counsel for AMD, Advanced Micro Devices. He joined AMD in 2000 and served as VP for intellectual property before he became general counsel in 2003. Prior to joining AMD, he spent 12 years at Motorola. Mr. Wolin also serves on the Board of Governors of LifeWorks, one of the largest nonprofit organizations in the Austin, Texas, area. He received his undergraduate degree from the University of Arizona and his law degree from Arizona State. Thank you for joining us, Mr. Wolin.

And Mr. Dickinson, the Honorable Q. Todd Dickinson, is the executive director of the AIPLA. Mr. Dickinson also has extensive experience in the intellectual property field, having served as Under Secretary of Commerce and Director of the Patent and Trademark Office. Mr. Dickinson has served as vice chair of the Intellectual Property Law Section of the American Bar Association and on the executive committee of the Intellectual Property Owners Association. He received his bachelor's degree from Allegheny and law degree from the University of Pittsburgh.

Gentlemen, thank you so much for joining us. If I might invite you to make your opening statements first, Dr. Bossone.

STATEMENT OF STEVE BOSSONE, PH.D., VICE PRESIDENT, INTELLECTUAL PROPERTY, ALNYLAM PHARMACEUTICALS, CAMBRIDGE, MASSACHUSETTS

Mr. BOSSONE. Senator Coons, Members of the Judiciary Committee, thank you for inviting me today to testify on the subject of protecting small businesses and promoting innovation through further patent reform.

By way of personal introduction, I am vice president of intellectual property at Alnylam Pharmaceuticals in Cambridge. I am a registered patent attorney and have a Ph.D. in experimental biology and over 18 years' experience in the biotech field, both as a bench scientist and as a lawyer. While I speak today on behalf of Alnylam, my views are informed by the shared corporate experience of many of my colleagues in the biotech industry from companies both large and small.

Alnylam is an innovator company. We actively practice our intellectual property to develop cutting-edge medicines for patients suffering from diseases such as liver cancer, heart disease, and many other serious conditions.

My emphasis today is going to be on the collateral impact of pending legislation on investment-intensive innovation, especially in the life sciences sector. And to start, I would like to share with you three things my experience has taught me relevant to today's hearing.

First, the interplay or, as some have termed it, the "innovative ecosystem" of university research, technology transfer to the private sector, venture capital funding, and industry collaborations, all contributing to drug development, is a lengthy, expensive, and high-risk enterprise.

Second, changes that create uncertainty about the strength and enforceability of patents threaten to perturb this interplay and the jobs created by hundreds, if not thousands, of companies such as ours.

And, third, this perturbation has real health care consequences, namely, patients, caregivers, and families who are affected by life-threatening and debilitating illnesses and are counting on these partnerships to produce the next wave of cures and therapies for so many currently unmet medical needs. Let us not ignore them in this debate over patent litigation reform.

So I am here today not to defend or attack the abusive patent enforcement practices of the so-called patent trolls. I am here today because I am concerned that many of the proponents of patent litigation reform, in their well-intentioned efforts to curb objectionable patent enforcement practices, are clamoring to remake the patent litigation system in fundamental and untested ways while insufficient consideration is given to the impact of these changes on the vast majority of those companies like Alnylam who engage in legitimate and good-faith patent licensing and enforcement.

I am also concerned that several of the pending bills threaten to selectively strip the courts in patent cases of the discretion to allow legitimate cases to proceed unencumbered by needless and sometimes senseless procedural obstacles. These concerns are especially acute for fields such as biotech, which is largely made up of small investment-intensive businesses like Alnylam that are at the cut-

ting edge of innovation in America. We are particularly concerned with several of the pending litigation provisions such as routine delays of discovery until claim construction hearings have taken place, excessive pleading requirements, and the byzantine, overly broad joinder and fee-shifting provisions. These and other proposals routinely and indiscriminately increase cost, risk, and delay for all the patent owners and licensees who must protect and enforce their patents, and cause serious harm, especially to the life sciences innovators.

We do believe, on the other hand, that willing manufacturers should be better enabled to step in and relief infringement litigation pressure on their small business customers and end users. But the scope of such a provision needs to be carefully tailored to avoid allowing such manufacturers to deflect their own liability to their parts suppliers, for example.

As the Committee assesses the impact of such proposals on the life sciences sector, I ask that you consider the views submitted by our research partners in academia as well as the views of the venture capital community, without whom many inventions would never be developed into life-saving products.

We are all united in supporting targeted reforms that will protect all of us from unscrupulous patent assertion activities. But we also firmly believe that if we do not go about such reforms in the right way, the long-term costs to the entire innovation sector and overall American job creation will be far greater than any short-term benefits that might accrue primarily to large companies in one or two sectors of our economy.

I commend Chairman Leahy for holding this hearing with a variety of stakeholder perspectives. I urge the Committee and the full Senate to proceed thoughtfully in this complex area and to focus on those reforms that would clearly target abusive behavior without undermining the ability of small investment-intensive businesses to rely on the enforceability of their key business assets—their patents.

I appreciate your attention to our concerns and am happy to take any questions. And I also would like to ask that a letter from the Biotechnology Industry Organization dated December 3, 2012, be made part of the hearing record.

Thank you very much.

[The prepared statement of Mr. Bossone appears as a submission for the record.]

Senator COONS. Thank you, Dr. Bossone. The letter will be made a part of the record, without objection.

Mr. BOSSONE. Thank you.

Senator COONS. Mr. Wolin.

STATEMENT OF HARRY A. WOLIN, SENIOR VICE PRESIDENT, GENERAL COUNSEL AND SECRETARY, ADVANCED MICRO DEVICES, INC., AUSTIN, TEXAS

Mr. WOLIN. Thank you, Mr. Chairman.

Mr. Chairman and Members of the Committee, thank you for the opportunity to share information about abuses plaguing the U.S. patent system and the significant harm they are causing to U.S. companies and the U.S. economy. I am the senior vice president,

general counsel, and secretary of AMD. I am also a registered patent attorney and spent the last 25 years working for technology companies on IP protection, licensing, and enforcement. AMD has been both a plaintiff and a defendant in patent litigation matters, and I share that perspective in my testimony today.

AMD is a semiconductor company headquartered in Silicon Valley. We design technology that powers personal computers, some of the U.S. Government's most powerful supercomputers, and game consoles like the new Microsoft Xbox One and Sony Playstation 4.

AMD invests approximately 20 percent of our annual revenues on research and development activities, and we have built a large patent portfolio that represents an investment of many billions of dollars. AMD's business depends on our ability to vigorously protect our IP.

Each year, AMD is forced to spend millions of dollars to defend against patent infringement allegations that are often completely unfounded. Every dollar we spend to defend against a frivolous claim reduces the number of jobs we can create or we can retain. In my written testimony, I have provided two examples of lawsuits faced by AMD that demonstrate the cost, harm, and disruption that patent litigation abuses impose. These cases demonstrate that defending against frivolous patent cases is very expensive and that discovery is often used as a weapon to drive up costs in approaching an often meritless settlement.

The courts do not have the tools needed to address these problems, and without legislative reform, the current abuses will continue. We are encouraged by the legislation introduced by Senators Leahy and Lee which will increase transparency by shedding light on the patent marketplace and curb the abusive practice of mass mailing frivolous demand letters in the hope of securing settlements from unsuspecting victims.

These provisions alone, however, are insufficient to address widespread abuses plaguing our patent system. We urge the Committee to include the heightened pleading, discovery reform, and fee-shifting provisions, such as those found in the bill cosponsored by Senators Cornyn and Grassley. We note that these provisions are included in the *Innovation Act*, which was overwhelmingly passed by the House earlier this month. This was an encouraging show of bipartisan support, and the bill also has the support of the White House.

First, heightened pleading requirements will require a plaintiff to allege patent infringement with specificity, identifying the particular products at issue and the plaintiff's reason for believing that these products infringe. This provision will require the plaintiffs to do their homework before subjecting a defendant to millions of dollars in attorneys' fees and expenses, reducing the number of frivolous lawsuits clogging our courts, and without placing an unreasonable burden on legitimate plaintiffs of any size.

Second, discovery reforms will reduce the cost and the efficiency of discovery in patent cases—I am sorry—and improve the efficiency. Discovery cost shifting will dramatically reduce a litigant's ability to use discovery as a tool to increase an opponent's cost. The discovery staging proposals are even more important to reduce cost and inefficiency because a claim construction order will often sim-

plify the disputed issues. This makes it clear what discovery is necessary.

Third, attorney fee shifting will provide a particularly strong deterrent to frivolous patent suits. Today many patent assertion entities have little risk in litigating meritless claims. A defendant, however, is almost always assured of high litigation costs. The risk-reward imbalance results in uneven bargaining power, which is often used to unfairly extract settlements. This imbalance can be corrected by enacting legislation that awards attorneys' fees and expenses to the prevailing party when the losing party does not have a justified position. This provision will have no effect on legitimate plaintiffs who justifiably pursue their claims.

Finally, I urge the Committee to act quickly. Unwarranted patent litigation acts to the detriment of U.S. companies of all sizes as well as to consumers and the U.S. economy.

[The prepared statement of Mr. Wolin appears as a submission for the record.]

Senator COONS. Thank you, Mr. Wolin.

Mr. Dickinson.

STATEMENT OF THE HONORABLE Q. TODD DICKINSON, EXECUTIVE DIRECTOR, AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION, AND FORMER UNDER SECRETARY FOR INTELLECTUAL PROPERTY AND DIRECTOR, U.S. PATENT AND TRADEMARK OFFICE, ARLINGTON, VIRGINIA

Mr. DICKINSON. Senator Coons and distinguished Members of the Judiciary Committee, on behalf of the American IP Law Association, I would like to thank you for the opportunity to present our views today.

Founded 116 years ago as the American Patent Law Association, and with 15,000 members, we believe that AIPLA brings a unique perspective to the questions before this Committee. We are lawyers, we are judges, we are law professors and patent examiners, and our members represent a diverse spectrum of policy and p kc issues.

Accordingly, when we as an organization develop our positions, we try to achieve a necessary consensus, and to do that we must strive to find not what is right for this entity or that technology, but hopefully what will achieve the best outcome for the intellectual property system as a whole.

Also, as you noted in your introduction, prior to becoming the executive director, I was also the Under Secretary of Commerce for IP and the Director of the USPTO, and so I come here today to address these issues with the benefit of those perspectives.

We once again find ourselves discussing the issue of the behavior of certain patent owners, and as far back as 2005, we came before you to testify on this same broad question. Someone who owns a patent was using the procedures of patent litigation in an infringement dispute with another party, often in a high-tech field. The specific litigation issues then were different. Injunctive relief and damages were on the table then, but the charge was the same: that the state of these legal issues at the time gave too much power to the patent owner in settlement discussions.

You will recall that we spent almost six years together debating, tinkering with language, trying to find good compromises. You did that. We did that together. We found collectively broad support, and the Senate passed the Leahy-Smith *America Invents Act*, which we at AIPLA were proud to support.

So what brings us back here today only two years later? Well, a key aspect of that business has changed. It has been addressed many times today. Before, it was primarily large aggregators going after large businesses. Now you have this phenomenon of widespread distribution of demand letters to small end users with little experience with the system and less resources. Vaguely worded, overthreatening, and very persistent are the folks who send these letters.

We believe that this is a significant and corrosive problem, not only for those on the receiving end but one that undermines the American public's confidence in the patent system as a whole. We also believe, however, that it is a focus problem that we should deal with in a focused way. Fortunately many of the provisions of S. 1720 hone in on this problem in just that way.

So in that light, let me turn to our broader recommendations today.

First, I was very pleased to hear Senator Feinstein address the—and I would be very remiss as a past Director of the USPTO if I did not address the question of funding for the PTO, sustainable funding. No issue is more important to the quality of patents overall and to solving the issues that come before us today than solving that problem. You all, we all thought that that problem was solved in the AIA. We thought we put it to bed. And less than two years later, the problem came back again, this time in sequestration. We have to solve this problem. The stakeholders need it and the system needs it.

But, first, to other issues, we find that we feel it is important to let the reforms of the AIA have a chance to do their work. As we said, one of the major reforms to deal with the troll issue was the expansion of the post-grant processes in the PTO. These were intended to create alternative means to improve the quality or challenge the validity of patents in lower-cost, expedited proceedings. Now, these various post-grant processes have only recently come online. There has only been one CBM case proceeding to completion, and the first PGR case was just filed. Early indications are that these procedures are working as they were intended, and as a former Director of the USPTO, I urge you to let the PTO processes play forward before we consider changing them or instituting other options. We do not know where this is all going to lead. It is too soon to start experimenting again.

Second, the courts continue to understand and deal with the problems of reform as they did during the debates on the AIA. Back then, on litigation after litigation issue, whether it was injunctions or damages or willfulness or venue or obviousness, they reformed surgically and deliberately. And this continues, as has been pointed out. Just this term, the Supreme Court will take up the issue of fee shifting. AIPLA has filed amicus briefs in both those cases, and we have advocated a more aggressive approach in the awarding of such fees.

On the procedural side, the Judicial Conference, the body charged by statute with promulgating procedural rules, has gotten the message, and they have begun to draft rules which will govern patent trials more uniformly.

Third, more reliable data is needed to understand the nature and scope of the problem. For example, a lot of early studies came out that suggested big increases in patent litigation were due to patent assertion entities. Recently, however, more empirically based studies suggest that any increase is due to other causes, in particular the unintended consequences of the joinder provisions of the AIA.

Finally, and most importantly, we need to remember that some of these proposals apply to all patent holders, not just the bad actors, and we need to assure that attempted solutions are not so broad that they have unintended consequences.

I was going to turn to some of the provisions of 1720, but I see the time is running out, and so I will let my written statement speak for itself. But let me address specifically, however, the one issue that I touched on, and that is, bad-faith demand letters.

We believe this is primarily a consumer fraud issue and it is best dealt with by those traditionally tasked with combating it, such as the FTC and the State Attorneys General. And we urge you to consider the fact that those entities have dealt with these as consumer fraud and are to be charged with doing it again. However, care is needed, however, to make sure that the proposals do not impede legitimate licensing activities.

Excuse me, Mr. Chairman.

As a *Time Magazine* poll recently noted, our patent system is the envy of the world and the gold standard of protection. Forty percent of respondents, more than four times the next closest nation, viewed the U.S. as the country that does "the best job of protecting ideas." We need to remember that the stewards of that system, when considering changes to it, need to take a sober, careful, and empirical view of the concerns at hand and deliver a measured and appropriate response.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Dickinson appears as a submission for the record.]

Senator COONS. Thank you very much, Mr. Dickinson. And I take to heart, given the breadth and the character of the organization you represent and its unique role in America's intellectual property system, the charge for us to take a measured and thoughtful review here and to focus in our potential solutions.

You have suggested that it is too early for us to start experimenting again, that we took six years to craft the Leahy-Smith *America Invents Act*, and that it is just a few years past that, and that we do not have enough empirical evidence to really draw concise conclusions about what is the scope of the patent troll phenomenon. And you urged us to find a focused solution to that problem.

Let me support Senator Feinstein's call for more PTO funding dealing with the quality of patents and patent issuance by providing the PTO the resources it so badly needs and richly deserves, in part by ending diversion, I think should be one of our first priorities.

But I would be interested if you would speak to the patent quality improvement programs embedded in the AIA. You briefly referenced that post-grant review, inter partes review, the CBM transitional program were all just beginning to work. Given the claims made in the first panel that this is a widespread terrible problem that is really affecting small businesses across the country, how long would you ask them to wait for the AIA to work? Or as you suggested, do you think there are other consumer fraud-based mechanisms or the specific provisions that have to do with engaging the FTC in the Leahy-Lee bill that could appropriately deal with this without causing needless harm?

Mr. DICKINSON. Thank you, Mr. Chairman. To go to your first point, I absolutely believe that the USPTO was given the charter by the AIA to take up this broad question of improving the quality of patents, and that is, for example, as the GAO study indicated, at the heart, at the root in many ways of the troll problem that we are discussing today.

And so the principal recommendation that came out of the National Academy study that started the whole thing back at the turn of the last century was to have very vibrant, robust post-grant processes, a post-grant system, which we did not really have.

It comes in two types, and it was the product of a very careful, very long-discussed negotiation. There is a first part called the post-grant review, called the first window sometimes. It is a fairly wide-open process. Almost any grounds can be used during that process. It comes right after the patent issues, and it allows third parties to come in and to make the case that the PTO overlooked something, there was some art they were not aware of, there was an argument not made, and that office is charged within nine months of taking care of that.

We urge that most people—we hope that most people will use that process, and we think there are things built in that would incent that process. We also, by the way, support the clarification and a correction of the estoppel provision in that, which we believe would do the same thing, to try to get people to use that process early before investments are made, before jobs are created, before people have relied on those patents down the road.

The second phase is a rework of the traditional re-examination process, now called inter partes review. It is a somewhat higher threshold. It relies on traditional factors like the use of patents and publications, and it is available throughout the life of the patent as that patent progresses through the system.

The CBM we have significant difficulties with. We think the better approach, by far, since that was intended to attack a very, very narrow slice of patents for a short period of time, the kinds of things, for example, which Senator Schumer was addressing, can be best addressed in the IPR system.

Senator COONS. Thank you, Mr. Dickinson.

Dr. Bossone, before my time runs out, if I might, I was interested in Alnylam and its specific sort of example. This is a company that is investing a huge amount of money in developing new intellectual property in inventions that could have a significant impact on human health and the quality of life. But you have to get investors to buy into and support your commercialization efforts.

How would the loser-pay rule or the other provisions, the procedural obstacles that I think you suggested were excessive, if adopted, how would they impact the balance of power between a start-up innovator and a larger company if it is infringing your patents? How would it impact your ability to attract investors and to get the capital formation that you need to continue to invent and innovate?

Mr. BOSSONE. Senator Coons, you are actually correct. We would be impacted in a negative way if all of these provisions in these bills were put in in the aggregate. For instance, in fee shifting, if we were to enforce our patents and there was the threat that, you know, considering the vagaries of litigation that we could lose, we may have to make a hard choice of whether actually to file that litigation in the first place. I am the one that actually has to go before the board and justify filing this litigation, knowing that the cost associated with filing the litigation has to come from someplace else. So maybe it is a clinical study that we would not be able to complete.

Now you add the added burden of shifting fees in a case where I cannot predict whether I am going to win or lose. I think I have a good case, but the standard that has been proposed, you know, is the same standard that has been adopted from the *Equal Access to Justice Act* where, you know, veterans who have lost benefits will sue the government and then they will try to get, you know, the government to pay. And I think in about 30 percent of the cases the government cannot meet that burden.

So I would have to then say maybe there is a 30-percent chance that we are going to have to pay if we lose. So that may make a difference with my being able to assert these patents. If I cannot assert these patents, what value do they have to a large company? So if the company knows that I am not going to be able to assert these patents, what is the incentive for them to actually license these patents from us?

We have had a great deal of success in offering these patents for license. We have taken that money, put it into our R&D. We have accelerated development to a point where our technology was discovered in 1998 in the worm, and a mere six years later, because of this, you know, intellectual property that we held, using it to attract investors, taking that money, putting it into our business, six years later we actually had clinical trials in humans. So this would negatively impact our ability to get this capital that we need.

Senator COONS. Dr. Bossone, just in closing, to summarize, if we were to adopt all the provisions that are in the House bill—fee shifting, discovery limitations, customer stays—in your view, for your company, the ability to the raise the capital to continue with innovation would be significantly harmed and your ability to assert your patent rights would be significantly harmed, and those would be of some significance or consequence, and thus those proposals might be overreach if that is the way we are trying to stop a class of baseless demand letters that are really problematic for commercial businesses, retailers, but that are not involved in innovation. Is that your testimony today?

Mr. BOSSONE. That is exactly correct.

Senator COONS. Thank you, Dr. Bossone.

I will turn to Senator Lee.

Senator LEE. Thank you very much, Mr. Chairman.

Mr. Wolin, I would like to ask you a couple of questions. First of all, we have heard today some examples of how patent litigation abuse can negatively impact businesses. But, of course, before we enact legislation, we need to make sure that there is empirical evidence behind the data to back up the claim that this is a sufficiently significant problem that it warrants action by Congress.

Would you agree with the assertion that there is adequate evidence? And what would you point to as evidence that action by Congress is warranted here?

Mr. WOLIN. I do believe that action by Congress is warranted, and I do believe that there is empirical evidence to point that out. I think if you look at some of the various studies that have been done, if you look at the one that was mentioned earlier today with 62 percent of all patent litigation cases being brought by patent assertion entities and upwards of 85 percent of those cases that go to trial end up being losers, I think that is pretty good empirical evidence that this is a pretty significant toll that is being taken on U.S. industry and patent defendants as a whole.

From my own personal experience, I see a number of issues. Significantly more than 62 percent of the patent litigation that we face is brought on by patent assertion entities. But what I am proposing in fixing this problem is something that I would be willing to take on not only as a defendant but also as a patent plaintiff, as a company that asserts, you know, its patent's rights—I will not say a lot of the time, but it is not rare that we do that.

And so I think the three things that I outlined in my remarks—the attorney fee shifting, the heightened pleadings, and the discovery reforms—are something that would increase the efficiency of our patent litigation system and put us in a position to streamline that patent litigation and get us to a point where it would be much more manageable with getting rid of some of the spurious cases that we see today than what we currently have.

Senator LEE. And as someone representing a business that has a significant patent portfolio, I am assuming that you have got pretty strong views regarding the importance of intellectual property and the need to safeguard it, you know, within the debate that we are having about patent litigation abuse. I think it is important for us to keep our focus on bad behaviors within patent litigation rather than focusing on anything that would tend to minimize or undermine the rights of property owners of intellectual property interests.

Do you agree that we ought to focus on these bad behaviors in this debate? And do you think that the legislation we are talking about today maintains adequately a focus on those bad behaviors?

Mr. WOLIN. I think that it does, because if you looked at the three things that I mentioned in my last answer and that I proposed in both my opening testimony and in my written testimony, those are things that are specifically aimed at the bad behaviors that we are seeing in patent litigation today. So, for example, when you are in a position when an entity can assert a patent against you for a nominal fee and put you in a position where it costs millions of dollars to defend against that often spurious assertion, that

is, you know, taken well by both the attorney fee shifting as well as the heightened pleading requirement.

When somebody can assert a patent against you by just saying, "Your microprocessor infringes," well, that is equivalent to somebody telling Ford that their car infringes. They do not say which car. They do not say what part of the car. They do not say whether it is the wheels or the steering wheel or the trunk. And you are left to spend a lot of money to find that out and have to bring to bear what their case might be and often educate them in doing it. That is what discovery is for when you get down the line, but it is not what it is for at the very beginning of the case. When a patent asserts—when an owner of a patent asserts that, they should have some definiteness of what they are asserting and what their reason for believing there is infringement is.

Senator LEE. Thank you very much.

Thank you, Mr. Chairman.

Senator COONS. Thank you, Senator Lee.

Senator Hirono.

Senator HIRONO. Thank you, Mr. Chairman.

In my remarks before I began questioning to the first panel, I did note that we need to be very careful in proceeding in an area as complex as patent law, and I mentioned that I would like to hear from universities and from inventors. And a group that I neglected to mention that I would like to hear from are the venture capitalists, because these are the folks who are providing the early stage funding for inventors.

Mr. Dickinson, I found it very interesting when you talked about the focus of this hearing, which is on the bad practices of patent trolls, and my understanding of what you were saying is that many of these kinds of behaviors really rise to consumer fraud kinds of activities that are dealt with both at the federal level and at the State level, and there are certain State Attorneys General who have become very aggressive in pursuing these kinds of folks.

So I take it that you would support the FTC authorization language that is in the Leahy bill?

Mr. DICKINSON. Thank you, Senator. You are correct in focusing on that piece of my testimony which we believe is a major issue and maybe ought to be the focus of a lot of this, which is indeed the big widespread demand letters that get sent out, oftentimes, oddly enough, even without filing litigation. The Vermont Attorney General's complaint, for example, notes that one of the most egregious sent something like 10,000 letters and never filed a single lawsuit. And so that literally rises to consumer fraud.

This was similar to about 10, 15 years ago, we had a problem with invention promotion firms, when people would go after small inventors and say, "We will give you a patent and promote your patent," and that was fraudulent. And the FTC and the State Attorneys General went after those folks. We think they can do that again.

The question of whether or not the FTC needs additional authority or not, I think, is one that is open to debate. The FTC has got a study they have just initiated now, and I think that study will shed a lot more light on that question. And so I think at the mo-

ment it is something of an open question, but it is certainly one worth considering.

Senator HIRONO. Well, we have certainly heard evidence of abuse by patent trolls, and, yes, there is a question as to how extensive this kind of abuse is. And there have been references by a number of our testifiers regarding, I think, references to the GAO study that was done, which, in fact, indicated that those who make products brought most of the lawsuits, and that the non-practicing entities who brought lawsuits represented about 20 percent. So I would just like to set the record straight on who is doing what in this arena.

Mr. DICKINSON. Senator, could I——

Senator HIRONO. That is not to say that we do not have a problem.

Mr. DICKINSON. I agree. Can I have two seconds? Because part of the challenge here is definitional, to be real honest about it. It has always been definitional as to how we define "troll," how we define "patent assertion entities."

One figure that gets tossed around a lot is the study that showed that, allegedly, $29 billion in direct costs are associated with this. But the definition there is so broad, for example, all universities get swept in. I dare say that the Members of the Committee's State universities, when they assert patent, do not really feel they are being a troll, but some of this definitional question is one that rides over top of all this data, and it is an example of why we need to make sure we look behind it.

Senator HIRONO. Mr. Bossone, one of the proposals—this is Senator Cornyn's proposal—would require heightened pleadings, very specific as to what the assertions are. Can you share your thoughts on how such a heightened pleading proposal would impact a typical patent dispute? Would it lead to fewer of these cases being brought even in the legitimate infringement type of cases? Would it result in delays? You know, can you share with us your thoughts?

Mr. BOSSONE. Yes, thank you. I think that it would—could yield delays. You have this incredible amount of detail that a lot of it is not really known until you get into the discovery process. Perhaps if you are accusing someone who has a machine out in the public, the earlier examples of an ATM machine, you may understand how that works, and you know if you have a patent that covers a particular piece of equipment, it may be easy to identify exactly the claim that it covers. But if you have, for instance, in our field a pharmaceutical product or if you have a manufacturing process and, you know, companies have—a lot of their manufacturing processes are secret, and, you know, we may see that—or may think that because there is a particular product that it had to have been made by a manufacturing process that would infringe, for instance, a patent that we held, if we wanted to assert that, we would not be able to rise to this level of this incredible amount of detail. Should we not be able to assert that patent that we actually, you know, got, we paid a lot of money, we put a lot of effort into getting it?

I think that could then lead to, for instance, litigation, a lot of early motion practice on sufficiency of our pleading. And so there

I think it would actually delay the case and create, you know, issues for a small company like ourselves.

Senator HIRONO. Thank you, Mr. Chairman.

Senator COONS. Thank you, Senator Hirono.

I would like to thank our second panel, Dr. Bossone, Mr. Wolin, and Mr. Dickinson. Thank you for the perspectives you have brought and for the breadth this has added to this hearing. Like a number of the other Senators, I look forward to further briefings, sessions, and hearings on this topic. If we could dedicate six years to getting the AIA right, I think we could dedicate a few more months to making sure that we get this topic right and that we find a narrowly tailored solution to address what I think is a real challenge with patent trolls without risking unintended consequences for the whole ecosystem of innovation.

I would like to thank Chairman Leahy for convening this, and I would like to thank our panel. We will leave the record open for a week for those Members of the Committee who had further questions or who were unable to attend.

Thank you.

[Whereupon, at 1:06 p.m., the Committee was adjourned.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

Witness List

Hearing before the
Senate Committee on the Judiciary

On

"Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse"

Tuesday, December 17, 2013
Dirksen Senate Office Building, Room 226
10:00 a.m.

Panel I

John J. Dwyer, Jr.
President & CEO
New England Federal Credit Union
Williston, VT

Michael Makin
President & CEO
Printing Industries of America
Sewickley, PA

Dana Rao
Vice President and Associate General Counsel for Intellectual Property Litigation
Adobe Systems, Inc.
San Jose, CA

Philip S. Johnson
Senior Vice President and Chief Intellectual Property Counsel, Johnson & Johnson
Coalition for 21st Century Patent Reform
New Brunswick, NJ

Panel II

Steve Bossone, Ph.D.
Vice President, Intellectual Property
Alnylam Pharmaceuticals
Cambridge, MA

Harry Wolin
Senior Vice President, General Counsel and Secretary
AMD
Austin, TX

The Honorable Q. Todd Dickinson
Executive Director, American Intellectual Property Law Association
Former Under Secretary for Intellectual Property
Director of the United States Patent and Trademark Office
Arlington, VA

PREPARED STATEMENT OF HON. PATRICK LEAHY

Statement of Senator Patrick Leahy
Chairman, Senate Judiciary Committee
Hearing on "Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse"
December 17, 2013

Last Congress, members of this Committee and the Congress came together to pass common-sense, bipartisan reform to modernize our patent system. The America Invents Act has taken significant steps to improve the quality of patents that are issued by the Patent and Trademark Office, by allowing outside parties to challenge the validity of a patent after it issues and improving the information available to patent examiners.

Unfortunately, bad actors are continuing to abuse the patent system. I have heard from an increasing number of businesses in Vermont and across the country that are being targeted by so-called "patent trolls". Instead of asserting a patent claim against the manufacturer of a product, entities are targeting small businesses that merely *use* the product.

In Vermont, small businesses have received aggressive "demand letters" claiming payments of $1,000 per employee for using document scanners in their offices. Across the country, thousands of coffee shops, hotels, and retail stores received demand letters and were threatened with patent suits simply for using a standard, off-the-shelf, WiFi router. Many of the letters are vague form letters with no description of how the recipient infringes on a relevant patent. I have also heard examples of patent assertion entities sending letters through dozens of differently-named shell companies, so that businesses that receive the letters cannot easily find out who sent them.

These actions abuse the patent system to extort settlements from customers and small businesses that have no real means of fighting back. Predatory conduct that simply takes advantage of end-users does not promote the important goals for which our patent system was intended, to advance science and the useful arts.

Over the past eight months, I have worked with Senator Lee and others to develop legislation to address these abuses in the system. Our bill targets the sending of misleading demand letters as a deceptive trade practice that can be penalized by the Federal Trade Commission. It protects customers who have been sued for merely *using* a product when the defendant really should be the manufacturer who *made* the product and is in a better position to argue whether their technology infringes a valid patent. Our legislation promotes transparency, so that those abusing the system can no longer hide behind "shell companies" to advance their scheme. It improves the PTO's outreach to business defendants, and strengthens the "post-grant review" process implemented in the Leahy-Smith America Invents Act to improve patent quality.

These measures take significant steps to address the problem of patent trolls and misuse of the patent system. Importantly, the measures also are balanced and targeted to preserve the rights of legitimate patent holders whose inventions help drive our economy. As we discuss proposals to address the problem of patent trolls, I urge this Committee to stay focused on that balance, so that we achieve meaningful but targeted reform.

I thank the witnesses for appearing today to discuss this important issue. I look forward to working with you and with all members of the Committee to reduce abuses in the patent system, while ensuring that innovators and inventors will continue to drive our economy.

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PREPARED STATEMENT OF HON. CHUCK GRASSLEY

Senator Grassley's Opening Statement for Senate Judiciary Committee Hearing, "Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse," December 17, 2013

Mr. Chairman, thank you for holding this important hearing today. The United States is a global leader in innovating, creating and developing new technologies and products. Intellectual property protection plays a critical role in supporting technological advances, innovation and creativity. Patents and the U.S. patent system are a significant component of the American tradition of invention and innovation.

However, the innovation and creativity that patents are supposed to protect is being threatened by purposely evasive and deceptive blanket demand letters and abusive litigation practices. According to one study, lawsuits by patent assertion entities have increased at an alarming rate – in fact, 62% of all patent lawsuits filed in 2012 were cases brought by patent assertion entities. Patent litigation abuse imposes high costs on American businesses, wasting precious resources that could instead be utilized for research, development, job creation and economic growth.

Patent assertion entities, also known as patent trolls, focus on buying and asserting patents, rather than on developing or commercializing patented inventions. Patent trolls often assert these weak or poorly-granted patents against companies that are already utilizing technologies as ubiquitous as wireless email, digital video streaming and the internet. These entities frequently carry out their tactics behind the shield of patent holding subsidiaries, affiliates and shells of operating companies.

Patent troll lawsuits rarely have merit: the statistics are they lose 92% of merits judgments. But the extent of the problem cannot be quantified by looking at these numbers alone. Most cases don't even get to this stage. Patent assertion entities usually set their royalty demands strategically below litigation costs. Consequently, companies make the determination that they should settle weak or meritless cases rather than run the risk of taking on expensive and risky patent litigation. The bottom line is that many small businesses just don't have the resources to litigate and so they submit to this kind of patent extortion. That's not right.

This phenomenon of patent trolls has hit companies all over the country, and they've targeted my state of Iowa as well. I recently met with a group of Iowans in Council Bluffs and heard stories about how patent trolls utilize overly broad patents to make claims of infringement against their businesses that are either simply engaging in normal business practices or have

bought a technology product or service from a vendor. Further, I've received a number of letters from Iowans outlining their problems and frustration with these abuses. They say that these trolls have forced their businesses to divert resources from productive endeavors to instead focus on researching vague demand letters and defending questionable infringement lawsuits. They 're concerned that billions of dollars are being spent in unwarranted legal costs that could be put to more productive use. According to one of my constituents, "this practice is now completely out of control."

I'd like to quote from a letter that I received from groups representing a wide swath of businesses in my state. This letter is from Hy-Vee Food Stores, the Iowa Association of Business and Industry, the Iowa Lodging Association, the Motion Picture Association of Iowa, the Iowa Grocery Industry Association, the Technology Association of Iowa, the Iowa Restaurant Association, the Iowa Credit Union League, the Iowa Association of Realtors, the Iowa Telecommunications Association, the Iowa Biotechnology Association, the Iowa Bankers Association, the Independent Insurance Agents of Iowa, and the Iowa Retail Federation.

They write, "Fighting frivolous and burdensome patent lawsuits threatened and filed by patent trolls is an expensive distraction for a large cross-section of Iowa businesses. Rather than focus their efforts on important economic development catalysts such as innovation, job creation, and business growth, entrepreneurs and business owners from all industries and sizes are more frequently finding themselves diverting valuable attention and limited resources to defending expensive and unnecessary legal threats by patent trolls. Indeed, businesses, everyday Iowans, and Iowa's economy as a whole are adversely affected by the trolls' seemingly endless barrage of legal threats and frivolous suits. The trolls' misguided and unbridled mischief unnecessarily drives up costs that are, in part, passed on to Iowa's hardworking families and consumers." These groups are supportive of Congress taking action because they believe "meaningful reforms that make it difficult for patent trolls to continue their destructive business models, improve patent quality, and streamline patent infringement disputes will drastically reduce costs for Iowa businesses."

I have other letters from Iowans describing their experiences with patent trolls. Quotes from some of these letters – according to BettrLife in Urbandale, "we must find a way to strengthen the requirements around patent infringement so unscrupulous lawyers can't work through loop-holes to take resources and dollars from companies that are trying to make a positive impact on businesses in their community and the overall economy." According to Kinze Manufacturing in Williamsburg, their patent troll experience "has left a lasting impact . . . . . Contract negotiations with suppliers and service providers now routinely include allocation of liability in the event of patent trolling. These negotiations require additional resources and

delay research, development and production of new products. This slows farmer's access to the latest technology. Technology which will help them get more out of every acre while reducing their costs and protecting their soil." According to Kum & Go based in West Des Moines, claims of patent trolls have cost the company "thousands of dollars in legal fees and corporate counsel has wasted numerous hours dealing with these frivolous claims – time and money that should have been spent on core business functions."

I've also heard from Iowans that are concerned about the ability of patent holders to protect their intellectual property rights and enforce them against infringers. While they agree that litigation abuse does occur in the patent system, they are concerned that certain proposals will undermine the ability of legitimate patent holders to enforce their patent rights. These constituents include Iowa State University, the University of Iowa and independent inventors Robert Rees and Paul Morinville.

I agree that it is important to maintain an appropriate balance between protecting the rights of legitimate patent holders and protecting against abusive practices and weak patents. We need to preserve patent property rights and valid patent enforcement tools which will promote invention, while targeting bad actors and their tactics that target and shake down businesses with weak and frivolous claims for a quick payday. This will strengthen our patent system and benefit inventors, businesses and consumers alike.

Mr. Chairman, I'd like to put in the record letters from Iowa constituents, both expressing support and concerns with the various proposals we are considering in the Senate. I also have for the record letters from the National Retail Federation and Stop Patent Abuse Now Coalition expressing concerns with the customer stay provision as currently drafted in the House and Senate bills.

Doing something about the abusive practices plaguing our patent system is important to keeping the United States competitive, creating jobs and boosting our economy. Members on both sides of the aisle agree that this abusive patent litigation hurts the ability of businesses to expand and flourish. We should pass effective legislation to curtail abuses of the legal system. I'm encouraged that the House passed the Innovation Act by a large margin, and the White House issued a statement in support of that bill.

So I look forward to hearing from our witnesses today about their experiences with abusive patent litigation tactics by patent trolls. I also look forward to hearing from our witness about their views on how we in Congress can help find a solution to this problem. And Mr. Chairman,

I look forward to working with you to pass meaningful legislation that can alleviate the problems that many of our constituents are dealing with and that are harming our economy. Thank you.

Additional Prepared Statement of Hon. Chuck Grassley

Senator Grassley's Opening Statement for Senate Judiciary Committee Hearing, "Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse," December 17, 2013

Mr. Chairman, thank you for holding this important hearing today. The United States is a global leader in innovating, creating and developing new technologies and products. Intellectual property protection plays a critical role in supporting technological advances, innovation and creativity. Patents and the U.S. patent system are a significant component of the American tradition of invention and innovation.

However, the innovation and creativity that patents are supposed to protect is being threatened by purposely evasive and deceptive blanket demand letters and abusive litigation practices. According to one study, lawsuits by patent assertion entities have increased at an alarming rate – in fact, 62% of all patent lawsuits filed in 2012 were cases brought by patent assertion entities. In addition, these lawsuits rarely have merit: they lose 92% of merits judgments. The bottom line is patent litigation abuse imposes high costs on American businesses, wasting precious resources that could instead be utilized for research, development, job creation and economic growth.

This phenomenon of patent trolls has hit companies all over the country, and they've targeted my state of Iowa as well. I recently met with a group of Iowans in Council Bluffs to hear their stories. I've received a number of letters from Iowans frustrated with these abuses. According to one Iowan, "this practice is now completely out of control."

Let me quote from a letter I received from over ten groups representing a wide swath of businesses in Iowa.

They write, "Fighting frivolous and burdensome patent lawsuits threatened and filed by patent trolls is an expensive distraction for a large cross-section of Iowa businesses. Rather than focus their efforts on important economic development catalysts such as innovation, job creation, and business growth, entrepreneurs and business owners from all industries and sizes are more frequently finding themselves diverting valuable attention and limited resources to defending

expensive and unnecessary legal threats by patent trolls. Indeed, businesses, everyday Iowans, and Iowa's economy as a whole are adversely affected by the trolls' seemingly endless barrage of legal threats and frivolous suits. The trolls' misguided and unbridled mischief unnecessarily drives up costs that are, in part, passed on to Iowa's hardworking families and consumers."

These groups are supportive of Congress taking action because they believe "meaningful reforms that make it difficult for patent trolls to continue their destructive business models, improve patent quality, and streamline patent infringement disputes will drastically reduce costs for Iowa businesses."

Other letters from Iowans describe their experiences with patent trolls. Quotes from some of these letters – according to BettrLife in Urbandale, "we must find a way to strengthen the requirements around patent infringement so unscrupulous lawyers can't work through loop-holes to take resources and dollars from companies that are trying to make a positive impact on businesses in their community and the overall economy."

According to Kinze Manufacturing in Williamsburg, their patent troll experience "has left a lasting impact . . . . . Contract negotiations with suppliers and service providers now routinely include allocation of liability in the event of patent trolling. These negotiations require additional resources and delay research, development and production of new products. This slows farmer's access to the latest technology. Technology which will help them get more out of every acre while reducing their costs and protecting their soil."

According to Kum & Go based in West Des Moines, claims of patent trolls have cost the company "thousands of dollars in legal fees and corporate counsel has wasted numerous hours dealing with these frivolous claims – time and money that should have been spent on core business functions."

I've also heard from Iowans that are concerned about the ability of patent holders to protect their intellectual property rights and enforce them against infringers. While they agree that litigation abuse does occur in the patent system, they're concerned that certain proposals will

undermine the ability of legitimate patent holders to enforce their patent rights. These constituents include Iowa State University, the University of Iowa, and independent inventors Robert Rees and Paul Morinville.

I agree that it's important to maintain the right balance between protecting the rights of legitimate patent holders and protecting against abusive practices and weak patents. We need to preserve patent property rights and valid patent enforcement tools which will promote invention, while targeting bad actors and their tactics that target and shake down businesses with weak and frivolous claims for a quick payday. This will strengthen our patent system and benefit inventors, businesses and consumers alike.

Mr. Chairman, I'd like to put in the record letters from Iowa constituents, both expressing support and concerns with the various proposals we are considering in the Senate.

I also have for the record letters from the National Retail Federation and Stop Patent Abuse Now Coalition expressing concerns with the customer stay provision as currently drafted in the House and Senate bills.

Doing something about the abusive practices plaguing our patent system is important to keeping the United States competitive, creating jobs and boosting our economy. Members on both sides of the aisle agree that this abusive patent litigation hurts the ability of businesses to expand and flourish, and undermines the integrity of our patent system. I'm encouraged that the House passed the Innovation Act by a large margin, and the White House issued a statement in support of that bill.

Mr. Chairman, I look forward to working with you to pass meaningful legislation to alleviate the problems that many of our constituents are dealing with and that are harming our economy. Thank you.

Prepared Statement of Hon. John Cornyn

Mr. Chairman, I wish I could stay and engage with the fine witnesses before the committee, but I have other obligations.

I did want to at least briefly stop by to say that this is a very important issue and to ask if I could submit written questions to the witnesses.

Those questions emphasize that litigation is the alternative to arbitration.

The bill before us would not only prohibit arbitration, but actually terminate arbitration agreements that parties have already entered into.

Before taking a dramatic step like that, we must consider whether the alternative of litigation would be even worse in various respects than what critics say about arbitration.

Is the case against arbitration so complete, and the alternative of litigation so much better, than we should prohibit arbitration clauses altogether?

I am very skeptical about the answer but want to explore that with the witnesses through the written questions I will submit.

Thank you, Mr. Chairman.

"Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse"

Senator Cornyn Statement

Chairman Leahy and Ranking Member Grassley, I want to thank you both for calling this hearing and for your leadership on this critical issue.

The interest in this hearing and the outcry we've all heard from our constituents testify to the need for meaningful patent reform. The House of Representative's recent passage of the Innovation Act – by an overwhelming 325-91 – and the Administration's support for that bill testify to the depth of the problem, the breadth and bipartisanship of support and the kinds of solutions we need.

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

Patents play a crucial role in encouraging the innovation that helps make our country great. However, the recent growth in patent litigation now threatens the very innovation patents were created to protect. That is a result the Founders did not intend and one we must prevent.

The problem we face is characterized by "patent trolls," and it is the direct result of rules that create an imbalance in the costs of litigation. Whereas a troll can threaten or begin an infringement lawsuit for little more than the cost of stationery, defendants, particularly small businesses, must invest time and resources into hiring attorneys, going to court and producing discovery. Facing these costs, most defendants simply settle – which, in turn, makes the trolling model profitable. This is nothing more than legal extortion.

The costs are not limited to extorted settlements. The threat of patent litigation keeps businesses from growing and innovating, killing jobs in the process.

Take the recent experience of Whataburger, a great Texas company and, sadly, an exemplar of how out of hand this problem has become.

When Whataburger wanted to offer WiFi in its restaurants in response to customer demand, it learned that the provider was in litigation with a patent troll that was also targeting customers. Having dealt once before with a troll, Whataburger set aside plans for offering WiFi.

More recently, Whataburger was sued by a troll for placing a menu on its website that allowed users to tally up the fat and calories of the selected items. After a year of litigation and thousands spent on discovery, the court has still not held a *Markman* hearing – it still hasn't ruled on what the patent even means.

This is a hamburger company, Mr. Chairman!

That is one example why I have introduced the Patent Abuse Reduction Act, S. 1013. My bill would make changes to balance costs of patent litigation and deter bad actors while ensuring that legitimate patent holders still can defend their intellectual property.

The reforms I propose are common sense. S. 1013 would require the plaintiff to give adequate notice to defendants so that they can evaluate why they are being sued.

It would permit the court to join a party making money off the lawsuit where the plaintiff has little interest other than litigation.

S. 1013 would limit discovery until "claim construction," where the court determines what rights the parties are litigating.

It would allow parties to get the basics of what they need to litigate for free, but require them to pay if they want more.

These latter two provisions would ameliorate the imbalance in discovery costs underlying the troll economic model.

Finally, S. 1013 would require courts to make non-prevailing parties pay the fees of the prevailing party, unless the claims and conduct of the parties were reasonable and justifiable.

Together, these reforms will provide American companies with meaningful relief from patent litigation abuse without prejudicing the rights of responsible intellectual property holders.

That is why they enjoy wide support.

Mr. Chairman, I'd like to add to the record some letters and statements I have received in support of my bill and its reforms.

From Texans like the Austin Technology Council; JCPenney; Rackspace; and Texas Association of Business.

From innovators like the Application Developers Alliance; the Coalition for Patent Fairness; the Computer and Communications Industry Association; the Consumer Electronics Association; the Internet Association; the Internet Infrastructure Coalition; the Software and Information Industry Association; and the Semiconductor Industry of America.

From old fashioned American businesses like the members of the National Retail Federation.

From the experts, 60 law professors who write about intellectual law and policy.

Mr. Chairman, I'd also like to introduce a letter we received two months ago, in support of the ideas in my bill. This letter is signed by over 60 companies and industry and advocacy groups, from across the political and industrial spectrum, from Facebook to Ford Motor.

The companies on this letter are located in many states represented on this committee: Alabama, California, Texas, Illinois, Connecticut, Hawaii, New York. And elsewhere.

Mr. Chairman, there are more statements and letters I could offer.

But the strongest statement came just two weeks ago, from the House of Representatives. The Innovation Act, which includes the concepts in my bill, passed by an overwhelming margin.

What is more, the Administration issued a statement in support of the Innovation Act.

Mr. Chairman, American businesses are clamoring for meaningful reform. The American people are, too. I urge you to work with me on commonsense ideas that will deliver meaningful reform.

PREPARED STATEMENT OF JOHN DWYER, PRESIDENT AND CHIEF EXECUTIVE OFFICER, NEW ENGLAND FEDERAL CREDIT UNION, WILLISTON, VERMONT, ON BEHALF OF THE NATIONAL CREDIT UNION ASSOCIATION

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TESTIMONY

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ON BEHALF OF THE
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BEFORE THE
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UNITED STATES SENATE

HEARING ON

PROTECTING SMALL BUSINESSES AND PROMOTING INNOVATION
BY LIMITING PATENT TROLL ABUSE

DECEMBER 17, 2013

Testimony
of
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President and Chief Executive Officer
New England Federal Credit Union
Williston, Vermont
On behalf of the
Credit Union National Association
Before the Committee on the Judiciary
United States Senate
Hearing on
Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse

December 17, 2013

Chairman Leahy, Ranking Member Grassley, and Members of the Committee:

Thank you for inviting me here to testify at today's hearing. My name is John Dwyer, and I am President and Chief Executive Officer of New England Federal Credit Union, a member-owned not-for-profit financial cooperative headquartered in Williston, Vermont. Nearly 89,000 members have entrusted us with $982 million of their assets. I am testifying today on behalf of the Credit Union National Association (CUNA), the largest credit union advocacy organization in the United States, representing nearly 90% of America's 6,800 state and federally chartered credit unions and their 98 million members.

Mr. Chairman, the mere fact that someone like me is here today is emblematic of how the problem of patent trolls has gotten out of control. I am an accountant by trade, serve a relatively small community that I love, and with the supervision of my volunteer Board of Directors, am in the business of empowering our member-owners to make good financial decisions so they can improve their overall quality of life.

Although my institution sometimes buys technology to use in the service of our members, until about a year and a half ago, patents are not something that ever crossed

my mind. I believe that is what Congress intended when it created the patent system to begin with. Financial institutions like ours are the quintessential end-users of technology. Every piece of technology we have in our institution was purchased with good money from a reputable vendor, who we assumed was selling us something free of any claims like these. Legal issues are also generally something that we try our hardest to avoid; although we operate in one of the most highly regulated sectors of our nation's economy, we operate without an attorney on our staff.

My institution is now in the middle of expensive discovery in a patent infringement case I never could have imagined related to our 23 ATM machines. A total of 25 financial institutions, gas stations, and convenience stores from at least six states are or have been part of this case. The case has been a costly and distracting headache, and due to the fact my case is pending, I hope the Committee can appreciate that there are certain things I won't be able to discuss with you today.

But I am happy to discuss how I got here, beginning with an ill-researched, vague demand letter from a company that has made a business out of what, in my opinion, in another context, might look like extortion. It's a business model that has become a drain on the economy, one that tens of thousands of American financial institutions and small businesses hope this Committee will commit to stopping. During my testimony today, I will focus my remarks on my own experience with demand letters, and what the Committee can do to address the problems, including clarifying the Federal Trade Commission's (FTC) enforcement authority, increased transparency requirements, and providing protections to end-users of technology.

A Business Model Based on the Cost of a Stamp: Unfair and Deceptive Demand Letters and their Harmful Effects

In June 2012, my credit union received a letter from an entity vaguely suggesting that one or more of our ATM machines infringed one or more of 13 patents. The letter did not specify which of our, at that time, 21 ATM machines it believed infringed, nor did it link specific ATM machines to specific patents. In fact, it was obvious to me that

the entity and its lawyers performed little or absolutely no research prior to demanding money from our credit union, as the letter was addressed to my predecessor, who departed our credit union a full two years earlier. It had other elements that pointed to it being a form letter, as it referred to us as a "bank," even though, as a credit union, we have a different legal structure, are supervised by a different regulator, and have many other ways in which we are substantively different from other types of financial institutions.

The letter also contained absolutely no information as to why the entity believed we infringed, leaving us with no way to evaluate the claims. Rather, the letter provided a simple list of patent numbers. It also did not provide us with a comprehensive list of prior licensees, so we could not tell if the manufacturer of our ATMs entered into a licensing agreement in the past. The letter also did not include a key fact that we later learned: two months earlier, many of the patents on that list were declared invalid by the Federal Circuit, after being held invalid at the Patent and Trademark Office (PTO) and by a district court years before.

Nevertheless, I consulted with a lawyer and conducted due diligence both into the patents and the way our machines work, learning that the way modern ATMs function, there was no possible way our ATMs could infringe. I wanted to confirm a few things with our ATM vendor, however, and dispatched a reply letter to the troll in July 2012 asking for more time to evaluate the claims.

In October, I received another letter from the entity, again addressed to my predecessor, which again repeatedly referred to us as a bank. This letter did not acknowledge my earlier reply. It merely included the same list of patents, including those held invalid at the Federal Circuit, and more explicitly threatened litigation if we could not "amicably settle this matter."

During this letter writing campaign, a scary feeling was wondering if I was alone. When you receive a series of letters like these, you begin to think that maybe the author knows something you don't. Perhaps, you think, the author personally visited one of

your ATMs while he was on vacation, and recognized something that triggered an infringement claim in his mind. I'm not a lawyer, but I knew litigation is expensive, risky, and time consuming, so I started to wonder whether I was better off just writing a check to make the issue go away.

Before doing so, I reached out to our state trade association to see if other credit unions were receiving similar demands. I learned that nearly every other credit union across Vermont received similar letters, including, amazingly, some that do not own or operate ATMs.

I also sit on the Community Depository Institution Advisory Council for the Federal Reserve Bank of Boston. Through this group, I learned numerous financial institutions across New England received the exact same letter. I started to conclude that the business model of this entity was to take a directory of financial institutions, dump it into a mail merge program, send out letters, and wait for the settlement checks to roll in.

The troll has recently turned up the heat in its rhetoric. The troll is now sending an initial letter offering "a special one-time *limited time offer* for smaller Banks such as yours to receive a fully paid up sub-license" for $2,000 per ATM. (Emphasis in original). Frankly, this language sounds a bit more like a late-night infomercial than a serious attempt at dispute resolution. For my institution, this demand would be $46,000 based on our current number of ATMs. Should the financial institution fail to respond, they receive a follow-up letter stating that the entity is prepared to file suit "if we are unable to reach an amicable resolution," and attaching the front page of a draft "complaint," containing nothing more than a case caption. In addition, the second letter states that the price to reach a settlement has increased to $5,000 per ATM – an amount 250% higher than the initial demand. For my institution, this demand would be $115,000 based on our current number of ATMs.

In addition, the troll has recently become more aggressive at filing suit. In 2013, this entity actually filed a case against a New York credit union that has no ATMs. We

are unaware of a single instance where this entity has prevailed when it has decided to actually go to court.

CUNA believes that the troll has sent many hundreds, if not thousands, of demand letters across the Northeast, Southeast, and Midwest—perhaps coast to coast. Financial institutions are also not unique. A 2013 White House report noted that one patent troll sent eight thousand demand letters to coffee chains, hotels, and retailers seeking compensation for use of Wi-Fi equipment made by several manufacturers that the patent troll alleged to infringe on its patents.

Economic Realities

These letter writing campaigns work because trolls know that an early settlement is much, much cheaper for a defendant than fighting. In almost every case, just to pick up the phone to consult a patent lawyer to determine the validity of the infringement claim and evaluate the demand costs tens of thousands of dollars. Litigation, whether in court or before the PTO in a covered business method proceeding, is even more expensive—and in the latter, as discussed below, the fees just to bring the proceeding could exceed the cost of the demand. Although it violates one's basic sense of right and wrong, paying up makes some economic sense for a credit union of my size.

It is because of their size that small financial institutions are especially vulnerable. Banks and credit unions are filled with staff in the business of managing risk, and in targeting small institutions that may not have a lawyer on staff competent to evaluate the claims, demand letters are sure to reach a captive mass of people who will be afraid of getting sued. Community bank and credit union CEOs like me will be willing to do almost anything to avoid the risk and uncertainty litigation creates.

Unchecked, the problem of demand letters will deter institutions like mine from using new technologies at all. The technologies for which patent demand letters and litigation have become common against credit unions and community banks include some of the things that make financial services most accessible to consumers – ATMs, online and mobile banking, remote check capture, and check processing, just to name a

few. CUNA has received calls from credit unions worried about making things like smartphone applications available to their members because they are afraid of getting sued. Many institutions will decide these technologies – however much they help their members – aren't worth the risk. If that happens, consumers lose.

Solving the Demand Letter Problem

CUNA strongly supports Section 5 of the Patent Transparency and Improvements Act of 2013, and though it is not a silver bullet that would solve the demand letter problem, appreciates its inclusion in the introduced legislation. The provision would clarify that the Federal Trade Commission has enforcement authority over patent trolls that operate in unfair or deceptive ways, but it does not provide the FTC with the ability to make rules in this area. We believe the FTC should have the ability to evolve in its enforcement powers as trolls evolve, and rulemaking authority would provide the agency with the means to do this.

Increased Transparency and Disclosure Standards in Demand Letters. In the same way heightened pleading requirements can help keep frivolous lawsuits out of court, minimum disclosure standards would help ensure that only demand letters truly asserting a potentially valid claim of infringement are sent. This would also benefit small businesses and small financial institutions by providing them with information necessary to evaluate the merits of the demand. There are a variety of requirements the Committee could consider, including some or all of the following:

1) A detailed description of each patent allegedly infringed and each claim of each patent that is allegedly infringed;

2) Each claim must include a detailed description of which product, feature, method or process is allegedly infringed, including the name or model number; and how the terms of the asserted claim correspond to the functionality of the accused product/method;

3) A description of the direct infringement, the acts of the alleged indirect infringement that contribute to or are inducing direct infringement;

4) A description of the right of the party alleging infringement to assert each patent identified and patent claim identified;

5) A description of the principal business of the party alleging infringement and ownership of the principal business;

6) A detailed description of any past litigation involving direct or indirect infringement and the status or validity of each patent infringed; and

7) The party alleging infringement must identify and disclose any licenses associated with the asserted patent.

Registry. In addition, an entity that sends more than 10 demand letters in a single calendar year should be required to enter all letters into a registry that would be publicly available and maintained by a federal agency, perhaps the PTO or FTC. This is important for a variety of reasons. First, it would provide businesses that receive a demand letter with the ability to communicate with one another. Knowledge is power in these situations, and knowing who else is dealing with the same problem from the same entity provides information necessary to get others to join in your fight. This would allow the efficient forming of joint defense groups to pool knowledge and strategy, assist small businesses in identifying competent counsel familiar with the specific troll at issue, and could reduce defense costs. A registry would also provide the FTC with the information it needs to conduct enforcement proceedings against abusive trolls, and would also remove one of the biggest factors of intimidation – the fear that you, alone, are being targeted.

End-User and Indemnification Issues

As noted above, credit unions and banks are mainly buyers or end-users of technology and rarely develop it themselves. A particularly frustrating problem for small financial institutions, including mine, is that the vendors that sell us the technology very often refuse to stand by it when an infringement claim is brought. In my case, the manufacturer of our ATMs explicitly told us that we are on our own in defending this case. CUNA understands that other vendors, particularly those that make key

technologies necessary for financial institutions to operate in a safe and sound manner, are now explicitly *disclaiming* any representation or warranty as to intellectual property in their agreements. I find this trend troubling for a variety of reasons, especially because vendors are in the best position to know who has the best prior art, what licenses they entered into when they manufactured their technology, the terms of those licenses, and how the technologies they built work from the ground up. Some companies, such as Cisco Systems, have made it a very public priority to defend their customers, and they should be commended for doing so. We worry, however, that companies like Cisco are the exception, rather than the rule.

We appreciate the efforts to address the concerns of end-users in Section 4 of the Patent Transparency and Improvements Act of 2013. However, we encourage the Committee to go further. Because this section makes a stay of a customer's infringement case available only if the manufacturer consents in writing, it may not address the problem faced by many end-users. Indeed, if the trend of technology service providers refusing to stand behind their customers continues, we expect few will consent. We believe that adding a right of contribution and/or mandatory joinder to the patent law would enable a more equitable distribution of liability between end-users and suppliers.

Enhanced Pleading Standards

For many of the same reasons minimum demand letter disclosure standards will provide much-needed transparency related to the merits or weaknesses of a demand, enhanced pleading standards will give would-be defendants better information able to make determinations regarding licensing or litigation. CUNA commends Ranking Member Grassley and Senator Cornyn's efforts in this area. The limitations on discovery and fee shifting in their bill would also help balance the costs of litigation, and would be of great benefit to credit unions like mine when confronting cases like these.

Covered Business Method Patent Program

We also urge the committee to make improvements to the Transitional Program for the Review of Covered Business Method Patents (CBM), which was created in

Section 18(a) of the America Invents Act of 2011. As implemented by the PTO, the program is out of reach to most small financial institutions because the filing and post-institution fees charged by PTO together are more than $30,000. This is more than the total settlement amount involved in many of the cases confronted by small financial institutions, and comes before the substantial legal fees involved in bringing the case to the PTO. We urge the Senate to follow the lead of the House and grant the Director of the PTO the authority to waive the program fees to accommodate community banks and credit unions.

We also encourage the Committee to follow the lead of the House and include language in any Committee Report that clarifies that a demand letter or other pre-litigation communication suggesting that infringement may have occurred can trigger the right to bring a Section 18 proceeding. While we understand this was Congress's intent, outside patent attorneys involved in CBM cases advise us this is not always the case in the real world; much depends on the substance of the demand letter. It is our understanding that the key question is if an entity has been "charged with infringement" in the demand letter such that the petitioner would have standing to bring a declaratory judgment action in federal court. A vague demand letter that does not explicitly say something to the effect of "you infringe" may not meet the PTO's standard. As trolls are savvy, they may word the letter such that it may not rise to the level of being charged with infringement.

We also share the views of many other members of the financial services industry in encouraging the Committee to make the CBM program permanent, and commend Senator Schumer's efforts to do this. We believe that to artificially constrain the program is to ensure that low-quality business method patents remain in the hands of trolls.

Conclusion

Mr. Chairman, for those operating community-based financial institutions, demand letters represent a great and growing threat. We applaud the Committee for

addressing these issues and recognizing the threats demand letters can pose to end users of technology.

On behalf of America's credit unions and their 98 million members, thank you very much for allowing me to testify at today's hearing. I am happy to answer any questions the Members of the Committee may have.

PREPARED STATEMENT OF MICHAEL MAKIN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, PRINTING INDUSTRIES OF AMERICA, SEWICKLEY, PENNSYLVANIA

Statement of Michael F. Makin, MBA

President & CEO of

Printing Industries of America

Before the

Senate Committee on the Judiciary

"Protecting Small Business and Promoting Innovation by Limiting Patent Troll Abuse"

December 17, 2013

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I. Introduction

Thank you, Chairman Leahy and Ranking Member Grassley. It is a privilege to address the members of the Judiciary Committee on an issue very near and dear to the printing industry in America. Protecting small business and promoting innovation are passions of mine; therefore, I am pleased the Committee is examining the harm caused to both by abusive patent practices in this country.

Pure and simple, printers promote free speech. Our mission is entirely compatible with the promotion of progress and the useful arts which is the constitutional beacon of this nation's copyright and patent laws. Print is also the proverbial "poster child" for Main Street and small business.

Today I'm speaking on behalf of America's largest trade association representing the printing and graphic communications industry. There are more than 30,000 individual printing plants in this country in virtually every city and town in America. The average printing company employs just 27 workers and more than60 percent of printing companies are family-owned businesses – a statistic to which I know the Chairman can relate personally. In aggregate, we employed over 800,000 workers and in 2012 shipped over $147 billion in products.

Print is an historic industry that traces its roots to Johannes Gutenberg and Benjamin Franklin; yet, its modern face is high-tech and innovative – it must be in order to survive. Today's print marketplace is all about using a cross-media mix to drive the economy. Companies are transforming themselves well beyond the traditional stereotype of a printer. They set up digital storefronts to make it easy for customers to order print over the Web; execute personalized marketing campaigns for customers that integrate print, digital communications, and social media; and offer a host of other services such as database management and fulfillment. Digital printing as a process has grown from just under one percent of the overall printing industry in 2009 to 10.6 percent in 2010 – and continues to be one of the fastest growing segments in our industry. In fact, many printing firms are changing their company names to reflect the new world of integrated communications.

Unfortunately, we're also an industry that has attracted the damaging attention of patent assertion entities (PAE) or "patent trolls." I realize that there is no concrete legal definition of a patent troll, so my testimony will be based on the belief that a PAE is a company whose business model is to obtain patents primarily to pursue licensing fees and/or litigation against manufacturers that are already using a patented technology. Patent trolls in our estimation do not innovate, do not promote economic growth, and do not contribute to the greater good of education or scientific research. Most importantly, patent trolls do not create jobs – our businesses do.

Patent trolls are increasingly aggressive and more and more predatory. A study commissioned by the US Government Accountability Office found trolls now account for almost 60 percent of patent infringement lawsuits in America. In 2011, patent troll activity cost the US economy $80 billion dollars and productive companies made $29 billion in direct payouts. In 2012, trolls sued more non-tech companies than tech, spanning a wide range of industries. Given all of this activity, it was only a matter of time before trolls began targeting America's quintessential small business industry – the printing and graphic communications industry – an industry in transition and one which employs new developing technologies every day.

II. Patent Trolls Target the Printing Industry

Prior to 2013, it was relatively unknown for printing companies to be accused of patent infringement. That is no longer the case. Owners of patents covering Quick Response (QR) codes, scanning, computer-to-plate workflow, and online ordering are all approaching printers demanding a licensing fee or threatening costly litigation. Currently we know of eight patent owners – many of which may be considered trolls – that are seeking licensing fees from printers. All encounters follow a similar path, with printers receiving a mailed letter, often from an attorney, alleging infringement of a specific technology used in the company's administration, production, or customer communications. The letter briefly describes the patents and technology in question and offers to provide a license for their continued use. The fee may be identified and the threat of a lawsuit is either stated or implied. Rarely will the patent owner provide specific evidence of infringement and the specific claims at issue.

For small printers especially, this is often their first experience with patent law and civil litigation – not to mention "trolling" – and they are astounded at the dollar figures included in these demand letters. One common demand letter issued to a Kansas printer with just 40 employees asked for a $75,000 licensing payment within two weeks of issuing its notice; after two weeks, the letters indicated the amount would rise to $95,000.

Needless to say threats of litigation are intimidating and place undue stress on an industry already struggling with low profits and challenging demand. The general estimate is that printers are forced to spend between $10,000 to $15,000 initially just to hire lawyers to investigate the claims of their apparent infringement. This is on top of anywhere from 125-150 hours printers must devote to this activity. One of our members in Colorado reports that he has a two-inch pile of patent claim charts on his desk; his company is already in its six month of ongoing patent troll activity.

Keep in mind, Mr. Chairman, that these are job creators in the manufacturing sector; these are not attorneys. Yet, there are now dozens upon dozens of printing company owners who have been forced to become patent ligation experts. As the president of one Virginia printing company aptly stated: "Patent trolling is a colossal distraction and…a drain on everybody."

III. Patent Trolls Chill Growth & Innovation in the Printing Industry

In our estimation, the stock-in-trade of patent trolls are software- and computer-related patents that have broadly written claims addressing the method of accomplishing certain activities. The patents are often years old with trolls asserting that their patents cover technology that has already advanced a generation or two since the patent was issued. In my written statement, I've included a chart that details the known patent infringement actions against the printing industry, but I would like to highlight three examples:

Computer-to-Plate Technology: This patent relates to how a digital file, like a PDF file, is handled and manipulated in a print production operation up until the time it is used to image a printing plate. This method of digital workflow and plate imaging was new in the 1990s when the patent was issued but has

become ubiquitous in the industry now. We believe there is compelling evidence to support that it should never have been issued to begin with and have a petition to this effect before the United States Patent & Trademark Office (PTO). Fast forward 15 years later, however, and a shell company run by lawyers, which acquired the antiquated patent and which has no technological or innovative tie to the patent, has issued demand letters to printers all over the United States seeking licensing fees or threatening litigation. At least 35 of these companies have been sued.

Web-to-Print Technology: In this case, the combined patents describe the use of an on-line system for pricing and accepting orders, accepting payment, checking inventory, preparing shipments and more. Thousands of companies inside and outside of the printing industry use this general method of accepting orders on-line today. To date, we know of seven printers – that have been sued based on this technology. Ironically, they are being sued based on technology methods invented in the mid-1990s to accept orders for products other than what our members produce. Essentially, the claims are from a pre-Internet era where nobody used a web portal to conduct business. The patent troll in this case will not even reveal how much the licensing fee is until a printer signs a non-disclosure agreement with it. So far, the printers in question have refused to sign.

QR Code Technology: This patent deals with a use of an "indirect link" – using a short URL, such as TinyURL, bitly, or any other shortener in a QR Code. Quick Response Codes are proven to make print advertisements and/or product packaging more effective. In fact, I would bet if you perused the advertising mail delivered to your homes today, you would find a printed catalog, a sales circular, a coupon, or even a political fundraising envelope with a QR Code on it. QR Codes are also commonly used in printed magazines and on billboards. The patent infringement cases related to these patents made news this year when well-known craft store chain Michael's was hit with a lawsuit for using QR codes in its printed circulars. Other brand name companies, such as Taco Bell and Bed, Bath & Beyond, have been sued as well. In an effort to embrace cross-media offerings that link printed material to mobile devices, printers flocked to offer QR codes and purchased the technologies and software from leading multi-billion dollar software companies. The current threat of litigation, though, now means that small printers may have to pull back on this competitive, high-tech offering due to it

becoming a litigation trap. If you're a small business owner with no in-house attorney, is it worth the risk of being targeted? Many have concluded it is not.

I cite these three examples because, Senators, I can assure you that if you ask small printers in the states you represent, the vast majority will tell you they consider using the above technology essential to their business growth and success. That they now even fear being competitive because of patent trolls who have no intellectual or innovative skin in the game is reprehensible in our view.

IV. Legislative Solutions to Combat Patent Troll Attacks on Printing Industry

Printing Industries of America commends this Committee for exploring legislative solutions to address the complexities of patent law, and we encourage a healthy debate on these ideas. Our overriding view is that legislation should deter patent trolls from the outset to protect printing companies from ever becoming part of the cycle of abusive patent litigation. However, if printers do in fact find themselves involved in extortionate legal situations, we hope that new laws will be in place to provide less costly, less burdensome courses of defense.

Solutions we support include:

Bad Faith Demand Letters

One of the fundamental problems with the current patent litigation system is the inherent vagueness that permeates it. Parties are able to send ambiguous letters en masse to industry members, such as those I have described received by members of the printing industry, demanding exorbitant sums of money. If a member company should have the fortitude to refuse these demands, they learn little more about the patent in question, the nature of infringement, or the party asserting the patent in the notice of suit. We believe a simple solution to this is to require parties asserting patent rights to include more information, both in the demand letters and in the pleadings they file.

Section 5 of S. 1720, the Patent Transparency and Improvement Act of 2013, introduced by Senators Leahy (D-VT) and Lee (R-UT), is directed at

fraudulent or misleading patent demand letters. Specifically, it is focused on the increasingly common practice of PAEs blanketing entire populations of potential patent infringers with unspecific written notices of potential infringement seeking remuneration. Oftentimes, these demand letters don't include information as to what the allegedly infringed patent covers or what the party receiving the notice is doing that infringes upon it.

Section 5 clarifies that the Federal Trade Commission (FTC) has the authority to target such abusive conduct as an unfair and deceptive trade practice. It is carefully crafted to avoid impinging on legitimate licensing activity by inventors and patent owners seeking to protect their rights. Because the FTC's mission is to prevent business practices that are deceptive of unfair to consumers, and to accomplish this without unduly burdening legitimate business activity, we believe that it is appropriate to enhance its enforcement authority.

This deceptive behavior at the core of bad faith demand letters is unacceptable. It does nothing to further the "arts and sciences" as the Founding Fathers envisioned of our patent system, but rather is increasingly the source of drag on our economy.

Heightened Pleading Requirements

Unfortunately, though, the lack of information in demand letters seems to be just the beginning of where the current patent litigation system falls short, in terms of providing information to the parties experiencing it. Another area that we believe could be improved is the pleading standard for patent infringement cases, which is currently far too low. Under current law, a patentee may file a complaint for patent infringement merely alleging that: (1) the court has jurisdiction; (2) the plaintiff owns the asserted patent; (3) the defendant is infringing that patent; and (4) the plaintiff notified the defendant of the alleged infringement. With respect to the third allegation (the statement of infringement), a patentee need assert only that the defendant has imported, made, used, sold, or offered to sell a product "embodying the patented invention." These sparse allegations fail to provide any notice as to what the patent actually covers, let alone what the defendant is doing that allegedly infringes upon it. This information is materially important for anybody, and

certainly member companies in the printing industry that are not as familiar with the patent system, to craft a response and legal strategy.

Section 2 of S. 1013, the Patent Abuse Reduction Act of 2013, introduced by Senator Cornyn (R-TX), requires more robust pleading requirements of patent infringement complaints to ensure that defendants are provided with full and fair notice of the asserted patent claims, the accused products, and the plaintiff's element-by-element infringement contentions for each accused product. We believe that this provision will not only inject balance into the patent judicial system, but will actually improve the quality of patent litigation. Requiring parties asserting patent rights to conduct a proper pre-filing investigation will limit the number of frivolous and baseless suits ever initially filed in our courts as well as put accused infringers immediately on notice of the patentee's infringement theories. This helps all interested parties—including the district court—understand the scope of the case from the start.

Customer Stay

We believe that it is imperative for legislation to address the sharp rise in the number of patent suits brought against end-users over the past several years. We have personally experienced the increasingly common PAE tactic of filing patent infringement suits against customers and/or users of a product or service, rather than the manufacturer or primary seller of the product or service. This is the nature of most of the suits brought against our smaller members. In testimony before the House Committee on the Judiciary on March 14, 2013, a member of this panel (Philip S. Johnson, Johnson & Johnson) aptly explained the prejudicial and coercive effects of current troll tactics to bring lawsuits against large numbers of printers, retailers and other end users rather than an original manufacturer:

> "This tactic takes advantage of the fact that such suits threaten defendants with the disruption of aspects of their businesses that are at best tangentially related to the invention which is the subject of the patent, and that each individual defendant has less motivation to litigate the issue to final conclusion that the manufacturer of the product at issue. The result can be to collect enormous sums as the result of a very large

number of small settlements whose cumulative value far exceeds the amount that could have been recovered from the original manufacturer."

In practical printing industry terms, our member companies are saying, "We didn't write the code, we didn't develop the process,we didn't steal someone else's idea. Instead, we purchased software from billion dollar corporations who may or may not indemnify us…And even if they do, I'm still going to spend tens of thousands of dollars." A small printer in Kansas sums it up this way: "Everything I've done in this business has been 'by the book.' We go out and find a reputable vendor who has the technology we need and then we always buy the licenses and the maintenance agreements that go along with it. And now we're essentially being told by the troll 'we don't care what you did, you're doing it wrong'."

We believe that Section 5 of S. 1720 is a step forward in addressing these concerns. Although the courts currently may stay an infringement suit brought against customers and users down the distribution chain in favor of a suit against the manufacturer or supplier, many courts choose not to do so. Section 5 is designed to protect customers, who are targeted in patent infringement lawsuits by permitting the case against them to be stayed while the manufacturer litigates the alleged infringement.

Covered Business Method

Assertion of low quality, functional patent claims brought by trolls is another problem area that our member companies have faced first-hand this year. While Printing Industries of America was not involved in the patent reform debate last Congress, I do understand that the Covered Business Method (CBM) review program was implemented as part of the America Invents Act (AIA) as a solution to make it easier to have PTO review overbroad patents. CBM review offers an alternative to exorbitant litigation costs and allows businesses threatened over the same patent to pool resources to jointly file a CBM petition. However, the AIA limited CBM review to financial services patents that are non-technical. It is also a temporary program that ends in the year 2020.

On June 4th, 2013, the White House Task Force on High-Tech Patent Issues announced Executive Orders related to patent trolls. The White House

acknowledged that software patent applications are key to stopping the issuance of low quality, overbroad patents often used by trolls. Known as "functional patent claims," these allegations involve patents that claim a general idea. The advocacy group PatentProgress.org describes functional patent claims as "claims that drive us all crazy, where a patent just claims a general idea, like…filtering files that might be spam, or scanning documents and sending by email, or backing up your computer over a network." It is the type of patent that trolls are using to attack the printing industry. For example, printers have received infringement claims for use of a functional software patent that allows for scanning equipment to send scanned images directly to email on an internal network or an FTP/SFTP site. While this particular PAE has sent letters to our member companies withdrawing claims following the action of deep-pocketed suppliers filing invalidation claims at PTO, it serves as an example of how patent trolls are wreaking havoc in the basic operation of printing companies.

S. 866, the Patent Quality Improvement Act of 2013, introduced by Senator Schumer (D-NY), also addresses this problem. S. 866 would expand and make permanent CBM review in current law to go beyond financial services products. As Senator Schumer explained in an op-ed in the Wall Street Journal on June 12, 2013,

> "The expansion of [CBM review] will benefit businesses in multiple ways. For any business that has actually been sued, it provides a cheaper exit strategy. More broadly, the very existence of this off-ramp will discourage trolls from suing. If a troll knows he can no longer trap a defendant in expensive and lengthy litigation, his interest in the suit will diminish substantially. And American businesses can get back to the work of innovation and growth, rather than frivolous litigation defense."

We support the concept of expanding CBM review in order to deter patent troll activity. We also realize that there is some controversy over this idea – and, in particular, dissent from our view by some of our valued supply chain partners – due to the question of how and/or if it is possible to separate "bad actors" from patent holders that do not proactively engage in trolling behavior. It's clear, though, that the Senate should address the issue of patent

quality, and I encourage the Committee to work together to best achieve a consensus solution if at all possible.

More Transparency of Patent Ownership

Virtually all of the bills introduced to date recognize the need for greater transparency into who is the real party-in-interest for the patent. Section 3 of S. 1720 is drafted to promote transparency in patent ownership by requiring plaintiffs who file a patent infringement lawsuit to disclose patent ownership and financial interests.

We are greatly encouraged Congress is taking such an active interest in the need to preserve the "grand bargain" of the patent system: namely, a party seeking exclusive control over an invention must disclose not only the scope of their invention but also who they are. Like real estate or other forms of property (e.g., an automobile), it is appropriate that government records reflect who owns patent rights. As another panelist (Dana Rao of Adobe Systems) explained during House testimony on March 14th of this year: "If anything, the expectation [of transparency] should be greater in patent cases given the ability to enforce that right through litigation and the strict liability for infringement."

We could not agree more. As honest small businesses without access to in-house legal counsel, end users – like printers -- of patented technologies would greatly benefit from knowledge about the ownership and financial interests of our adversaries.

Balancing Discovery Demands

The printing industry currently faces a lose-lose situation of either settle with a patent troll for some high five or six-figure number or mount an expensive legal defense. For most who cannot afford to mount a multi-million dollar legal defense, the only choice they have is to settle. The high price of defending patent infringement lawsuits is due, in large part, to out-of-control discovery demands and costs. Under current law, even plaintiffs asserting meritless infringement claims often are allowed to impose expensive

discovery demands on accused infringers, even before the parties know what the patent legally covers.

Section 4 of S. 1013 includes provisions address limiting discovery. As I stated previously, we have found that PAEs commonly bring lawsuits accusing broad swaths of the defendants' businesses without any realistic expectation that they will pursue those assertions to trial. This practice creates high, unnecessary discovery costs for the defendants at the beginning of lawsuits. S. 1013 would limit discovery initially to the information necessary to resolve the claim interpretation dispute. As an initial matter, this would address the high cost of patent litigation by staying discovery until a court has had the opportunity to narrow a case to its appropriate dimensions and/or potentially decide a motion to dismiss based on the scope of the patent claims. By ensuring that parties are not faced at the outset of a case with extensive discovery demands that could end up having nothing to do with the case, we believe that more of our members will be empowered to fight frivolous claims of infringement rather than settle.

Additionally, Section 4 of S. 1013 would limit initial discovery to the essential documents that both sides need in order to litigate their claims and defenses, such as information about the patents and core technical documents about the accused devices. We believe that this would direct courts to rein in out-of-balance discovery demands and require parties to anticipate and propose solutions for potential discovery abuses as an initial matter. Critically, this provision also requires that parties who later seek discovery beyond the core documents must pay for the costs of that discovery. Any party seeking that additional discovery must prove that it has the financial resources to pay for the discovery or post a bond with the court covering those costs. This provision is vital to protecting defendants from abusive litigation and is not only supported by the printing industry but an extensive cross section of industry, as demonstrated by a letter sent to Congress earlier this year that I have included as an attachment. Often PAEs have few, if any documents, while defendants are legitimate businesses with a large amount of information. By forcing defendants to produce documents, PAEs drive up the cost of litigation, forcing defendants to settle. This provision reduces that abuse. If PAEs really want additional discovery beyond what is necessary to resolve the litigation, then they should bear the cost of that discovery.

The cost of mounting a legal defense is increasingly a drain on our industry. As a printer in Colorado recently said, "The game is simple—sooner or later the patent holder expects that I'll conclude paying them is cheaper than going to court. I don't think that they really believe they have a patent covering what I do. Every conversation is about a settlement."

We believe, though, that reasoned and moderate reforms, such as ensuring balance in discovery demands, will ensure that small printers – and small businesses in general – have a fighting chance in the current system.

Awarding Fees to Prevailing Parties

We would encourage the Committee to consider amending the current Section 285 of the Patent Code, which allows a party to recover fees and expenses in "exceptional cases." Under current law, this standard, in practice, means that fees are almost never awarded, even in the most egregious of cases. As I have explained earlier, we believe that it is imperative to ensure that the system not only secures the ability for patent holders to protect their rights, but also the ability for those accused of infringement to defend themselves. By providing greater direction for courts to award fees to prevailing parties, we think that more of our members would choose to fight claims of infringement, rather than settle. Both the S. 1013 and S. 1612, the Patent Litigation Integrity Act, introduced by Senator Hatch (R-UT), recognize that end-of-case fee shifting is the simplest way to restore the proper financial accountability in the patent system by reducing the incentives to filing unnecessary, abusive, and burdensome litigation.

Assistance for Small Printers: Education, Outreach, and Information Access

Regarding small printers, today I have shared the confusion, exasperation, costs and diversion of resources experienced by small printers that are targeted by abusive patent practices. While small printers are not the type to come hat in hand to the government for help in managing their companies, they do appreciate the intent of S. 1720 to direct the PTO to develop educational outreach and online assistance tools designed specifically for small businesses. Should a small printing company find itself as a defendant in a baseless patent infringement case, this assistance will provide great value. We support Section 6 of S. 1720.

V. Conclusion

Without a doubt, both small business and innovation drive the spirit and economy of this nation, and both should be protected from abusive patent trolls. I commend the Committee for its action and bipartisanship on this issue. Clearly, there is a complex, critical intersection between technology and innovation, economic productivity and growth, and laws that protect valid intellectual property. I hope the debate in this committee room today and in future Senate proceedings will seek to balance these important goals. There won't be one simple solution to reform our nation's patent process, but, to borrow a phrase from President Obama, it's critical that we build consensus to produce "smarter patent law."

Printing Industries of America looks forward to supporting that effort. I note for the record that all of our regional, state and local affiliated associations are also strongly supportive of this effort and I am including a letter to that effect. Again, thank you for the opportunity to address the Committee. I look forward to answering your questions.

Patents Infringement Actions in the Printing Industry

Patent Owner (Lawfirm)	U.S. Patent	Technology	Description
Standard Register, Markzware, Lykes Brothers (SkipPrint*/Maschoff Brennan)	5,666,493 5,963,641 6,076,080 7,050,995 7,058,596	Web-to-print, fulfillment, preflighting	The combined patents describe the use of an on-line system for creating an electronic catalog, pricing and accepting orders, accepting payment, checking inventory, examiningg and correcting files, sending files to a print station, and preparing shipments.
MPHJ Technology Investments (Farney Daniels)	6,185,590 6,771,381 7,477,410 7,986,426	Scanned Images to Email	Use of scanning equipment that sends scanned images directly to email on an internal network or an FTP/SFTP site. Petition to invalidate patents filed by Xerox and Ricoh with USPTO. Letter sent to printers by MPHJ references agreement with Canon and sets aside claims.
CreateAds (Bayard, P.A.)	5,535,320	Web-to-print	Template-based visual design generation for creation of web to print materials
NeoMedia Technologies (Global IP Law Group)	6,199,048 8,131,597	QR Code	Use of an "indirect link"—using a short URL such as goo.gl, TinyURL, bitly or any other shortener in a QR Code. Owner has gone after big name retailers.
RAH Color Technologies (Global IP Law Group)	19 patents	Color management	Techniques for the preservation, automated measurement, control, manipulation, and reproduction of color in digital systems. All invented by Dr. Richard Holub.
CTP Innovations (Baker Donelson)	6,611,349 6,738,155	Prepress, computer-to-plate	Prepress workflows utilizing internal and external networks to generate "plate-ready files" and "plate-ready PDF files." Petitions to invalidate the patents filed with USPTO by Printing Industries of America.
Secured Mail Solutions (O'Melveny & Myers)	8,260,629 8,429,093	QR Code	Generating a personalized QR code, affixing the personalized QR code onto a mail object, storing related electronic data in a storage device, and providing the electronic data to a reception device (e.g., smart phone, etc.) in response to the reception device scanning the personalized QR code on a mail object.
Secured Mail Solutions (O'Melveny & Myers)	7,814,032 7,818,268 8,073,787	Mail Tracking with Intelligent Mail barcode	A system and method for generating, storing, and processing mail Identification data using the Intelligent Mail barcode (IMb)
ADgiants (Locke Lord)	8,271,507	Marketing management	Web-based marketing and management system that connects printer with customers and agencies via Internet

* SkipPrint is the exclusive licensee of the patents.

December 16, 2013

Senator Patrick J. Leahy
Chairman, Committee on the Judiciary
437 Russell Senate Office Building
Washington DC 20510

Senator Charles E. "Chuck" Grassley
Ranking Member, Committee on the Judiciary
135 Hart Senate Office Building
Washington DC 201510

Dear Chairman Leahy and Ranking Member Grassley:

We write today as representatives of regional, state and local associations of Printing Industries of America to thank the Senate Committee on the Judiciary for holding a hearing to examine the issue of "Protecting Small Business and Promoting Innovation by Limiting Patent Troll Abuse."

Together, we represent are more than 30,000 individual printing plants in this country in virtually every city and town in America. The average printing company employs just 27 workers and more than 60 percent of printing companies are family-owned businesses – a statistic to which I know the Chairman can relate personally. In aggregate, we employed over 800,000 workers and in 2012 shipped over $147 billion in products.

Unfortunately, we're also an industry that has attracted the damaging attention of patent assertion entities (PAE) or "patent trolls." Patent trolls in our estimation do not innovate, do not promote economic growth, and do not contribute to the greater good of education or scientific research. Most importantly, patent trolls do not create jobs – the businesses we represent do.

We commend this Committee for exploring legislative solutions to address the complexities of patent law, and we encourage a healthy debate on these ideas. Our overriding view is that legislation should deter patent trolls from the outset to protect printing companies from ever becoming part of the cycle of abusive patent litigation. However, if printers do in fact find themselves involved in extortionate legal situations, we hope that new laws will be in place to provide less costly, less burdensome courses of defense.

Some of these solutions include:

- Deterring patent troll activity by cracking down on deceptive behavior that accompanies bad faith demand letters. This would help tremendously in reducing the vague and threatening aspects of demand letters our members currently receive.
- Protect customers who are targeted in patent infringement lawsuits by permitting the case against them to be stayed while the manufacturer litigates the alleged infringement.
- Ensuring end users have a robust defense against abusive patent claims through an expanded, permanent Covered Business Method (CBM) review that would consider the quality of functional patents in question.
- Reforming the patent litigation system to include new heightened pleading requirements as well as increasing the transparency of patent ownership; and, finally,
- Reduce the overall cost of abusive patent litigation by balancing discovery demands. This would empower more of our member companies to fight frivolous claims of infringement rather than settle.

The solutions above are all contained in some shape or form in one or more of the following bills under consideration in the Senate:

- Patent Transparency and Improvements Act (S. 1720) (Sen. Leahy/Sen. Lee)
- Patent Quality Improvement Act (S. 866) (Sen. Schumer)
- Patent Abuse Reduction Act (S. 1013) (Sen. Cornyn)
- Patent Litigation Integrity Act (S. 1612) (Sen. Hatch)

We realize that there won't be one simple solution to reform our nation's patent process, but, to borrow a phrase from President Obama, it's critical that we build consensus to produce "smarter patent law." As an industry, we are committed to working with our elected officials to balance the protection of small business and the promotion of innovation – and – above all – to combatting the threat and damages caused by patent trolls.

Sincerely,

Great Lakes Graphics Association (IL, WI, IN)
Printing Industries Association, Inc. of Southern California
Pacific Printing Industries Association (OR, WA, HI, AK, ID)
Printing Industries Association of San Diego, Inc.
Printing Industry of the Carolinas, Inc.
Printing Industries of Arizona/New Mexico
Printing Association of Florida, Inc.
Printing & Imaging Association of Georgia, Inc.
Printing & Graphics Association MidAtlantic (VA, MD)
Printing Industries of New England (CT, RI, MA, NH, VT, ME)
Printing Industries of Michigan, Inc.
Printing Industry Midwest (MN, IA, NE, SD, ND)
Print Media Association (MO, IL)
Printing Industries Alliance (NY/CT)

Printing Industries of Ohio & Northern Kentucky
Graphic Arts Association (NJ, PA, DE)
Printing Industry Association of the South, Inc. (AL, MS, TN, KY, WV, MS)
Printing & Imaging Association of MidAmerica (TX, OK, KS)
Printing Industries of America Mountain States (CO)
Printing Industries of the Gulf Coast (TX)
Printing Industries of Utah
Visual Media Alliance (Northern California)

Cc: Members of the Senate Committee on the Judiciary

PREPARED STATEMENT OF DANA RAO, VICE PRESIDENT AND ASSOCIATE GENERAL COUNSEL OF INTELLECTUAL PROPERTY AND LITIGATION, ADOBE SYSTEMS, INC., SAN JOSE, CALIFORNIA

"Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse"

Statement of Dana Rao
Vice President and Associate General Counsel of Intellectual Property and Litigation
Adobe Systems Incorporated

Committee on the Judiciary
U.S. Senate

December 17, 2013 at 10:00 a.m.

Introduction

Mr. Chairman, Ranking Member Grassley and members of the Committee, thank you for convening this hearing and for drawing attention to the importance of a well-functioning patent system to our nation's economic strength and vitality.

I would also like to thank Chairman Leahy and Senator Lee for introducing S. 1720, the Patent Transparency and Improvements Act of 2013. In addition, I would like to thank Senators Hatch, Cornyn and Grassley for introducing very important bills that will help curb abusive practices by patent litigants. Together, these legislative proposals provide much-needed solutions to the patent issues I will talk about today. I believe that all of these bills merit the support of this Committee and action by Senate.

My name is Dana Rao, and I appear before you on behalf of Adobe Systems Incorporated, where I serve as Vice President and Associate General Counsel of Intellectual Property and Litigation. I oversee all aspects of our intellectual property and litigation matters, including obtaining, licensing and defending Adobe's patents, trademarks and copyrights.

I am pleased to have the opportunity to testify in front of this Committee about the problems that patent trolls cause our country. There are two points in particular that I want to keep at the forefront of this discussion:

1. Bad actors are taking advantage of asymmetrical costs of patent litigation to pressure defendants into settlements.
2. Legislation now pending in this Committee will go a long way toward fixing this problem. Specifically, the legislative proposals that I mentioned above can work together in a complementary fashion to restore balance denying predatory litigants the ability to exert undue leverage over defendants.

The patent system has become an avenue for abuse and economic gain for opportunists, and Adobe is one of the many U.S. companies being victimized. Traditionally, the potential of a patent counterclaim ensured that patent holders chose good patents and performed reasonable due diligence before

bringing a suit against a competitor. But patent trolls make no product and therefore they do not have the natural disincentive to bring meritless lawsuits. Unfortunately, the patent litigation system has not developed to provide any other barriers to that behavior. In fact, the current system is quite easy for predatory litigants to exploit. For example:

- The current fee-shifting standard is too high to provide any real disincentive for bad actors to bring questionable patent lawsuits.
- The pleading standard is lower than many other areas of the law, making it easy to file a vague complaint without performing any due diligence.
- The minimal information required in the current pleading standard allows broad discovery on any product a defendant sells, which drives up the cost of defense for the defendant.
- Courts often do not decide dispositive motions or hearings early in a patent case, thus lengthening the time a defendant must pay legal fees before being able to prove that the asserted patent has no merit.
- Patent trolls have chosen to target end users, who have the least knowledge of the infringing technology.

All of these factors create a system in which a patent troll has all of the economic advantages, and defendants face a Hobson's choice of settling to avoid these costs or paying a prohibitively high price to prove their innocence.

The measures that I believe need to be included in any final legislative package are:

1. **Strong fee shifting** to address the imbalance in financial incentives that encourage opportunists to adopt predatory patent litigation as a business model.
2. **Bonding** to render the tactic of setting up judgment-proof shell companies ineffective.
3. **Customer stays** to protect end users from being sued directly and improve judicial economy by reducing the number of cases in the court system.
4. **Heightened pleading** to require patent plaintiffs to perform some minimal amount of pre-suit investigation before launching a patent suit, so fewer meritless cases are initiated.
5. **Discovery cost shifting and sequencing** to control the cost of discovery in patent cases, which trolls can now use to exert pressure on defendants.
6. **Demand letter reform** to deprive patent trolls of another tool in their chest: the use of vague and misleading threats to convince businesses to pay a settlement before being sued.

These reforms are long overdue. Together, they insert heightened standards of quality throughout our patent litigation system and thereby allow it to be used for its intended purpose — to promote the sciences by allowing patent holders to validate their valuable innovations.

In addition to these patent litigation reforms, improving patent quality also should remain a high priority. Under Chairman Leahy's leadership, the America Invents Act (AIA) made a number of important changes. As a result, I believe the Patent and Trademark Office is functioning better and patent quality is improving. For example, to challenge the validity of poor-quality patents, the AIA created post-grant and *inter partes* proceedings, and it established ways to challenge business method patents related to

financial services. These post-grant procedures are now in the early stages of implementation. We have confidence they will work well. But I also believe strongly that now is not the time to make major changes to legislatively expand or revise these procedures. I fear that premature changes will do far more harm than good.

Background on Adobe

Adobe is, by any account, a tremendous international success story that exemplifies American ingenuity and innovation. Founded in 1982 by two computer scientists, John Warnock and Charles Geschke, Adobe's products have created thousands of jobs directly and thousands of businesses indirectly. Adobe brought the world Postscript, enabling printers to print easily from computers; Photoshop, creating an industry around professional digital imaging; and Acrobat and the Adobe Reader, bringing the world innovations in electronic document creation, publication, and management. More recently, Adobe has entered into Digital Marketing, providing retailers and e-tailers the ability to customize and optimize their web content. Charles Geschke and John Warnock created not only an iconic company 30 years ago, but also a culture of innovation and entrepreneurship that lasts to this day.

From its beginning — two scientists with a good idea — Adobe today generates $4.4 billion in annual revenues, employs more than 12,000 people, and continues to invest in innovation. Last year Adobe invested 17 percent of its revenue in research and development, about $740 million dollars.

As a company, Adobe is a strong believer in the U.S. patent system's importance to American innovation. With over 3,000 patents and applications, Adobe has protected its leading-edge inventions in photography, document management, web analytics and web software. The inventions of Adobe's scientists may be intangible, but they represent genuine breakthroughs in 21st century technologies. Our technologies allow computers to recognize faces of loved ones or scenes from vacations and automatically classify them into photo albums. They can remove blur from photographs, and can use a video camera to create a 3D animated figure that mimics the movements of your head. We can recommend goods for consumers to buy; we can predict how a blog will be perceived by the public before it's released; and we can report to a company how social media sentiment is rising or falling based on its latest ad campaign.

These amazing inventions are the building blocks of the future — and they are all implemented in software. The software industry is now, and will remain for many decades to come, a critical sector of our economy, contributing more than $400 billion to our nation's gross domestic product, employing more than two million U.S. workers, and paying salaries that are roughly double the national average.

The Current Landscape

I believe the challenge our patent system faces today is caused by bad actors taking advantage of asymmetries in litigation costs. Trolls make no investments and have nothing at risk, but their targets, such as the credit unions and print shops appearing here today, face the risk of paying off the troll or losing their livelihood. The solution to this problem is to recalibrate the troll's cost-benefit analysis by taking away the leverage that creates the potential for windfall profits.

I have heard some complain that the problem is the availability of patents for software, so software should not be patentable. Adobe does not agree. The bad actors who choose poor patents and stretch their claims beyond meaning are at fault. Software remains a vibrant fountain of innovation and the source of many of the greatest inventions happening in our country today.

I believe we should continue to use the traditional rules for determining if an idea is patentable. This means we should not be allowed to patent abstract ideas. At the same time, we should not confuse what is "abstract" with the "intangible" innovations found in software. A great many of the 21st century's businesses are built on intangible ideas, and this trend will only continue. It is no coincidence that America is the leader in providing patent protection for software and that America is also the world leader in software innovation. Congress should continue to support that protection going forward.

That being said, we should always be looking for ways to improve the patent system. The America Invents Act was a landmark piece of legislation, a major overhaul of the patent system to modernize our practices and prepare us for the next century. With harmonization as a key goal of the AIA, America is now ready to lead the world discussion on the importance of patent rights. In addition, the AIA added some important measures for helping improve the quality of patents, which has been and will continue to be a critical focus for the United States Patent and Trademark Office, patent applicants and industry participants. The AIA, however, did not focus on the problems currently associated with abusive patent litigation practices. The problem was there, and it has only become worse.

Problem of Abusive Litigation Practices

Before 2009, Adobe had only faced 19 lawsuits in its entire history. This year, we have had more than 20 patent litigations. Before 2009, we had received demand letters only eight times. In 2012 alone, we received 33.

Nationally, the problem is worse. In 2007, patent trolls targeted 834 defendants. In 2011, they quadrupled their targets, suing 3,401 defendants, according to the GAO report.[1] A majority of patent litigation is now brought by patent trolls. Patent monetization entities (typically trolls) filed 58.7 percent of patent lawsuits, up from 24.6 percent in 2007.[2]

Not only have patent trolls dramatically increased the frequency of patent suits; they have also changed the nature of these suits. Instead of suing the party allegedly responsible for the use of the patented technology, the patent trolls are targeting customers who are the end users of the patents, a phenomenon unheard of just a few years ago. Since 2009, Adobe has received more than 130 indemnification requests. The reason for this change in target is an unfortunate one. Trolls are targeting those most vulnerable and least suited to defend the case, which maximizes the advantages they have in their cost-of-defense strategy. They know that end-user defendants — such as sporting goods stores,

[1] GAO-13-465, INTELLECTUAL PROPERTY: Assessing Factors That Affect Patent Infringement Litigation Could Help Improve Patent Quality, pp18-19.
[2] Feldman, Robin, et al., "The America Invents Act 500 Expanded: Effects of Patent Monetization Entities," forthcoming UCLA J. L. & Tech. 2013

clothing retailers and coffee shops — will pay a few hundred thousand dollars rather than incur the millions of dollars required to mount an effective defense.

Adobe sees this type of extortive demand continually from these new patent litigation plaintiffs. We have received offers for settlement of $50,000, $30,000, and even $11,000. They ask for these small amounts, which are far less than the cost to defend ourselves in litigation, in exchange for us walking away without forcing the patent troll to prosecute their patent. It is quite obvious that the patent trolls do not want to see their patents tested. In fact, one study has shown that patent trolls will lose more than 90 percent of their cases if the patents are taken to final judgment.[3] They know this, and so they price their patent settlements accordingly.

Unfortunately, settling with the patent trolls does not always help. Adobe has been sued by one entity through three different shell companies three times in just the last two years. Appeasement is not a strategy that works, and Adobe no longer settles with meritless patent holders. Rather, we are now forced to pay the millions of dollars of defense costs to make the point. It costs, on average, $3 million to $8 million for Adobe to defend itself in a patent lawsuit through trial. While Adobe has now chosen to pay that cost to fight back against these trolls, many of the start-up companies and small businesses targeted by patent troll litigation cannot.

Spending millions of dollars on litigation has an impact to Adobe. Adobe has more than 12,000 employees. The millions we are spending on legal defense costs could be used to expand our hiring in several of our U.S. facilities, collaborating with universities to bring forward the next great feature in Photoshop, and investing in our communities.

Instead, the money is going to patent trolls. And make no mistake, these patent trolls are not the little guy. They are multi-million dollar ventures, in some cases publically funded. But patent trolls certainly have no compunction about targeting the little guy. In a recent study, 55 percent of the NPE lawsuits target companies that make under $10 million in annual revenue.[4] Targeting small companies makes sense for this business model, as trolls know start-ups can't afford protracted and expensive litigation. These decisions have real impact, not just in money, but in jobs, products and innovation. The same study notated that 28 percent of the surveyed start-ups had one or more significant operational impacts from an NPE assertion, and 12 percent had to exit a business line altogether. Forcing start-ups out of business in favor of a paper-holding patent troll is not beneficial to society.

And this not just a problem for start-ups. In my career, I have had to tell a business partner that a patent license settlement with a troll was going to cost several hundred thousand dollars. The business owner responded that it was going to force them to layoff engineers to fund the license. Unfortunately, there was nothing I could do to avoid paying this cost. No one wins when the patent trolls are allowed to flourish. Their behavior is having a real impact on real people, and only Congress can stop the abuse.

Remedies

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[3] Mark A. Lemley, & Joshua Walker, *Patent Quality and Settlement Among Repeat Patent Litigants*, 99 Geo. L. J. 677, 694 (2011).
[4] Colleen Chien, *Startups and Patent Trolls*, Santa Clara Univ. School of Law, Accepted Paper No. 09-12 (Sept. 28, 2012)

It is easy to see that meritless litigation designed to force victims to pay extortive settlements is the heart of the problem. The way to curb this abusive behavior is to rebalance the costs of patent litigation. Any solution must take into account future changes in technologies and business models. That is why proposals focusing on specific types of plaintiffs or types of technology are problematic. Proposals aimed at curbing bad behavior — no matter who is doing it — are the right way to go.

1. Fee Shifting

Congress has already recognized that patent litigation is uniquely ripe for abuse. 35 U.S.C. §285 is one of the few areas of the law that provides for fee shifting. Unfortunately, §285 requires a case to be "exceptional" for fees to be shifted, and the lack of real-world outcomes shows that the standard is too high. Very few judges award litigation costs to a winning party who has been the victim of meritless litigation. In an op-ed in the *New York Times*, Chief Judge Rader noted that only 20 of 3,000 cases received fee shifting in 2011. It is certainly our experience that fee shifting is rare, and it is almost not worth the cost to bring a fee shifting motion given this high threshold. A court must find that the bad actor was objectively unreasonable and had subjective bad faith in order to shift fees under the current §285. When asked about their reluctance to shift fees, judges consistently cite the complexity of patent cases and the difficulty of showing that a plaintiff had an unreasonable position, given their unfamiliarity with the technology. Unlike copyright law, which also has fee shifting, the complexity of patent litigation requires that the fee-shifting standard for patent litigation create greater certainty, or the desired deterrent effect will not be achieved.

There are several legislative options before this Committee that would help provide that certainty, and thus the deterrent effect the patent system needs. Two Senate bills — one from Senators Cornyn and Grassley (S.1013) and one from Senator Hatch (S. 1612) — along with the recently passed House bill (H.R. 3309) all have similar provisions. The House bill provides that the non-prevailing party must pay the fees of the prevailing party unless the non-prevailing party's position has a reasonable basis in law or fact, or the court determines special circumstances apply, such as that the shifting of fees would cause severe economic hardship to the non-prevailing party. The Cornyn-Grassley bill would shift fees to the non-prevailing party unless the non-prevailing party's position was substantially justified or the court determines in its discretion that special circumstances exist. Senator Hatch's legislation provides a similar position, but also takes into account conduct as a factor by which to determine whether fees should be shifted.

All of these bills would establish effective, balanced, and fair fee shifting mechanisms. In one recent case for Adobe, a patent troll litigated a case against an Adobe customer. We stepped in to defend the case. Before the merits would be heard, the patent troll wanted to walk away from the lawsuit. The troll offered increasing smaller settlement amounts, but we declined. Finally, the troll gave up and granted Adobe a free covenant not to sue. We moved for fees, but the court determined this was not an "exceptional case," because the plaintiff's position was not objectively unreasonable. The court found that since the case hadn't reached the merits, it had no way of knowing what the plaintiff's position would be. For that primary reason, it chose not to shift fees. This is a good example of how the current law fails in today's patent litigation landscape. The patent troll can settle with hundreds of defendants

and avoid fee shifting by walking away from a meritless case before the weaknesses are exposed or before it can prosecute the case in its chosen plaintiff-friendly forum. Under any one of the three proposed fee-shifting standards, the patent troll would pay in this situation. The new bills would create incentives for patent holders to bring only cases for which they have a reasonable position. That is how our patent system should work.

I should also note that the Supreme Court is currently reviewing the fee-shifting standard in 35 U.S. C. §285. The statute is interpreted today to require both objective baselessness and subjective bad faith to satisfy exceptionality. The Court may lower the threshold to find exceptionality. However, as noted above, it is unlikely that it can sufficiently modify the standard to meet the problems of today. The Court is still bound by the word "exceptional," and that word creates an unreasonably high bar. The problem of abusive litigation practices is a policy matter, and Congress is better suited to address the inadequacy caused by the burdensome high standard in today's statute. Given the central importance of fee shifting to solve the patent troll problem and rebalance patent litigation to focus on merit based suits, we strongly believe that a fee-shifting amendment must be added to any legislation that is passed by the Senate.

2. Discretionary Bonding

It is not sufficient merely to shift fees. In today's litigation landscape, the patent trolls are very creative and establish shell companies through which they bring their meritless cases. The patent troll stands in the shadows behind these shell companies. A fee-shifting statute must reach the patent troll, who is the real party in interest. In other words, the deterrent effect of the improved fee shifting only works if those who are receiving the direct financial reward for these suits are held accountable. Obtaining a fee award against a judgment-proof shell company will have no deterrent effect on the patent trolls.

There are several approaches to securing fees against the real party in interest. The best of these approaches is Senator Hatch's discretionary bond provision. This carefully nuanced provision balances the need for a bond against the importance of not unnecessarily or unfairly burdening every plaintiff with the requirement of posting a bond. For example, this bond provision clearly addresses concerns about burdening a small start-up or independent inventor. One of the key factors a court is asked to consider is whether or not a bond would burden the patent holder's non-patent activity. A small start-up with a real business would not be required to post a bond under this provision. In addition, any party that can demonstrate that they are able to pay for shifted fees and anyone who can find an entity willing to be responsible for such fees on their behalf could also be exempted by a court from posting a bond. These factors ensure that the court's discretion will be focused on the real abusers of our patent system, and those legitimate patent holders would be exempt.

There have been several bills that attempt to address this issue through expanding the rules on joinder. We have some concerns with these proposals. First, we believe there are due process concerns with joining a non-party without sufficient notice. Some proposals have attempted to address this problem by creating complicated and expensive notice processes that potentially pose expensive burdens on the defendants at a time when it is not clear fee shifting will be an issue. In addition, venue requirements

can be easily avoided by the trolls. Given the problems with making joinder an effective tool to ensure that the shifted fees serve as a real deterrent, we prefer a discretionary bonding provision as discussed above.

3. Customer Stay

As mentioned above, the patent trolls have shifted their focus to customers to fuel their business model of predatory litigation. This is a very troubling development, disruptive to the economy as a whole and to our specific relationships with our customers. It also unnecessarily diverts valuable judicial resources. We urge the Committee to take action to address this problem. Trolls' targeting of customers and retailers has led manufacturers to defend their customers all over the country. This is an expensive process. In one case, a patent troll filed 12 actions in 11 different districts against more than 200 defendants related to one of Adobe's products. In that suit, Adobe had to defend 10 of its customers in six of those districts. To address this expense, manufacturers attempt to win stays against the patent holder, to efficiently resolve the dispute in a single courtroom. There are often common issues of infringement and validity that can be better considered in a single courtroom rather than spread out over the country. In most cases, damages can also be considered equitably in the same courtroom.

There is little legitimate reason to prosecute multiple cases on the same patent against the same product against a number of defendants, unless you are hoping to force settlements. However, since these are not legitimate suits, the trolls oppose the manufacturer motions for stays and often are successful in having them denied. In the case described above, Adobe's motions for stay were denied for several of our cases and granted in others. One court merely pointed to prejudice to the patent holder by having to wait for the manufacturer's case to go forward, which is, of course, always going to be the case as the customer's case is first filed (or this problematic situation does not exist). This kind of routine denial of stays impairs the ability of a manufacturer to defend its customers and is of no benefit to judicial economy. The split in the courts' use of the common law customer suit exception also dictates that a uniform national law would better serve the industry.

S. 1720, the Patent Transparency and Improvements Act, provides a statutory system for making it easier for manufacturers to defend their customers. A stay is granted if the manufacturer and customer agree to be bound by common issues, the manufacturer and customer agree in writing, and the same patents and products are targeted in the two suits. However, to protect the patent holder, the stay can be lifted if the stay would be prejudicial to the case of the patent holder. This common sense provision carefully balances the interests of the end user, the patent holder and the manufacturer. We support the approach of the S. 1720.

4. Heightened Pleading

Another area of important focus is the reduction of discovery costs through an increased requirement for detailed pleadings. Heightened pleading requirements and discovery cost shifting are closely related, as a heightened pleading standard will provide a focused scope under which subsequent discovery will be requested. In addition, both concepts strengthen another tool against the troll: a requirement that patent trolls incur the expense of doing some pre-suit investigation, which should reduce overbroad

discovery. This helps remove discovery costs as a weapon to be used against the other party. Ensuring that the conduct of patent litigation is not turned into a tool for bad behavior is an important policy objective, and one where we urge Congress to act.

Today, the pleading standard for patent litigation is very low. We routinely receive complaints that do little more than announce the name of the company and the patent, and make a general assertion that some Adobe product is infringing. There is no discussion about what product or what claim in the patent is at issue. There is no provision describing the theory of infringement. There is no discussion of who the real party in interest is, or if there are any licenses or standards commitments that might affect the suit. Today, all that is required is compliance with Form 18 of the Federal Rules of Civil Procedure. This lax standard fuels the rise of meritless patent litigation, as patent holders are able to easily file suits with no pre-suit investigation and then begin their campaign for extortive settlements. It is typical for Adobe to receive a call for a settlement days after a bare-bones complaint has been filed. The patent holder still has no idea what product or claim is at issue, or why Adobe infringes. But since there is no requirement for specificity, they are able to use the leverage of the lawsuit to extract a settlement.

There are several pending legislative proposals that address this issue, by eliminating Form 18 and adding requirements for heightened pleading. H.R. 3309 and S. 1013 both provide for these measures. Adopting these positions would merely bring patent litigation in line with the recent Supreme Court pleading standards set forth in *Twombley* and *Iqbal.*

H.R. 3309 adds important additional safeguards for the patent holder, including protecting trade secret information from being disclosed in the pleadings and ensuring that the heightened information is only required if reasonably accessible. As a patent holder, Adobe would like to see both of these safeguards added to final legislation on this issue.

5. Discovery Cost Shifting and Sequencing

Discovery costs are another weapon in the patent troll's arsenal. In an American Intellectual Property Law Association (AIPLA) survey, patent defendants revealed that cost of discovery can range from $350,000 to $3 million[5] Adobe's costs are typically in this range for cases that go the full length of discovery. There might be a justification for spending this amount if these documents produced by Adobe were actually used. But they are not. The GAO study issued this past summer noted that one judge stated less than one in 10,000 documents are actually used at trial. This is commensurate with Adobe's experience as well. As a software company, we willingly provide source code in discovery subject to appropriate safeguards. We believe that in most cases the plaintiff's entire infringement case can be built from this one response to discovery request. However, plaintiffs still ask for thousands of documents in order to put pressure on us to settle. There is no legitimate reason for seeking such large productions of documentation with low relevance. However, if the goal is to raise the cost of litigation, seeking broad discovery requests fits nicely within that strategy.

[5] Report of the Economic Survey 2011 (Arlington VA: July 2011)

The current proposals to allow discovery cost shifting in excess of core documents also allow the overall cost of litigation to be reduced for the defendant at an earlier point than any end-of-case fee shifting decision. By minimizing the discovery costs during the case, it is likely more cases will be heard on the merits.

Another key element of reducing the overall cost of litigation is to properly sequence discovery in patent cases. The most important component of a patent case is the Markman decision, where the claims of the patents are interpreted and become the law of the case. After this hearing, it can be quite clear to both sides who has the winning position. Cases are often settled after Markman. In one recent (and typical) case, Adobe had a successful Markman decision and the patent plaintiff decided to stipulate to non-infringement and appeal the Markman decision. If affirmed, the case would end. Given the importance of the Markman decision, it only makes sense that it should be rendered early in a patent case, and discovery should be limited only to the question of claim construction for most cases until the Markman decision has issued. Both patent holder and patent defendant benefit from reaching the merits of the case as quickly as possible for as low a cost as possible. Many cases could be conducted for a far lower cost if the case proceeded to a Markman decision first, with limited discovery. Discovery on other aspects of the case can continue after Markman, assuming the case needs to go forward. Prior to Markman, because of the lack of understanding of the scope of the claims, discovery can be very broad and often results in document production and review of very little relevance, given the later interpretation of the claims by the court. Both S. 1013 and H.R. 3309 have provisions to sequence discovery in this manner. In addition, both provide discretion to the court to allow other discovery to occur as appropriate. As a defendant, Adobe prefers the court to maintain discretion to allow other discovery early to allow other dispositive motions to be brought as appropriate. However, for the ordinary patent case, claim construction will be the most important component of the case, and limiting early discovery to those issues will make for a more efficient and cost-effective litigation. Adobe does support providing an exception for cases in which the patent holder is seeking a preliminary injunction. For those cases, time to resolution is of maximum importance and it seems appropriate that discovery on all issues proceed in parallel.

In addition, Adobe supports the principle that the judiciary is best able to dictate the specifics of their case management practice, to address the different scenarios they routinely face. However, Adobe strongly believes that Congress should set the policy goals as discussed above, to ensure the framework of patent litigation is not enabling the abuses that are occurring today. To that end, Congress should provide specific guidance to the Judicial Conference to ensure that those goals are met. In addition, given the urgent and growing nature of this problem, Adobe believes that Congress should set a date certain by which the Judicial Conference promulgates its rules, and such date should be set as early as practical after the passage of this legislation.

6. Demand Letters

Finally, Congress should act to protect against the abuse of demand letters in patent assertions. Legitimate patent licensing, where a patent holder is aware of a particular infringement and uses a letter

to initiate discussion, is perfectly appropriate and protected speech. However, the demand letters being sent in today's environment often are deceptive and misleading.

In one situation, a patent holder is sending letters to Adobe customers asking for money to settle the lawsuit. The patent is one for which Adobe has taken a license on behalf of itself and its customers. Despite this, the patent holder fails to mention Adobe's license in its letters. The only conceivable motivation for this behavior is to hope that customers unaware of that license and pay the patent holder out of ignorance. Adobe has had to move to intervene in one of the lawsuits filed merely to publicize and have a court finding on the fact that its customers are covered by the contract, a fact that the patent holder does not dispute. In a separate example, a patent holder continues to send demand letters about a patent it has asserted against Adobe. However, in the case against Adobe, a material question has surfaced regarding whether the troll even owns the patent. This issue was sufficiently credible to cause the judge to stay the case on the eve of trial. However, while we are waiting to litigate the ownership issue, the patent troll is continuing to send out demand letters to Adobe's customers without any reference to the fact that the troll may not be actually own the patent. If a customer pays the patent holder, and the patent holder is found not to be the true and correct owner of the patent, the customer could also be forced to pay the new patent holder on top of the previous payment.

This sort of behavior needs to stop. It is all a piece of the campaign to use patents to force extortive settlements. S. 1720 would address this problem by asking the FTC to use its Section 5 authority to enforce against deceptive and misleading practices. S.1720 would specifically require demand letters to include information about licenses and ownership, two easily provided and critical pieces of information in any demand letter. In addition, a requirement to provide reasons for infringement will enable recipients of the letter to assess the relevance of the threat, rather than merely acting out of the fear of the unknown. We do have concerns with enforcing against a patent troll that falsely threatens that "judicial relief will be sought." Namely, we are worried it will actually lead to more lawsuits being filed to satisfy this criteria , which is not the best outcome.

Importance of a Unitary Patent System

Some have argued that the real cause of the patent troll problem is that patents are available for computer-implemented inventions, or software patents. I strongly disagree. At Adobe, we believe all technologies should be treated equally under the patent system. Our software patents are sound and protect true innovations. These patents play an indispensable role in making our company viable. Diluting or casting a shadow over these essential components of what makes Adobe competitive would be a huge problem.

At the same time, improving patent quality is essential and was the central focus of the AIA, which established a number of important measures that we believe are making a real difference. Some are in the early stages of implementations. The ability to challenge issued granted patents in order to weed out patents that should not have been granted is making a real difference. The AIA created two permanent ways to challenge issued patents — *inter partes* re-examination and post-grant review — which balanced the need for patent validity review with the need for a patent owner to have certainty

as to the value of their patent. The AIA's Section 18 created a third, and purposefully narrow way to challenge business method patents related to financial services. Section 18 is a transitional component of the law and was not meant to be a permanent feature. Section 18 targets a very small sector of improvidently granted patents. That was and should remain its focus.

I fear that call for expanding the scope of Section 18 challenges to cover all or virtually all software patents would be harmful, especially given the evidence that the *inter partes* review process is working as intended. Such an expansion would impose unnecessary cost and burden on the patent owner and significantly delays the enforcement of valid patents, creating opportunities for litigation abuse by infringers.

Improvements to Post Grant Proceedings

The Post Grant proceedings, a central feature of the American Invents Act, are a valuable tool for improving patent quality. Adobe supports the removal of the "reasonably could have been raised" estoppel requirement in the Post Grant Review procedure (PGR). This very broad estoppel standard would effectively preclude any practical utility of the PGR process, as challengers would have to give up too many rights in order to seek the benefits of this provision. Within the first nine months of patent issuance, challengers are not well positioned to bring every possible defense they "reasonably could have raised" in a PGR proceeding. However, creating estoppel for arguments actually raised during the proceeding is fair, and serves the purpose of this Program.

In addition, Adobe supports maintaining the "broadest reasonable interpretation" (BRI) standard for post-grant proceedings. This standard, supported by the Patent Office, ensures a consistent interpretation of claims by the Patent Office where the applicant has an opportunity to amend their claims. Using the BRI standard also allows the Patent Office Trial and Appeal Board to review petitioner's petition without any further input from the patent holder on the proper interpretation of the claims, as might be required if another, fact-intensive, standard were applied. This serves the goal of ensuring that the post –grant proceedings are conducted expeditiously and inexpensively. Adobe does support requiring the PTAB to consider other factors such as patent prosecution history estoppel or district court claim constructions, as they interpret claims under the BRI standard.

Conclusion

Thank you again for allowing me to testify. The problem of patent litigation abuse has evolved and grown. It is an urgent threat that costs our economy billions of dollars and causes real-world impact in jobs and innovation. There are a number of common-sense, fair and balanced reforms Congress can enact to address these problems. They include fee shifting, to restore the economic balance in the litigation system; discretionary bonding, to ensure the fees are actually paid; heightened pleading and discovery reform, to lower the costs of patent litigation for all parties; customer suit protection, to redirect litigation toward the proper parties; and demand letter reform, to help the end users defend

themselves against patent misuse. Together, these provisions will restore the integrity of patents and the patent litigation system that our economy needs.

Fortunately, the Leahy-Lee bill contains several of these measures. Combined with the other legislative proposals I have discussed, it will have a positive impact on the U.S. economy by restoring a strong and flourishing patent system, free from the taint of abuse. I think we all understand how vital this is to the continued growth of American innovation.

I look forward to answering your questions.

PREPARED STATEMENT OF PHILIP S. JOHNSON, SENIOR VICE PRESIDENT AND CHIEF INTELLECTUAL PROPERTY COUNSEL, JOHNSON & JOHNSON, COALITION FOR 21ST CENTURY PATENT REFORM, NEW BRUNSWICK, NEW JERSEY

Prepared Statement of Philip S. Johnson,
Chief Intellectual Property Counsel,
Johnson & Johnson

On Behalf of the
Coalition for 21st Century Patent Reform

Before the

Committee on the Judiciary
United States Senate

On

"Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse"

December 17, 2013

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Executive Summary
Statement of Philip S. Johnson,
Chief Intellectual Property Counsel,
Johnson & Johnson
On Behalf of the
Coalition for 21st Century Patent Reform

Executive Summary

Mr. Chairman and distinguished Members of the Judiciary Committee: Thank you for the opportunity to testify on the subject of "Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse."

Although I am active in a number of professional organizations with interests in patent law reform, including the American Intellectual Property Law Association, PhRMA, BIO and the Intellectual Property Owners Association, I am testifying today as a representative of the Coalition for 21st Century Patent Reform ("21C").

In the view of our Coalition, patent troll abuse involves the use of court proceedings, or threats of them, to press specious patent claims or defenses for the purpose of coercing settlements driven solely by the desire to avoid litigation costs. Such practices can be perpetrated by any litigant who is so inclined, and while the effectiveness of the tactic will vary based upon the parties' circumstances and means, the identification of the abuser turns not on who the party is, but rather how they behave.

The problem of patent litigation abuse is not new to the patent system, or to this Committee. You devoted a great deal of attention to the problem while developing the Leahy-Smith America Invents Act ("AIA"), and have already gone a long way towards giving the courts and the USPTO the tools they need to address the problem. Open and transparent patentability criteria, enhanced USPTO funding, the establishment of new post grant and inter partes review proceedings, limitations of joinder in patent suits, elimination of non-competitor false marking suits, and the pilot patent courts bill have given the USPTO and the courts important new weapons that they are now just beginning to employ. Nor is Congress acting alone, as the courts themselves have handed down a series of constructive decisions starting with the elimination of automatic injunctions in patent cases, rulings addressing overbroad patents, especially in the software and business method fields; and new precedents that reign in speculative damages awards, particularly when the infringing component is part of a much larger system. In addition, the Federal Judicial Conference is now very active proposing reforms to procedural rules relating to pleadings and discovery in patent cases, particularly to address cases where discovery burdens are asymmetrical.

This is not to say that everything that can be done to stop abusive patent litigation practices has been done. One promising proposal in S. 1720 (the Leahy-Lee Bill) would automatically stay patent suits against off-the-shelf distributors, retailers and end users who are doing no more than using purchased products in the manners instructed by the manufacturers, in favor of suits joined or separately brought by manufacturers or suppliers to resolve the issues. The Leahy-Lee Bill would also improve transparency of patent ownership, correct an error in the AIA relating to the estoppel to be applied in post grant reviews, direct the USPTO to follow the same claim construction rules as applied in the courts and ITC, and codify the rule of double patenting for first-inventor-to-file patents, all of which should improve the effectiveness of our patent system. In addition, the Leahy-Lee Bill proposes to stem the use of bad faith demand letters by authorizing the FTC to treat them as unfair and deceptive trade practices. With further

development to address preemption, free speech and safe harbor issues, we see this as a promising approach for dealing with this aspect of the patent abuse problem.

Until recently I would have added to this list of remedies the modified attorney fees shifting proposal by Senator Cornyn in S. 1013 or Senator Hatch in S. 1612, but because the Supreme Court has recently granted *cert* in two cases to address patent fee shifting, Congress should probably wait for the Supreme Court to decide these cases before revisiting this subject. But whatever the Supreme Court decides, problems will remain when plaintiffs are structured as shell corporations so that they can bring specious suits knowing that they have insufficient assets to satisfy any fee awards they might incur. Of the three approaches suggested to address this aspect of the problem – joinder, bonding or legal recourse against persons with a financial interest in the proceeds of the suit -- our Coalition favors the third. Treating this aspect of the problem as the collection issue it is will preserve free access to the courts, not disrupt good faith patent assertions, and be the most difficult for abusers to avoid.

Other proposals relating to heightened pleading standards, mandatory stays of discovery pending *Markman* rulings, and the specifics of managing discovery in patent cases, while well intended, are unworkable in their present forms, and should be referred to the Federal Judicial Conference for further development. While there is clearly room to improve pleading practices in patent cases, to depart from the general principles of notice pleading by requiring plaintiffs to plead both their contentions and their supporting evidence will bog these cases down at their outsets. Nor does 21C favor imposing mandatory discovery stays pending *Markman* rulings, leaving little or no discretion to the courts as to what is right for each particular case. Such an approach would serve as an open invitation to copyists to enter the U.S. market safe in the knowledge that patent actions brought against them will come to a virtual standstill for an extra year or more while the parties wrangle over the meanings of patent claim terms. In the meantime, manufacturers' market shares, and the jobs they support, will shrink as the as the infringement continues.

Finally, especially now that the Supreme Court has agreed to hear an overall challenge to the patentability of computer-implemented inventions, 21C believes it would be best to table Senator Schumer's proposals in S. 866 to expand and extend the transitional program for financial sector business method patents.

The innovation ecosystem in the country is extremely sensitive to changes in our patent system. While troll abuse is a problem that should be addressed, it is critical that Congress not do so at the expense of the vast majority of innovation stakeholders for whom the patent system is working. Proposals that deprive patent owners of free access to the courts and/or delay or make less certain the availability of relief from the harms caused them by infringers should be avoided even, if necessary, at the expense of accepting less than a complete solution for troll abuse. With the help of this Committee, our country has come a long way by enacting the AIA and the pilot patent courts bill, which are only now being fully implemented. Let's move forward with remedies that are sharply focused on abusive behaviors, while exercising restraint as to those which may have broader ramifications on the innovator community, and our economy as a whole.

Prepared Statement of Philip S. Johnson

I. Background

The issue of litigation abuse in patent cases is not a new one. During the public debate that followed the 2004 recommendations of the National Academy of Sciences, both the Supreme Court and the Federal Circuit handed down important decisions that addressed the criticism that the system favored the assertion of vague or overly-broad patents by non-practicing patentees (or non-practicing entities, referred to as "NPEs"). These decisions restricted the availability of patent injunctions to NPEs[1], mandated transfer of patent cases to more convenient and potentially less NPE- friendly jurisdictions[2], clarified that damages may be awarded based only on the value of an invention rather than on an entire system in which the invention is only a small component[3], strengthened the written description and enablement requirements to ensure that overly vague and ambiguous patents will not be upheld[4], and clarified that innocent infringers should not be subjected to treble damages[5].

In January of 2011, Congress also addressed patent litigation concerns by passing the pilot patent courts bill to establish a ten year program to test the concept that patent cases can be better and more efficiently managed, and abuses deterred, if they are handled by district court judges who preside over a large number of them. This initiative is now being implemented, and is already yielding fruit in the form of a number of proposals for courts to limit the amount and cost of discovery in patent cases and to actively manage them to deter and/or punish litigation abuse.[6]

Perhaps most significantly, Congress acted again in September of 2011 by passing the Leahy-Smith America Invents Act ("AIA")[7], which included further provisions, some now just going into effect, that are designed to lessen the opportunity for abusive patent litigation conduct. This act made the criteria for patentability more transparent in a first-inventor-to-file system, authorized the public to participate in the patent examination process and increased funding for the United States Patent and Trademark Office (USPTO), all to improve the quality of future issued patents. As importantly, this Act created several new procedures that allow members of the public, including those who are being sued for infringement, to quickly and inexpensively challenge a patent's validity before a panel of administrative law judges in the USPTO. This act also effectively eliminated opportunistic false marking suits, mandated that patent

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[1] *eBay, Inc. v. MercExchange*, LLC, 547 U.S. 388 (2006).
[2] *In re TS Tech Corp.*, 551 F.3d 1315 (Fed. Cir. 2008).
[3] *Lucent Technologies, Inc. v. Gateway, Inc.*, 580 F. 3d 1301 (Fed. Cir. 2009).
[4] *Ariad Pharmaceuticals, Inc. v. Eli Lilly and Co.*, 598 F.3d 1336 (Fed. Cir. 2010) (*en banc*).
[5] *In re Seagate Tech.*, LLC, 497 F.3d 1360, 1371 (Fed. Cir. 2007), *cert. denied*, 2008 U.S. LEXIS 2153 (2008).
[6] *See* Patent Cases Pilot Program, Pub. L. No. 111-349, 124 Stat. 3674; District Courts Selected for Patent Pilot Program, Admin. Office of the U.S. Courts (June 7, 2011) (available at: http://www.uscourts.gov/News/NewsView/11-06-07/District_Courts_Selected_for_Patent_Pilot_Program.aspx).
[7] Pub. L. No. 112–29.
[8] 35 U.S.C. 285.
[9] See *Marctec LLP v. Johnson & Johnson and Cordis Corporation*, 664 F.3d 907, (Fed. Cir. 2012) (awarding $4.7 million in attorney and expert witness fees against an NPE). For 2011, *see also* the cases listed at items 38 & 39 at www.patstats.org/2011_Full_Year_Report.html.

plaintiffs could no longer indiscriminately join unrelated parties in a single law suit, and provided for a further study by the GAO of issues relating to NPE patent assertions.

As Congress recognized in authorizing a study into the litigation conduct of NPEs, little empirical evidence existed confirming or refuting the complaints that NPEs bring a disproportionate percentage of specious patent suits. Unfortunately, the advancement of specious claims or defenses has always been a part of patent litigation, and can be perpetrated by any party, if so inclined. Fortunately, courts already have the power to award attorney fees in exceptional patent cases[8], but, in our experience, they are unwilling to do so unless a party engages in clearly reprehensible litigation conduct[9].

On March 14, 2013, our Coalition testified before the Subcommittee on Courts, Intellectual Property and the Internet, of the House Judiciary Committee at a hearing entitled "Abusive Patent Litigation: The Impact on American Innovation & Jobs, and Potential Solutions." At that time we agreed that more could be done to address abusive patent assertion tactics, and suggested that two of the additional remedies that had been considered but not adopted during the consideration of the AIA --- lowering the standard for fee shifting so it is easier for judges to award fees to a prevailing party and automatically staying suits against customers and users where the original provider of the product or service accused of infringement elects to bring suit to resolve the issue with the patentee --- could be developed further to address the problem.[10] At the same time, our Coalition warned that any provisions directed at entire classes of patent litigants would be neither fair nor effective, and would run the risk of chilling activities, such as the investment in research and development, which are important to our economy and to the creation of jobs. Accordingly, we urged that such remedies be targeted only at the offending conduct, and that they not impinge upon legitimate patent licensing and enforcement activities.

Our Coalition also recommended legislative restraint, as most of the provisions of the patent pilot courts bill and the AIA were still in the process of being implemented, the impacts of several important judicial decisions addressing the issues had yet to be fully appreciated, and the AIA commissioned GAO study had not yet been issued[11]. Our Coalition warned that Congress has already gone a long way toward fixing the problem of patent litigation abuse, and that to improvidently modify the system at this time would run the risk of chilling innovation, and the jobs that flow from it, by making reliable patent enforcement substantially less certain.

On March 15, 2013, the USPTO fee increases authorized by the AIA went into effect. At that time, the IP community, which had supported these increases, understood that, as promised, the additional funds generated from these increases would be available for use by the USPTO to implement the AIA and to improve the quality of patent examination.[12] However on April 11, 2013 the IP community learned that the OMB had determined that, even though copyright fees would be qualified as exempt from sequestration as voluntary payments, patent fees would not be. The result was that the USPTO would be denied the use of about $148 million in fiscal year 2013, causing the cancellation of a number of important initiatives, and delaying many others.

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[10] At that time, we also suggested several technical corrections to the AIA to correct certain estoppel and claims construction issues to improve the fairness of the AIA's post-grant proceedings.

[11] The GAO Report subsequently issued on August 22, 2013; *see* n. 17 infra.

[12] It was then widely thought that USPTO fees would be exempt under Section 255 of the Budget Control Act ("Paygo") as funding activities supported by the voluntary payments of the public for goods or services, and that the funding provisions of the AIA would ensure that fee revenues would be spent by the USPTO to improve the quality of patent examination.

In June of 2013, Price Waterhouse Coopers ("PWC") released its annual study of patent litigatio activity, covering 1995 through 2012. This empirical study reports that the rate of patent litigation remains closely correlated to the number of patents issued by the USPTO[13], and that the recent sharp increase in case filings is due to the temporary rash of false marking cases (since abolished by the AIA) and to the AIA's requirement that unrelated defendants cannot be joined in a single action.[14] Over the past five year period, practicing entity patent holder success rates in litigation are reported by PWC to be 38% vs. 24% for NPEs, due largely to the fact that courts grant summary judgment against NPEs more often than against practicing entities.[15] Since PwC categorized universities and non-profits as NPEs in this study, their 45% success rate in court means that for-profit NPEs and individuals collectively experienced an even lower success rate.[16]

In August of 2013, the GAO issued its long-awaited study entitled, "Assessing Factors That Affect Patent Infringement Litigation Could Help Improve Patent Quality," in which it reported that between 2007 and 2011, about 80% of all patent suits are brought by manufacturers, individual inventors and universities, and that NPEs and "likely PMEs" accounted for about 19% of these suits.[17] The GAO noted that while there was a steep rise in the number of PAE suits brought in 2011, the increas in that year was likely the result of anticipating the enactment of the AIA, which contained provisions requiring that fewer defendants be joined in a single suit, thus requiring that more suits be brought.[18]

On October 29, 2013, the House Judiciary Committee held a hearing to receive testimony on H.I 3309, and other proposed bills that were then pending in the House. At that hearing, former USPTO Director David Kappos summarized the effect on the patent system of withholding access to the user fee paid to the USPTO:

> Before turning to H.R. 3309, the most important point I will make today – the most important by some wide margin – is that Congress simply *must* ensure full funding of the USPTO. Less tha 2 years after passage of the AIA and all the accompanying focus on USPTO user fee diversion, we found ourselves again looking at an Agency having its lifeblood, the user fees that come with all the work asked of USPTO by American innovators, drained away. I simply cannot overstate the destruction this is causing, as the work remains without the funding to handle it, creating an innovation deficit that will require future generations of innovators to pay into the Agency again in hopes their fees can actually be used to undertake the work for which those fees are paid. Nor will it be possible for the USPTO to accomplish the mandates of the AIA, much less the added responsibilities contemplated by parts of H.R. 3309, without access to the user fees calculated to meet those challenges. The USPTO is making progress in improving examination rigor, patent quality, and reduction of its backlogs. But none of this will continue, and backsliding is inevitable, unless full user fee access is provided to the Agency. Full fee access must be job one.[19]

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[13] 2013 PWC 2013 Patent Litigation Study, at Chart 1, pg. 6, noting a 96% correlation since 1991, available at http://www.pwc.com/en_US/us/forensic-services/publications/assets/2013-patent-litigation-study.pdf

[14] *Id.*

[15] *Id.* at 13 and Chart 5d.

[16] *Id.* at 26 and Chart 10b.

[17] "Intellectual Property: Assessing Factors that Affect Patent Infringement Litigation Could Help Improve Patent Quality" (GAO-13-465 Patent Litigation), August 22, 2013, at page 17. See http://www.patentdocs.org/2013/08/the-gao-issues-a-report-on-patent-litigation-trends-it-turns-out-that-the-sky-is-not-falling.html.

[18] *Id* at page 14.

[19] Testimony of David J. Kappos, House Judiciary Committee of October 29, 2013, at pg. 2, available at https://judiciary.house.gov/hearings/113th/10292013/Kappos%20Testimony.pdf; *see also* testimony of Robert

Although not currently addressed in any legislative proposals pending in the Senate,[20] our Coalition, and likely all of the stakeholders testifying today, wholeheartedly agree with Mr. Kappos.

Between March and December of this year, a number of discussion drafts and bills were introduced in the House that eventually led to the passage of the Innovation Act (H.R. 3309), on December 5, 2013. The provisions of this bill fall into seven main categories: (1) attorney fees shifting to prevailing parties and related provisions to ensure their collections, (2) stays of patent suits against customers and end-users in favor of those against manufacturers and suppliers, (3) disclosure requirements of real-party-in-interest information by patent asserters, (4) heightened pleading requirements for complaints in patent cases; (5) discovery management requirements for patent cases, (6) recommendations of procedural proposals for consideration by the Federal Judicial Conference, (7) technical fixes to the AIA, and (8) miscellaneous provisions.

Within this period, the Senate was also active, with a number of bills being introduced by Senators Schumer (S. 866), Cornyn (S. 1013), Hatch (S. 1612), and Leahy-Lee (S. 1720) to address different aspects of the perceived problem. Our Coalition is pleased to have been part of the process leading towards the development of this legislation, and appreciates the opportunity to present this testimony on the various provisions now under consideration in the Senate.

II. Personal/Corporate/Coalition Introduction

By way of personal introduction, I am a registered patent attorney with 40 years of experience in all aspects of patent law. In addition to drafting and prosecuting patent applications, I have tried patent cases to both judges and juries, and have advised a wide variety of clients, both plaintiffs and defendants, in many industries ranging from semi-conductor fabrication to biotechnology. Over the course of my career, I have represented individual inventors, universities, start-ups, and companies of all sizes. In January of 2000, I left private practice to join Johnson & Johnson as its Chief Patent Counsel, where I now serve as Senior Vice-President and Chief Intellectual Property Counsel in its law department.

Johnson & Johnson is a family of about 275 companies, and is the largest broad-based manufacturer of health and personal care products in the world. Collectively, Johnson & Johnson companies represent this country's largest medical device business, its sixth largest consumer, nutritional and personal care business, and one of its largest pharmaceutical and biotechnology businesses. Johnson & Johnson companies employ approximately 128,000 people. Johnson & Johnson's companies are research-based businesses that rely heavily on the U.S. patent system and its counterpart systems around the world.

The 21C is a broad and diverse group of nearly 50 corporations, the Steering Committee of which includes 3M, Caterpillar, Eli Lilly, General Electric, Procter & Gamble and Johnson & Johnson. For more than 100 years, our Coalition's companies have played a critical role in fostering innovation. We invest billions of dollars annually on research and development to create American jobs and improve lives. Representing 18 different industry sectors including manufacturing, information technology, consumer products, energy, financial services, medical device, pharmaceutical, and biotechnology, our Coalition advocates for patent reforms that will foster investment in innovation and job creation and promote vigorous competition in bringing new products and services to American consumers.

Armitage, House Judiciary Committee hearing of October 29, 2013 at pg. 3, available at https://judiciary.house.gov/hearings/113th/10292013/Armitage%20Testimony.pdf.

[20] *But see* H.R. 3347, the "Innovation Protection Act," (Conyers), available at http://www.gpo.gov/fdsys/pkg/BILLS-113hr3349ih/pdf/BILLS-113hr3349ih.pdf.

As the manufacturers and marketers of thousands of products, the freedom to make and sell products in view of the patents of others is always a concern to our Coalition's members. And even though we routinely review thousands of patents during our product development processes, make appropriate design changes to avoid the patents of others and/or obtain appropriate licenses or legal opinions prior to launching our products, we nonetheless must defend our companies against charges of patent infringement. Most of these litigations involve competitors or would-be competitors, although many involve non-manufacturing patentees. Overall, Johnson & Johnson's companies find themselves to be defendants about as often as plaintiffs.

The 21C's interest in patent law reform is to ensure that the patent system fairly rewards those who contribute to our society through the invention and development of new and useful products and processes. A fair, efficient and reliable patent system will continue to stimulate the investment in innovation that is necessary in today's technologically complex world to create the new products and processes that will lead to better lives for Americans and the rest of the world. In addition, the best promise for preserving and enhancing our place in an increasingly competitive global marketplace will be to stimulate U.S. investment in research by universities and small and large companies.

III. The Relationship Between Patent Litigation, Innovation and Jobs

A. The Relationship Between Patent Protection, R&D Investment and Patent Enforcement

To enhance the objective of maximizing R&D investment and its attendant creation of jobs, it is incumbent on the courts to effectively enforce meritorious patents against those who are infringing them, while weeding out specious claims that act as drags on the system. For those wishing to deter the assertion of specious claims, the challenge is how to deter only those claims that are specious without deterring those worthy of serious consideration by the courts.

As reflected by the recent passage of the AIA, there is bipartisan agreement that a strong and efficient American patent system will stimulate investment in R&D, and lead to the preservation and/or creation of millions of jobs. As Senator Leahy has explained:

> High quality patents are the key to our economic growth. They benefit both patent owners and users, who can be more confident in the validity of issued patents. Patents of low quality and dubious validity, by contrast, enable patent trolls and constitute a drag on innovation. Too many dubious patents also unjustly cast doubt on truly high quality patents.
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> Innovation and economic development are not uniquely Democrat or Republican objectives, so we worked together to find the proper balance for America--for our economy, for our inventors, for our consumers.
>
> Thomas Freidman wrote not too long ago in The New York Times that the country which "endows its people with more tools and basic research to invent new goods and services [] is the one that will not just survive but thrive down the road. . . . We might be able to stimulate our way back to stability, but we can only invent our way back to prosperity."

10 Cong. Rec. S131 (January 25, 2011) (statement of Senator Patrick Leahy)

This focus on economic growth is the correct one. If done right, patent reforms will stimulate the private sector to invest in economic development and job growth. All other considerations should be secondary.

Johnson & Johnson's companies are good examples of the relationship of the patent system, and patents, to jobs and job growth. Johnson & Johnson conservatively estimates that at least 65,000 of its full time jobs depend on the patent portfolios of its companies' ten thousand U.S. patents (and their foreign counterparts). Stated differently, we now estimate that, on average, each U.S. patent results in, preserves and protects the jobs of 7.2 employees per year, or, over its 20-year life, 144 job-years. This estimate does not take into account the jobs of countless others at suppliers, distributors and retailers involved in the research, manufacture, distribution and sale of our products that indirectly depend in whole or in part on our patent rights.

Johnson & Johnson companies invest about $8 billion on research and development ("R&D") yearly, and are awarded about 1,000 U.S. patents yearly protecting the inventions that result from these investments. Our operating companies therefore spend about $8 million on R&D for each patent obtained. Needless to say, these research and development expenditures result in the direct employment of thousands of people throughout the United States in very good jobs with excellent benefits. Without the promise of reliable patent protection, only a small fraction of this expenditure would be made.

As these numbers would suggest, the costs directly associated with the enforcement of patents and the defense of patent suits brought by others against our companies represents a very small fraction of the cost of R&D we conduct. Nonetheless, the amount of R&D investment itself is very sensitive to changes in the patent enforcement climate; a primary consideration in deciding whether patent laws should be changed is what effect they may have on R&D investment, and thus jobs and job growth. Proposed changes that increase the likelihood that meritorious inventions may be reliably enforced against infringers should be favored, as these changes will have the greatest impact on stimulating R&D investment and job growth. Those that might discourage inventors from bringing meritorious claims of patent infringement should be viewed with a critical eye.

Research based companies are rational decision makers when it comes to deciding whether and how much to invest in R&D. When deciding whether or not to make, or to continue making, an investment in any given project, many factors are taken into account, including the cost of the project, the technical risk and likelihood of success of the project, the expected cost saving or product enhancement to be achieved, and the expected return on investment. In determining the expected return on investment, a critical element is the likelihood that meaningful patent protection will be accorded to deserving inventions resulting from the project, the degree and duration of exclusivity that resulting products or processes will enjoy, and the likelihood that the involved patents will either be respected by competitors, or can be promptly and successfully enforced in the event of infringement. When such projections indicate that the return on investment exceeds a threshold commensurate with the risk involved, the investment is, or continues to be, made. When it does not, the project is not begun, or is cancelled.

It is a common misconception that a patent for an invention confers a right on the patent owner to make, use or sell products embodying the invention. This is not true. A patent confers only the right to exclude others from doing so for the limited term of the patent. If patents in a given field are seen to be too expensive to enforce in relation to the value of market exclusivity they protect, they lose their value, and investment in inventions in that field is chilled. Accordingly, there is a delicate balance between the cost of patent enforcement and the impact of the patent system on R&D investment.

Another important factor that impacts R&D investment is the perception of the business community of the reliability of patent enforcement. Patents will not stimulate R&D investment and job

growth unless they are perceived to be readily enforceable. If the courts and/or USPTO post grant review procedures are perceived as hostile to patent rights, our patent system will suffer. A patent that cannot be enforced is a hollow right.

As important as patent enforceability is to inventors and developers, it is the ability to ultimately profit from their inventions that induces and rewards R&D investment. For manufacturers, the ability to commercialize their inventions free from specious legal claims and the legal expenses needed to successfully defend against them is a significant consideration. For non-manufacturing patentees, the consideration is similar, as the values of their patents depend upon their existing or future licensee's ability to market their inventions.

As previously noted, most manufacturers mitigate the risk of being sued for patent infringement by searching the patent literature during product development, and either designing around existing patents of others, or acquiring rights to them by purchase or license. Nonetheless, even the most diligent of these "freedom to operate" studies cannot identify every possible future patent claim. This is especially true for specious claims that are based upon patents that are asserted against products or processes that cannot be argued reasonably to be within the scope of the invention claimed in the patent.

B. Non-Practicing Entities and the Importance of Freely Transferrable Patent Rights

Some of our best and most productive inventors do not manufacture or market their own inventions. Among these are America's independent inventors, university and government based inventors, and many small businesses and startups. NPEs, especially universities, startups and other research organizations serve as important sources of technology that are, or become components of, innovations that are developed and brought to market by others, including many of the members of our Coalition. Johnson & Johnson's companies, for example, pay hundreds of millions of dollars a year to NPEs, including their R&D partners, universities, independent inventors and small businesses, for licenses under valuable technologies that are, or that we hope will be, incorporated in our products.

For some NPE's, the decision not to pursue manufacturing and marketing is a matter of choice. They may, for example, prefer to concentrate their energies on originating inventions rather than in developing them, leaving the commercialization to licensees who are better positioned to manufacture and market them. Or they may sell or license their patents to venture capitalists who will attend to raising the capital needed for commercialization.

For others, superseding circumstances may effectively prevent or limit inventors from commercializing their inventions. For example, if the invention is an improvement on existing patented technology, the owner of the original patent rights on that technology may be the only licensee for the improvement, at least until the original patents expire. Or should an existing unlicensed competitor copy and begin marketing the inventor's invention before the inventor is able to do so, the inventor's ability to later market that invention may be substantially impaired. In those circumstances, the only recourse available to the inventor may be to bring suit against the infringing company to abate the infringement and/or to recover fair compensation for the unlicensed use of the invention. By the same token, when an inventor's invention relates to an improvement useful in an industry with high barriers to initial entry and/or one in which the market is shared by just a few well entrenched competitors, the only practical way for an inventor to commercialize his invention may be to license, or if necessary sue, one or more of those competitors.

In all of these circumstances, freely transferrable patent rights are fundamental to the achievement of the Constitutional objective of "promoting the progress of science and the useful arts." Inventors who

are not in a position to develop or market their own inventions would be deprived of the value of their patents were they not able to freely license or sell them. Similarly, those who wish to bring these inventions to the public either by developing and marketing them themselves or by licensing them to others should not be discouraged from doing so. Such free trade in patent rights is beneficial to our society as it allows technology developers to combine many different inventions to create products that would not otherwise have been possible.

IV. Abusive Patent Litigation Behaviors

Abusive litigation practices are not unique to the patent law, nor are they of recent vintage. As long as there has been an adversary system for resolving judicial disputes, there have been litigants who have looked for unfair ways to game the system for their own benefit. Nonetheless, the nature of patent cases is such that they may be prone to more abuse than is seen in other types of commercial litigation.

A. Assertions of Specious Claims and Defenses To Force Settlement

One common complaint about patent litigation is that too many specious claims or defenses are filed solely for the purpose of forcing an unjust settlement, typically at a cost that is less than the cost of successfully completing the litigation. While this type of abuse no doubt exists in other types of litigation, it may be more effective in patent litigation, where the subject matter is complex, extensive document discovery is available, a large number of potential witnesses may be deposed, and expert testimony is a practical necessity. Coupled with the difficulty in patent cases of distinguishing specious from meritorious claims and defenses, many parties choose to settle rather than litigate to a final conclusion.

While most commonly thought of in the context of plaintiffs' assertions of patent infringement, the problem may also manifest itself through specious attacks on the validity of a patent, and/or in the assertion of questionable defenses that drive up costs for the purpose of forcing settlement.

Without the benefit of a trial or other consideration of the merits of the particular claims and defenses, it is particularly difficult to distinguish whether patent claims brought, or validity or other defenses pressed, have substantial merit. While it is common to hear from both defendants and plaintiffs that the charges against them are without merit, the truth most often lies somewhere in the middle, making it difficult to craft an appropriate legislative response that targets only abusive litigation behavior.

While some critics point to estimates of how much manufacturers pay to NPEs, they seldom acknowledge that the majority of such payments are being made to gain commercial access to valuable technologies, not just to buy off frivolous suits. Indeed, in cases where a licensee fee is paid at settlement that substantially exceeds the cost of successfully defending the case, it is usually fair to conclude that the accused infringer has recognized some likelihood that the courts would find the asserted patent to be both valid and infringed. Such recognition is quite often warranted as evidenced by the 2013 Patent Litigation Study by Price Waterhouse Coopers ("PwC").[21] The empirical data indicates that, while litigation brought by NPEs is somewhat less successful overall than litigation brought by practicing entities, NPE's success rates are still significant.[22]

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[21] 2013 PwC Patent Litigation Study http://www.pwc.com/en_US/us/forensic-services/publications/assets/2013-patent-litigation-study.pdf; *see also* 2012 Patent Litigation Study http://www.pwc.com/en_US/us/forensic-services/publications/assets/2012-patent-litigation-study.pdf.
[22] *Id.* chart 5b.

This is not to deny or minimize the problems in litigation caused by the over assertion of a patent claim, or the over assertion of a defense of invalidity, unenforceability or noninfringement. This practice is unfortunately quite common, but difficult to address, as there is a fine line between zealous representation of a client's interests, and pressing a position that is not reasonably based on the evidence or without substantial merit under existing law or a reasonable extension thereof.

An analysis of case statistics concerning the award of attorney fees to prevailing parties in patent cases deemed to be "exceptional"[23] fails to reveal any identifiable trend that would suggest that any more specious claims or defenses are being pressed through trial now than they have been over the past 12 years.[24] Nonetheless, since the overwhelming majority of all patent cases are settled without trial, statistics based on case dispositions are unlikely to reflect trends in specious claims that are extinguished by settlement. Moreover, collection of reliable data concerning those claims is nearly impossible, as almost all of settlements are confidential and entail sharply differing opinions of the merits of the matter settled.

B. Assertions Against Distributors, Retailers and End-Users Rather Than Manufacturers

Another patent litigation practice that has been sharply criticized is the institution of suits against large numbers of distributors, retailers or end-users rather than the original manufacturer or supplier of the component or product alleged to infringe. This tactic takes advantage of the fact that such suits threaten defendants with the disruption of aspects of their businesses that are at best tangentially related to the invention which is the subject of the patent, and that each individual defendant has less motivation to litigate the issue to final conclusion than the manufacturer of the product at issue. The result can be to collect enormous sums as the result of a very large number of small settlements whose cumulative value far exceeds the amount that could have been recovered from the original manufacturer.

While existing jurisprudence would normally favor a stay of such customer suits pending resolution of an action brought by the manufacturer to finally resolve the issue, some district courts decline to so exercise their discretion, thus attracting a disproportionate percentage of such filings.

C. Blanket Demand Letter Abuse

Another kind of abusive patent assertion activity that has drawn public attention is the blanket assertion of patent rights against vast numbers of end-users or others who are using purchased products in their intended manners. This type of abuse involves the sending of hundreds to thousands of demand letters to individuals or small businesses who are generally not sophisticated in patent matters. The recipients are advised that their activities infringe, and that they will be sued if they do not remit a license payment that is often less than the cost of hiring a patent attorney to assess the merits of the claim. If the recipients do not respond, some asserters follow up by reiterating the demand along with a document that purports to be a draft complaint. And even though litigation is threatened, in most cases it appears that, unbeknownst to the recipients, these threats are false, as the asserters have no intention of ever filing suit.

Fortunately, thus far it appears that no more than a handful of such assertion entities are pursuing this strategy[25], and that, to the extent discernible, the strategy has not been very successful. Nonetheless,

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[23] *See* 35 USC § 285, which states: "The court in exceptional cases may award reasonable attorney fees to the prevailing party."

[24] *See* www.patstats.org statistics for awards of attorney fees to plaintiffs and defendants from 2000-2012.

[25] Most cited are letters threatening coffee shops for providing internet and scanner owners for using their scanners as intended. See "Patent trolls want $1,000—for using scanners," ars technica, January 2, 2013 at

these behaviors smack of classic unfair and deceptive trade practices, so it is not surprising that they have drawn scrutiny from a number of state legislators and state attorneys general, leading to the passage of at least one state law to counter this abuse. *See* Vermont Consumer Protection Act at http://www.leg.state.vt.us/statutes/fullsection.cfm?Title=09&Chapter=063&Section=02453. In addition Nebraska has sent a law firm a civil investigative demand, as well as a cease-and-desist order that directed it to stop sending threatening demand letters to Nebraska consumers and businesses, citing concerns under both its Consumer Protection Act and the Uniform Deceptive Trade Practices Act.[26]

In recognition of the lack of information concerning the prevalence of bad faith demand letters, the Section 8(e) of the Innovation Act authorizes a one year study by the Director "of the prevalence of the practice of sending patent demand letters in bad faith and the extent to which that practice may, through fraudulent or deceptive practices, impose a negative impact on the marketplace."

Our Coalition supports this study, as more information is needed to assess the prevalence of this practice.

D. A Party's Identity Does Not Determine The Propriety Of Its Litigation Behavior

While the financial, legal and business circumstances of a patentee will affect the objectives in asserting a patent, none of these criteria are predictive of whether litigation brought by any particular patent owner is abusive. Indeed, the litigation practices discussed above may be employed by all classes of patentees, should they be so inclined.

The PwC Patent Litigation Study data indicates that litigation rates vary considerably from year to year and industry to industry. NPEs enjoy their highest levels of success, exceeding even those of practicing entities, in certain industries (biotechnology/pharma & medical devices) while having less success than practicing entities in other industries (business/consumer services, software, automotive/transportation, chemicals/synthetic materials and telecommunications).[27] Nonetheless, during the overall 18 year period covered by the NPE study, NPE's experienced a success rate of 24.3%, versus a non-NPE rate of 34.5%.[28] Of course, none of these statistics demonstrate that any of the unsuccessful enforcements were frivolous, rather than good faith assertions that were simply not proven.

These statistics do suggest that courts may be changing their approach to cases brought by certain NPEs. While non-practicing and practicing entity success rates were very close to each other in the 2001-2006 time period (28% vs. 33%), they diverged in the 2007-2012 time period (25% for NPE's vs. 38% for non-NPE's) due largely to an increase in the number of NPE cases disposed of by summary judgment. Collectively, this data suggests that in the last five years, judges have been closely scrutinizing NPE patent assertions, and have been terminating a higher percentage of them before trial.

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http://arstechnica.com/tech-policy/2013/01/patent-trolls-want-1000-for-using-scanners/; *Stopping Patent Trolls*, Joshua Brustein, Businessweek at http://www.businessweek.com/articles/2013-12-12/a-bill-stopping-patent-trolls; TROLLING EFFECTS at https://trollingeffects.org/letters. Few other examples have often been cited, perhaps suggesting that the practice is not as widespread as might appear.

[26] *See* "Vermont and Nebraska Attorneys General Take Patent Trolls Head On," NAAGazette, available at http://www.naag.org/vermont-and-nebraska-attorneys-general-take-patent-trolls-head-on.php.

[27] *See* chart 6f, n.13 supra.

[28] *See* chart 9b, n.13supra.

These statistics also show that most NPE suits are brought in just a few districts, and that the NPE success rate in the most popular district, the Eastern District of Texas, at 57.5%, is substantially higher than in all other districts.[29]

V. Steps Already Underway To Counteract Abusive Patent Litigation

Our Coalition believes that it is important to take into account the recent steps that have been taken, or that are in the process of being taken, by the Courts, Congress and the USPTO to counteract abusive patent litigation. As early indications are that these steps will make a significant difference, our Coalition believes that a cautious approach should be taken towards additional reforms until better information becomes available concerning the reform measures that are now being implemented or that are already in place.

A. Issued and Impending Judicial Decisions

The judiciary has issued opinions in a number of areas relating to patent law which have significantly curbed abusive patent litigation. These include decisions that address the appropriateness of injunctive relief, overly broad patents, unfounded damage claims, and problematic venue issues. The judiciary now has turned its attention to other issues that are likely to have a profound impact on patent litigation and perceived abuses of the process. During its current term, the Supreme Court has granted *certiorari* in two cases regarding fee-shifting under 35 U.S.C § 285, and a case involving the patent eligibility of computer-implemented inventions under 35 U.S.C. § 101. By the end of June 2014, when decisions in these cases have been announced, the landscape of patent litigation may look significantly different than it does today.

i. Courts No Longer Automatically Grant Injunctive Relief

Concern had been expressed in the patent community that non-practicing patent holders who were litigating solely for the purpose of seeking monetary relief were nevertheless using the threat of an injunction to "hold up" defendants for higher settlements. It had been the general rule that upon a finding of infringement and validity, a permanent injunction should issue. As noted above, however, the Supreme Court in *eBay*[30] rejected the Federal Circuit's rule of a near automatic grant of injunctive relief in patent cases, instead calling for an assessment of the "principles of equity." After *eBay*, a patent holder must show, among other things, that ongoing infringement causes it to suffer an irreparable injury and that remedies available at law, such as monetary damages, are inadequate to compensate for that injury. Courts following *eBay* now deny requests for injunctive relief where patent holders, for example, can be fully compensated by monetary damages in the form of an ongoing license.[31] This has significantly removed the "hold up" threat in patent cases. At the same time, these decisions reflect a balance in that they leave open the prospect of injunctive relief on a case-by-case basis.

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[29] *See* chart 9a, n.13 supra.; This trend may not continue, however, as the AIA's limitations on joinder of parties in a single action coupled changes in venue law of venue have already resulted in more cases being transferred from the Eastern District of Texas to other jurisdictions.

[30] 547 U.S. 388

[31] *E.g., Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs., Inc.*, 670 F.3d.1171, 1192 (Fed. Cir. 2012); *VernetX, Inc. v. Apple Inc.*, No. 6:10-cv-417, 2013 WL 692652 (E.D. Tex. Feb. 26, 2013).

ii. The Law is Evolving to Address Overly Broad Patents

Concern has also been expressed that patents are being routinely asserted which contain overly broad, vague and ambiguous claims. The Supreme Court and the Federal Circuit have issued a number of recent decisions directly dealing with these concerns.

Method claims

The Supreme Court has recently taken up a series of cases that examine the validity of method claims in the context of patentable subject matter under 35 U.S.C. Section 101. In *Bilski v.Kappos,*[32] the Supreme Court affirmed the rejection of claims directed to a method of hedging losses in one segment of the energy industry by making investments in other segments of that industry on the basis that the claimed investment strategy was simply too abstract to warrant patent protection. Similarly, in *Mayo Collaborative Services v. Prometheus Labs., Inc.,*[33] the Court held that the claimed method of personalized medicine dosing was not eligible for patent protection because the process is effectively an unpatentable law of nature. In response, courts are more closely scrutinizing claims in patent cases to ascertain whether they are sufficiently concrete and non-abstract to qualify for patent protection under Section 101.

Software claims

On December 6, 2013 the Supreme Court announced that it has granted *certiorari* in *Alice Corp. v. CLS Bank.* This case involves several business method patents that claim software-implemented strategies for reducing the risks of certain types of financial transactions. In this case below, the Federal Circuit had addressed the following questions:

a. What test should the court adopt to determine whether a computer-implemented invention is a patent ineligible "abstract idea"; and when, if ever, does the presence of a computer in a claim lend patent eligibility to an otherwise patent-ineligible idea?

b. In assessing patent eligibility under 35 U.S.C. § 101 of a computer-implemented invention, should it matter whether the invention is claimed as a method, system, or storage medium; and should such claims at times be considered equivalent for § 101 purposes?

In a sharply divided decision, the Federal Circuit decided that the claimed business methods did not qualify as patentable subject matter.[34]

The issue now to be decided by the Supreme Court is

> Whether claims to computer-implemented inventions – including claims to systems and machines, processes, and items of manufacture – are directed to patent-eligible subject matter within the meaning of 35 U.S.C. § 101 as interpreted by this Court.[35]

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[32] 130 S.Ct. 3218 (2010)
[33] 132 S.Ct. 1289 (2012)
[34] 717 F.3d 1269 (Fed. Cir. 2013)
[35] *Alice Corp. Pty. Ltd v. CLS Bank Intern.*, Supreme Court Docket No. 13-298, *see* *http://www.supremecourt.gov/Search.aspx?FileName=/docketfiles/13-298.htm.*

Accordingly, this case is very likely to finally decide the extent of patent-eligibility for computer-implemented inventions, including computer-implemented business methods, and, regardless of which way it is decided, to have an enormous impact on the field of software patenting.

Written description requirement

The Federal Circuit has also addressed over-breadth of claims by reaffirming that the patent laws in fact require a written description of the invention.[36] According to the Federal Circuit, this requirement ensures that inventors have actually invented the subject matter claimed in their patents. In other words, each claim must have support in the written description for each element to show that the inventor actually invented that which he or she claims.

Specification disclosure requirement

Finally, the Federal Circuit has also addressed concerns about the over-breadth of claims, particularly in the software field, by ensuring that functional language in such patent claims finds adequate structure in the specification for performing the claimed function. In *Function Media, LLC v. Google, Inc.*,[37] for example, the asserted patents involved a computer system for facilitating advertising on multiple computer outlets. The Federal Circuit affirmed the district court's invalidation of the patents because they were indefinite, stating"[w]hen dealing with a 'special purpose computer-implemented means-plus-function limitation,' we require the specification to disclose the algorithm for performing the function."[38]

iii. Courts Have Reigned-In Speculative Damages Awards

The Federal Circuit has also been quite active in the damages area, issuing a number of recent important decisions directly addressing the proper measure of damages in cases of patent infringement. In *Lucent,*[39] the Federal Circuit addressed concern about large patent damages awards where the patented invention was merely a component of a much larger commercial product. The Court made clear that damages awarded for infringement in this situation cannot be based automatically on the market value of the entire product, but must be shown to be reasonably tied to the value of the patented feature as shown through consumer demand for that feature. In other words, in order for a damages award to be based on the value of the larger commercial product, the patent holder must prove that the patented feature drives the sales of the larger commercial product. In the wake of the *Lucent* case, district courts, through their important gate keeper function, are now rejecting damages expert testimony which attempts to base the value of patent damages on the larger commercial product where it cannot be shown that the smaller patented feature is the basis for the demand for the larger product.[40]

The Federal Circuit has further reigned in speculative damages expert testimony by abolishing the so-called "25% of profits rule" which had been used by damages experts over the years as a rough baseline for negotiating a reasonable royalty for patent damages. In *Uniloc v. Microsoft,*[41] the Federal

[36] *Ariad Pharmaceuticals, Inc. v. Eli Lilly and Company,*598 F.3d. 1336 (Fed. Cir. 2010) (en banc).
[37] No. 2012-1020, slip op. at 9 (Fed. Cir. Feb. 13, 2013).
[38] *Id.*
[39] 580 F.3d 1301 (Fed. Cir. 2009).
[40] *See, e.g., MultiMedia Patent Trust v. Apple Inc.*. No. 10–CV–2618–H (KSC), 2012 WL 5873711 (S.D. Cal. Nov. 20, 2012); *Apple, Inc. v. Motorola, Inc.*, No. 1:11-cv-08540, 2012 WL 1959560 (N.D. Ill. May 22, 2012); *Inventio AG v. Otis Elevator Co.*, No. 06 Civ. 5377(CM), 2011 WL 3359705 (S.D.N.Y. June 23, 2011); *IP Innovation LLC v. Red Hat, Inc.*, 705 F. Supp. 2d 687 (E.D. Tex. 2010).
[41] 632 F.3d 1292 (Fed. Cir. 2011).

Circuit made clear that any damages testimony must be carefully tied to the facts and circumstances of a particular case and not to abstract general rules.

The Federal Circuit also has cabined the types of licenses that are permissible to use in assessing a reasonable royalty. In *ResQNet.com v. Lansa,*[42] the Court made clear that if a plaintiff is relying on licenses as a measure of litigation damages, there must be an evidentiary basis linking the licenses to the claimed invention. This case thus limits the ability of a plaintiff to inflate its claimed measure of damages by picking and choosing economic terms of licenses that are not for the patents in suit or that are not "clearly linked to the economic demand of the claimed technology."[43]

These decisions have routinely been applied by the district courts to reign in speculative damages claims and awards in patent cases.

iv. Courts Have Addressed Venue Abuse

Another area of significant focus by the courts has been venue abuse. Specifically, it was argued that patent cases were being filed in districts, particularly the Eastern District of Texas, with no meaningful connection to the defendant other than the fact that the defendant may sell accused infringing products in that district. Defendants who have moved to have the cases transferred to a more convenient forum had those motions denied by some district courts which placed virtually dispositive weight on the plaintiff's choice of forum.

In a series of precedential rulings, the Federal Circuit employed the extraordinary remedy of issuing writs of mandamus to prevent litigants from abusing the permissive venue provisions for patent litigation by filing patent litigation in venues that have no reasonable connection to the parties and evidence. *See, e.g., In re Nintendo Corp.*[44] In addition, the Federal Circuit has also indicated that a district court must rule on a writ of mandamus when it is filed and not delay ruling on it until much later in the case, as delaying a ruling on such motions until substantial pre-trial proceedings have occurred has the effect of depriving litigants of their right to be transferred to a more convenient forum.[45]

v. The Supreme Court Is Addressing Fee Shifting in Patent Cases

On October 1, 2013, the Supreme Court granted petitions for writs of *certiorari* in two patent infringement cases raising the issue of when an award of attorney fees to a prevailing party is appropriate under 35 U.S.C. § 285. In *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, Docket No. 12-1184, the Court will consider the test used to determine whether a case is "exceptional" under Section 285, which is a requisite finding for the award of fees to the prevailing party. The petitioner challenged the "rigid and exclusive" test that the Federal Circuit uses to determine whether a case is "exceptional," presenting the following question that the Court accepted for review:

> *Whether the Federal Circuit's promulgation of a rigid and exclusive two-part test for determining whether a case is "exceptional" under 35 U.S.C. § 285 improperly appropriates a district court's discretionary authority to award attorney fees to*

[42] 594 F.3d. 810 (Fed. Cir. 2010).
[43] *Id.* at 872-873.
[44] *See, e.g., In re Microsoft Corp.*, 630 F.3d 1361 (Fed. Cir. 2011); *In re Acer America Corp.*, 626 F.3d 1252 (Fed. Cir. 2010); *In re Zimmer Holdings, Inc.*, 609 F.3d 1378 (Fed. Cir. 2010); *In re Nintendo Corp.*, 589 F.3d. 1194 (Fed. Cir. 2009); *In re Genentech*, 566 F.3d 1338 (Fed. Cir. 2009); *In re Hoffman-LaRoche Inc.*, 587 F.3d 1333 (Fed. Cir. 2009); *In re TS Tech USA Corp.*, 551 F.3d 1315 (Fed. Cir. 2008).
[45] *In re EMC Corp.*, No. 10-cv-0435, 2013 U.S. App. LEXIS 1985 at *5, 6 (Fed. Cir. Jan. 30, 2013).

prevailing accused infringers in contravention of statutory intent and this Court's precedent, thereby raising the standard for accused infringers (but not patentees) to recoup fees and encouraging patent plaintiffs to bring spurious patent cases to cause competitive harm or coerce unwarranted settlements from defendants.

In *Highmark Inc. v. Allcare Health Management Sys.*, Docket No. 121163, the Court will consider the deference to be given, if any, to a district court's determination that a case is "exceptional" within the meaning of Section 285. The question presented to the Court is:

Whether a district court's exceptional-case finding under 35 U.S.C. § 285, based on its judgment that a suit is objectively baseless, is entitled to deference.

The Solicitor General, as well as many *amicus curiae*, has argued that the Court should lower the standard needed to find a case to be "exceptional" under Section 285, thus permitting fee shifting in favor of prevailing parties more frequently in patent infringement cases.[46] In an *amicus* brief filed in the *Octane Fitness* case by Johnson & Johnson and other 21C Steering Committee member companies, we argued:

> *Amici* Companies believe that the Federal Circuit's test for what constitutes an "exceptional" case under Section 285 has set the bar too high. Fee shifting is invoked too rarely to serve as an effective deterrent against litigation misconduct. The Federal Circuit has interpreted Section 285 as permitting fee shifting only in cases where the culpable conduct of the non-prevailing party fits into one of the specific categories the court has defined as meeting the threshold for an exceptional case: objectively baseless litigation brought in subjective bad faith; willful infringement; inequitable conduct before the patent office; or Rule 11 abuses and similar material litigation misconduct. *See, e.g., Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.*, 393 F.3d 1378, 1381 (Fed. Cir. 2005). As a result, application of Section 285 has become mechanical and ineffective as a means for district courts to manage and deter litigation misconduct.
>
> The Federal Circuit's Section 285 jurisprudence misses the forest for the trees. By cabining the grounds for finding a case "exceptional" to narrow categories of egregious conduct, the court has lost sight of Section 285's purpose as an exception to the American Rule when, under the totality of the circumstances, equity requires that the prevailing party not bear some or all of the fees it incurred. To be clear, Section 285 plainly makes the awarding of fees the exception, not the rule. But "exceptional" is not synonymous with "almost never." Fee shifting under Section 285 should be available to district courts in practice, not merely on paper, when sound equitable discretion dictates that a non-prevailing party has acted in a manner beyond the bounds of acceptable litigation behavior and should therefore bear the consequences of its actions by paying some or all of its opponent's reasonable litigation expenses.
>
> *Amici* Companies thus urge the Court to realign the interpretation of Section 285 with traditional principles of equity, as applied in the context of the claims, defenses, and issues arising in patent litigation, and with acceptable norms of litigation conduct. The district courts should be empowered to determine which cases are "exceptional," and

[46] *See* http://www.americanbar.org/publications/preview_home/12-1184.html (collecting *amicus* briefs in *Octane Fitness*); http://www.americanbar.org/publications/preview_home/12-1163.html (collecting *amicus* briefs in *Highmark*).

> whether and in what amount fees should be shifted upon such a finding, through exercise of their sound equitable discretion based on the totality of the record. By doing so, fee shifting in patent cases will serve the same purposes this Court has indicated it serves in other areas of litigation: a case management tool for courts to discourage certain types of claims or defenses and to sanction misconduct.

The Court will hear arguments in both *Octane Fitness* and *Highmark* on February 26, 2014. Decisions are expected by the end of the Court's current term in June.

vi. The Supreme Court Is Addressing the Patent Eligibility of Computer-Implemented Inventions

On December 6, 2013, the Supreme Court granted a petition for a writ of *certiorari* in *Alice Corp. Pty. Ltd v. CLS Bank Int'l*, Docket No. 13-298, to consider the patent eligibility of computer-implemented inventions. The question presented to the Court is:

> Whether claims to computer-implemented inventions – including claims to systems and machines, processes, and items of manufacture – are directed to patent-eligible subject matter within the meaning of 35 U.S.C. § 101 as interpreted by this Court?

In this case, the Supreme Court will revisit the issue of how to determine whether a software-related claim is directed to a patent-eligible invention or an ineligible abstract idea. The Alice Corp. patent is directed to software-implemented business methods for mitigating settlement risk in certain financial transactions. In a sharply-divided *en banc* decision issued in May, the Federal Circuit determined that some of Alice Corp's claims lacked patent eligibility. The Federal Circuit split down the middle, with five of the ten judges concluding that all of the claims were ineligible for patenting and the remaining five judges concluding that, at least, the system claims were patent eligible. Because none of the opinions in the decision carried a majority, however, the Federal Circuit did not add clarity to the question that has now been accepted for review by the Supreme Court.

The Supreme Court decision is likely to have a profound impact on many of the issues underlying calls for legislative action to combat patent infringement litigation abuse. The GAO report, for example, concluded that the recent increases in patent infringement litigation were not caused by non-practicing entity cases, but rather by the growth in litigation involving software patents:

> Public discussion surrounding patent infringement litigation often focuses on the increasing role of NPEs. However, our analysis indicates that regardless of the type of litigant, lawsuits involving software-related patents accounted for about 89 percent of the increase in defendants between 2007 and 2011, and most of the suits brought by PMEs involved software-related patents. This suggests that the focus on the identity of the litigant—rather than the type of patent—may be misplaced.

Likewise, calls for expansion of the transitional review program for covered business method patents have focused on the perceived need for additional review of software patents. Thus, the Supreme Court's opinion, expected by the end of the term in June 2014, may go a long way toward addressing some of the fundamental questions regarding the patent eligibility of the types of patents that have spurred calls for the changes reflected in several of the pending legislative proposals in both chambers of Congress.

B. Litigation Process Initiatives

In addition to judicial rulings addressing abusive patent litigation, a number of judicial jurisdictions as well as Congress have already implemented litigation process reforms that have had the effect of counteracting abusive litigation practices through more streamlined and consistent litigation practices.

i. Patent Court Pilot Program

One of the recent legislative initiatives to improve the process for patent litigation is the Patent Court Pilot Program. In January of 2011, Congress created the program whose stated purpose is "to establish a pilot program in certain United States district courts to encourage enhancement of expertise in patent cases among district judges."[47] The Administrative Office of the United States Courts selected 14 federal districts courts to participate in the 10-year pilot program, which was implemented in July of 2011. In each district, at least three judges have been designated to hear patent cases. The participating districts have adopted case assignment procedures allowing judges in those districts who do not want to hear patent cases to have their cases assigned to one of the designated judges. The effect of this program for the participating districts has been that patent cases are being heard by judges who have developed an interest and expertise in the area. The expectation is that this will lead to more expedient resolution of patent cases. Another goal of the program is that the patent lawsuit caseload will become more dispersed throughout the country and less concentrated in Delaware, Northern California, and Eastern Texas.

ii. Federal Judicial Conference and Other Initiatives

The Advisory Council of the Federal Judicial Conference is in the process of an extensive review of the Federal Rules of Civil Procedure, with special emphasis on discovery management issues such as those present in complex patent cases. Proposed rules were published on August 15, 2013, with the public comment period remaining open until February 15, 2014.[48] On November 5, 2013, the Committee's Subcommittee on Bankruptcy and the Courts held a hearing regarding the proposed new rules, and the Committee is in the process of holding a series of hearings to gather input from involved stakeholders. A number of the proposed new rules specifically address case management and discovery issues in all federal civil cases, including patent infringement actions. For example, Rule 26(b) would be amended to require that discovery be "proportional to the needs of the case considering the amount in controversy, the importance of the issues at stake in the action, the parties' resources, the importance of the discovery in resolving the issues, and whether the burden or expense of the proposed discovery outweighs its likely benefit." Other proposed changes to Rule 30 would reduce the presumptive numerical limits on depositions and their duration, and Rules 33 and 36 would be amended to place lower presumptive limits on the numbers of interrogatories, and to establish new presumptive limits on requests for admissions. In addition, Rule 37 would be amended to clarify the requirements for preservation of electronically stored information and the sanctions for failure to preserve such information.

Members of the judiciary have also been quite vocal in urging Congressional restraint in legislatively proposing litigation reforms, even asserting that the proposed legislation could violate the constitutional separation of powers, by encroaching on the authority of judges to manage their dockets.[49]

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[47] *See* n.6 *supra*.

[48] See http://www.uscourts.gov/uscourts/rules/preliminary-draft-proposed-amendments.pdf.

[49] *See* Letter to John Conyers from Committee on Rules of Practice and Procedure of the Judicial Conference of the United States, November 6, 2013 at http://legaltimes.typepad.com/files/letter-on-innovation-act.pdf .

In a February 27, 2013 speech at the Association of University Technology Managers, Chief Judge Rader advocated an additional step to deter abusive patent litigation: an award of fees when it is clear there has been litigation abuse, which would include those situations that Chief Judge Rader referred to as "litigation blackmail," *i.e.*, those in which there are only the most vague assertions of patent infringement coupled with a minuscule offer to settle the litigation.

iii. Managed Discovery

A number of district courts are also working on developing rules that mesh with their local procedures in order to mitigate disproportionally high discovery expenses.[50] Most of these involve promoting streamlined discovery in patent cases, often by requiring both parties to turnover certain categories of key documents within weeks of the initial status conference. In the Northern District of Illinois, for example, the patentee must disclose (i) documents related to the sale of the claimed invention prior to the date of the patent application; (ii) documents related to the conception and development of the claimed invention; (iii) communications with the United States Patent and Trademark Office regarding the invention; and (iv) documentation related to the ownership of the patent. The defendant must disclose documents sufficient to show all aspects of the accused "instrumentality" that was identified by the patentee and a copy of each item of prior art of which the party is aware that allegedly invalidates any claim of an asserted patent.[51] Using early disclosure procedures that focus on the core issues and quickly provide the appropriate information can avoid wasted discovery efforts and mitigate discovery disputes later on.

In support of such initiatives , the Advisory Council of the Federal Circuit drafted a Model E-Discovery Order for the district courts to use to manage the electronic discovery process, and in particular, the production of email. The Model Order begins with a discovery process whereby the parties exchange core documentation concerning the patent, the accused product, the prior art, and financial information before seeking email production. At the Judicial Conference for the Eastern District of Texas in September 2011, Chief Judge Rader promoted adoption of the Model Order for patent cases in the district courts, and the Eastern District of Texas, for example, has adopted a form of this order for all cases.[52]

Discovery reform has not been limited to patent litigation in the federal courts. In October 2012, the International Trade Commission proposed amending its rules for discovery of electronically stored information in Section 337 proceedings, which usually involve claims that imported goods infringe a U.S. patent. The proposed rules adopt many of the initiatives adopted in the Federal Circuit's Model Order and by some district courts to reduce the burden on patent litigants.

C. Provisions of the AIA That Stem Abusive Patent Litigation

Congress also acted in 2011 by passing the AIA which included many provisions designed to lessen the opportunity for abusive patent litigation conduct.[53] This Act made the criteria for patentability more objective and transparent, increased Patent Office funding and authorized the public's participation

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[50] *See* Emery G. Lee III & Thomas E. Willging, *Litigation Costs in Civil Cases: Multivariate Analysis* 8 (Fed. Judicial Ctr. 2010) ("Intellectual Property cases had costs almost 62% higher, all else equal, than the baseline 'Other' category.").

[51] *See* N.D. Ill. Local Patent Rule 2.1. *See also* D. N.J. Local Patent Rules 3.2 & 3.4 (setting forth similar early disclosure and production requirements).

[52] *See* E.D. Tex. Local Rules, Appendix P.

[53] *See* n.7 *supra*.

in the patent examination process, all to raise the quality of patents to be issued in the future. The AIA created several new procedures that allow members of the public, including those who are being sued for infringement, to quickly and inexpensively challenge a patent's validity before a panel of administrative law judges in the Patent Office. The AIA also mandated that patent plaintiffs could no longer indiscriminately join unrelated parties in a single law suit, and provided for a further study of issues relating to non-practicing entity patent assertions, which is not yet completed.

i. Objective and Transparent Patentability Criteria

A major focus of the AIA patent reform effort was to improve the quality of patents. Much of the criticism of the patent system over recent years has been directed toward the quality of patents issued from the USPTO. The AIA includes a number of provisions to address this perennial complaint from users and the public. The new law begins by eliminating subjective and non-transparent tests for patentability in favor of a patent law in which the validity of a patent is assessed through information available to the public. The result, at the front end of the process, is greater transparency, objectivity, and simplicity in the criteria for determining when an invention is novel and non-obvious. The validity of patents granted using these criteria is more predictable and their enforceability more certain.

The initial examination process has been made more open and transparent, allowing the public to work with the USPTO to provide the most relevant information for patent examiners to use. By allowing the public to share their knowledge and information with examiners before patents are granted, the likelihood that an examiner will have all the relevant information to determine the patentability in any given case is enhanced.

ii. Adequate and Secure Funding for the USPTO

The AIA provided the basis for the USPTO to receive a major increase in its operating funds. With the authority to establish and retain the fees it charges for its services, until affected by the sequestration, the Office had been able to significantly increase the patent examining staff, embark on upgrading its antiquated IT systems, and prepare for the implementation of the many new programs and procedures created by the AIA. Coupled with the new rules for determining patentability, and assuming full funding is restored to the USPTO, the added resources made available to examine applications and reduce the backlog of applications should speed the processing of patent grants and enable investments to be made in new industries with accompanying job creation.

iii. Post-grant Proceedings

The AIA also established new proceedings before the USPTO allowing for the public to initiate a review of issued patents. The AIA creates three new tracks within the USPTO to challenge the validity of patents. These proceedings are *inter partes* review, post-grant review and the transitional program for covered business method patents. While the details of these various review proceedings are important to practitioners, their policy significance is that they provide a mechanism that is an alternative to litigation to challenge the validity of a patent in a special forum, with special procedures and proceedings designed to address the type of review being invoked. The procedures are generally designed to lead to a less expensive and speedier decision than is available in most federal courts, and to allow the challenger to make its arguments to a panel of administrative law judges experienced with the complicated subject matter of patentability.

New procedural rules allow for administrative trials to be completed within one year from initiation of the review. The rules provide for expedited discovery, and other pre-trial disclosures designed to reduce the costs of these validity proceedings as compared to tradition federal court litigation.

The transitional review program for covered business method patents is a special program designed to allow for post-grant review of patents directed to methods used in the administration or management of a financial product or service. Only a party that has been sued or otherwise charged with infringing the patent can seek review under this program. The program allows a party who is defending against such a patent in litigation to take an immediate appeal if the district court denies a stay of the lawsuit while the patent is being reviewed under this transitional program.

iv. AIA Joinder Limitations

The AIA also addressed the abusive practice of a plaintiff joining dozens of companies together in a single lawsuit when they had nothing in common other than the accusation of infringement. The AIA imposes new requirements that must be fulfilled before a patentee can join multiple accused infringers in one action.[54] Under Federal Rule of Civil Procedure 20(a)(2), multiple defendants can be joined in one action only if "(A) any right to relief is asserted against them jointly, severally, or in the alternative with respect to or arising out of the same transaction, occurrence, or series of transactions or occurrences; and (B) any question of law or fact common to all defendants will arise in the action."

The AIA codifies the standard in Federal Rule of Civil Procedure 20(a)(2) into patent law and adds that "accused infringers may not be joined in one action as defendants or counterclaim defendants, or have their actions consolidated for trial, based solely on allegations that they each have infringed the patent or patents in suit."[55] Plaintiffs unable to meet this new requirement now must file separate lawsuits alleging infringement of the same patents and, unless the cases are consolidated for pretrial purposes, will lose the economies of scale.

VI. Proposed Solutions To Curb Abusive Litigation Practices

Although it is far too early to assess the full impact of the changes to patent litigation brought about by judicial efforts to improve substantive and procedural aspects of patent infringement litigation, as well as legislative efforts to address patent litigation concerns, most notably by enactment of the AIA reforms, a number of new legislative proposals have been suggested to curb perceived abusive litigation practices. Among these are H.R. 3309 as passed by the House ("Innovation Act"), S. 866 (the "Schumer Bill"), S. 1013 (the "Cornyn Bill"), S. 1612 (the "Hatch Bill") and S. 1720 (the "Leahy-Lee Bill"[56]), the provisions of which are discussed below.

In the view of the 21C, some elements of these proposals have merit, while others run the risk of negatively impacting the value and enforceability of patent rights, and thus chilling investments in innovation and the creation of new jobs. Coming as they do so soon after enactment of the AIA and the other efforts to reform patent litigation, our Coalition urges Congress to exercise legislative restraint by adopting provisions carefully targeted at abusive conduct, while resisting those that carry with them the danger of over-correcting and/or creating collateral damage.

A. Transparency of Patent Ownership

Provisions relating to improving the transparency of patent ownership are found in both the Innovation Act and the Leahy-Lee Bill.

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[54] 35 U.S.C. § 299.
[55] 35 U.S.C. § 299(b).
[56] This bill is also co-sponsored by Senators Whitehouse and Klobuchar, who have also been very active in its development.

i. Innovation Act Transparency Provisions

Pursuant to Section 4, subsection 290(b) of the Innovation Act, disclosure of certain ownership and related information regarding the patents at issue upon the filing of the initial complaint for patent infringement is required. This includes the assignee of the patent(s) at issue, any entity with a right to sublicense or enforce the patent(s), any entity that the plaintiff knows to have a financial interest (further defined in proposed subsection 290(e)) in the patent(s) or the plaintiff, and the ultimate parent of any assignee. Proposed new subsection 290(d) would require this information be continually updated and sanction the failure to do so.

When a patent is being asserted against a potential infringer, it is natural that the defendant desires to know the owner or assignee of the patent being asserted. If this information is not already of record (as it routinely is in patent litigation), requiring it to be provided will generally not impose an undue burden on the patent owner nor disclose information that can fairly be deemed confidential. Nor would it be unduly burdensome on the owner of the patent asserted in court to update certain information relating to the ownership of that patent on a going forward basis, as the Innovation Act requires.

Depending upon the circumstances, however, some of the information required to be disclosed could pertain to competitively sensitive information that should not be required to be disclosed in a public document. Examples of information that may fall in this category include disclosure of the ultimate parent entity of the assignee or disclosure of entities with a right to sublicense the patent. Consequently, while the 21C has no objection to providing such information in a case filing made under seal (as provided in Section 3 for the information to be disclosed in an initial complaint), we do not believe it should be disclosed to the Patent and Trademark Office.

The "right to enforce" a patent is not nearly as straightforward as identifying the owner or assignee of a patent, and is more likely to require the disclosure of confidential business relationships. Whether a party has the right to enforce a patent, also referred to as a "real party in interest," is a legal determination that is frequently litigated and is often not resolved until a court has issued a final decision on the issue. Consequently, the 21C believes that initial disclosure requirements should focus on requiring disclosure of the underlying facts, if known, upon which such legal conclusions may depend, leaving to discovery inquiries into further information that may inform the issue.

21C views this section of Innovation Act as inferior to the transparency provision of the Leahy-Lee Bill, discussed below.

ii. Transparency Provisions of the Leahy-Lee Bill

Section 3 of the Leahy-Lee Bill requires disclosure of information to the court of certain information relating to parties having a financial interest the patents asserted in a court action, and those whose interests may be affected by the outcome of the litigation. Such disclosures, which may be filed under seal to protect confidential information, represent an existing best practice in court proceedings. For many reasons, including the ability of courts to screen for potential judicial conflicts, it is not unreasonable to require such disclosures.

Section 3 of the Leahy-Lee Bill further requires recordation of assignments of issued patents, made on or after the effective date of the act. In particular, this section requires that "an assignment of all substantial rights in an issued patent that results in a change to the ultimate parent entity shall be recorded in the Patent and Trademark Office within 3 months of the assignment." Failure to record an assignment subject to this obligation may result in a loss of the patent owner's right to collect enhanced damages or attorney fees in a subsequent litigation "with respect to infringing activities taking place during any

period of noncompliance" and may result in an award "to the prevailing accused infringer [of] reasonable attorney fees and expenses incurred in discovering any previously undisclosed ultimate parent entities in the chain of title."

This provision is balanced, and does not place an unreasonable burden on owners of currently existing patents. It is fairly limited to assignments that would result in a change in the "ultimate parent entity" and provides both reasonable penalties for failures to comply and encouragement to patent owners to belatedly comply to minimize the effects of those penalties.

The 21C supports Section 3 of the Leahy-Lee Bill as it is currently written.

B. Stays of Patent Suits Brought Against Customers and End-Users

Section 5 of the Innovation Act and Section 4 of the Leahy-Lee Bill both contain provisions that, under certain circumstances, would require patent infringement suits brought against customers or end users to be stayed in favor of pending suits between manufacturers or suppliers.

i. Customer Stay Provisions of the Innovation Act and the Leahy-Lee Bill

Section 5 of the Innovation Act and Section 4 of the Leahy-Lee Bill both require that patent suits brought against covered customers to be stayed if (1) the covered manufacturer and covered customer agree to the stay, (2) the covered manufacturer is a party to the suit or is engaged with the plaintiff in another suit involving the same patent or patents and relating to the same covered product or process, (3) the covered customer agrees to be bound by any finally decided issues that the covered customer has in common with the covered manufacturer, and (4) the motion for a stay is timely filed. The bills further provide that the stay may be lifted if it is shown that a major issue between the plaintiff and the covered customer will not be resolved in the manufacturer suit or that the stay "unreasonably prejudices and would be manifestly unjust to the party seeking to lift the stay," and that, when there is a separate suit between the manufacturer and plaintiff, the judge in that suit determines these conditions have been met.

Stays under Section 4 would not be available in suits including causes of action under Section 271(e)(2), e.g., ANDA and biosimilar suits, and would provide some protection to customers from being bound by certain actions of covered manufacturers who agree to consent judgments, or who decline to prosecute the action, based on a showing "that such an outcome would unreasonably prejudices and be manifestly unjust to the covered customer in light of the circumstances of the case."

ii. Position of the 21C on These Customer Stay Provisions

The 21C supports the concept that a manufacturer or supplier should be able to intervene in patent infringement actions brought against its distributors, retailers or end users who are simply using the purchased products in the manner in which the manufacturer or supplier intends. The 21C also supports the concept that the manufacturer should alternatively be allowed to proceed in a separate action against the patent owner. Such distributors, retailers or end users who have been sued should have the option, if they agree to be bound by the outcome, to stay the actions against them pending the outcome of an infringement suit between the patent owner and the manufacturer or supplier. This right to stay distributor/retailer/end user suits would curtail the practice of filing such suits to coerce settlements and would promote resolution of patent disputes between the parties in the best position to litigate the merits of the case: the patent owner and the manufacturer or supplier of the products accused of infringement

The 21C notes that the proposed language in the Innovation Act and the Leahy-Lee Bill includes a number of important safeguards intended to ensure that stays do not unfairly prejudice manufacturers

and their customers. First, both the customer and the manufacturer must consent in writing to the stay. This ensures that the stay is entirely voluntary as between the supplier and its customer, thus avoiding unintended consequences of impacting contractual obligations that may exist between suppliers and purchasers and that may allocate the risks of infringement or the costs of defending against infringement allegations. Second, the customer must agree to be bound by any judgment against the manufacturer to the same extent that the manufacturer may be bound with respect to issues that the manufacturer and the customer have in common. This safeguards the patent holder against duplicative litigation on the same issues against the manufacturer and the customer and ensures that the stay does not unduly delay the ultimate resolution of the action. Third, the motion to stay must be filed within 120 days after service of the first "pleading" – we would suggest the first "paper" -- in the action identifying the product or process alleged to infringe. This ensures the timely filing of motions to stay and protects against such motions being filed late in the litigation to delay resolution or for other improper tactical purposes. Fourth, the stay applies only to the patents, and products, systems or components accused of infringement, so it would not apply with respect to infringement allegations based on other patents or accused products, systems or components – actions involving such allegations would proceed. Finally, the stay may be lifted upon grant of a motion showing that the action involving the manufacturer will not resolve a major issue in suit against the customer, or a showing that the stay unreasonably prejudices and would be manifestly unjust to the party seeking to lift the stay.

However, the 21C believes that the language of these stay provisions has strayed beyond the original intent of the customer stay concept: to protect small businesses, retailers and end-users from defending patent infringement actions in the first instance, in favor of allowing the litigation to proceed first against their suppliers of the accused product or process, who are better-positioned to mount a defense. As the language has expanded beyond this core concept, unfortunately the provisions lack adequate protections for patent holders. In particular, more guidance is needed as to when entry of a stay may not be appropriate, even if a manufacturer and customer agree to the stay. We believe that courts should have the discretion to deny a stay even when such an agreement is reached, because a stay may nonetheless not advance ultimate resolution of the dispute or may be unfair to a patent holder.

As ongoing discussions between the stakeholders have highlighted, it is sometimes but not always clear when a named defendant located in the middle of a supply chain should qualify as a "covered customer" as opposed to a "covered manufacturer." At the retail end of the supply chain, there appears to be widespread agreement that "off-the-shelf" distributors and retailers, i.e., parties who do not modify products or services received from their suppliers, but merely resell them or use them for their intended purposes, should qualify as "covered customers," just as should end users who do nothing more than buy and use products or services in accordance with their manufacturer's or supplier's instructions. On the other hand, that consensus erodes as the position of the defendant moves up the supply chain. For example, opinions appear to differ between stakeholders whether a defendant who is an assembler that designs and/or first brings together the combination of components should be treated as a customer on account of its status a purchaser of components from other suppliers/manufacturers, or a supplier/manufacturer on the basis of its design and/or assembly operations.

Because of the difficulties that exist in drawing the line between who is a customer and who is a supplier for these purposes, 21C believes that mandatory stays should best be limited to the "off-the-shelf," small business, retailer and end-user circumstances discussed above. We would support language narrowing the definition of "covered customers" to such circumstances, which we believe would mitigate many of the disputes that stymied efforts to reach consensus among stakeholders.

Alternatively, if the language of the stay provisions continued to encompass "covered customers" further up the supply chain than retailers, small business resellers or end users, then 21C believes that the interests of all litigants – suppliers, customers and patent holders – should be adequately represented and

balanced through the addition of language allowing courts to use their discretion to deny a stay under circumstances such as: 1) when the customer has designed or specified the design of the accused product or process; 2) when the customer has modified the accused product or process, or combined it with other components, products or processes, in a manner that gives rise to the charge of infringement; or 3) when the customer has used the accused product in a particular way, other than its off-the-shelf or intended use, that gives rise to the charge of infringement. In such circumstances, the original defendant is often in a position to fairly defend the case and a stay of the action against the original defendant would not advance the prompt or efficient resolution of the infringement dispute. In such cases, a stay should not be entered in the first place, even if the manufacturer/supplier and the customer/end user agree to its entry.

Accordingly, the 21C continues to support the concept of staying suits against customers and end users, but believes that the language in the bills should be improved, as discussed above, particularly with respect to either: limiting the scope of automatic stays to their original intent: to protect small businesses, retailers and end-users; or adding language to ensure that patent owners will not suffer stays of suits that in fairness should proceed.

C. Bad Faith Demand Letters

i. Bad Faith Demand Letter Provision in the Innovation Act

In addition to authorizing a study on the prevalence of bad faith demand letter practices, the Innovation Act includes a statement of the senses of Congress that "it is an abuse of the patent system and against public policy for a party to send out purposely evasive demand letter to end users alleging patent infringement."[57] This statement further advises that that demand letters sent should "at the least, include basic information about the patent in question, what is being infringed, and how it is being infringed."[58] Finally, the statement provides that "Any actions or litigation that stem from these types of purposely evasive demand letter to end users should be considered a fraudulent or deceptive practice and an exceptional circumstance when considering whether the litigation is abusive."[59]

The Innovation Act further provides that a claimant seeking willful infringement (and thus enhanced damages) "may not rely on evidence of pre-suit notification of infringement unless that notification identifies with particularity the assert patent, identifies the product or process accused, identifies the ultimate parent entity of the claimant, and explains with particularity, to the extent possible following a reasonable investigation or inquiry, how the product or process infringes one or more claims of the patent."[60]

ii. Bad Faith Demand Letter Provision in the Leahy-Lee Bill

Section 5 of the Leahy-Lee Bill would add a new §299B to the patent statute that would make the widespread sending of demand letters that assert, without a reasonable basis in fact or law, that the recipients are infringing a patent and owe compensation an unfair or deceptive act or practice within the meaning of section 5(a)(1) of the Federal Trade Commission Act (15 U.S.C. 45(a)(1)). The Coalition believes that narrowly-tailored legislation, providing the Federal Trade Commission ("FTC") with the authority to target those who send such bad-faith patent demand letters would further the FTC's consumer

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[57] SEC. 3(e), Innovation Act, H.R. 3309 as passed by the House of Representatives December 5, 2013, page 15, available at http://www.gpo.gov/fdsys/pkg/BILLS-113hr3309eh/pdf/BILLS-113hr3309eh.pdf.
[58] *Id.*
[59] *Id.*
[60] SEC. 3(f)(3), Innovation Act, H.R. 3309 as passed by the House of Representatives December 5, 2013, page 16, http://www.gpo.gov/fdsys/pkg/BILLS-113hr3309eh/pdf/BILLS-113hr3309eh.pdf.

protection mission and would curtail some of the egregious practices that unfortunately have developed whereby some patent owners send upward of hundreds – or even thousands – of letters to small businesses or individuals with false or misleading threats of litigation for alleged patent infringement and demand for payment.

Given the critical role that patent licensing plays in stimulating and protecting our nation's innovators, the 21C urges caution and balance to ensure that efforts to address what may be a small subset of egregious patent demand letter abuses do not inadvertently chill legitimate patent licensing and enforcement communications. The patent system is designed to encourage notice and communication of patent rights to foster licensing, technology dissemination and enforcement, and many provisions of our laws in fact require notifications concerning patent rights. For example, notification of infringement is, as a practical matter, a prerequisite for collecting enhanced damages under 35 U.S.C. 284, and often important to a determination that a case is "exceptional" under 35 USC 285. Also, in certain circumstances under 35 USC 287, patentees may not be entitled to recover damages on account of infringement "except on proof that the infringer was notified of the infringement and continued to infringe thereafter." Different, but important notification provisions are also found in other areas of patent law, including the patent provisions of the generic and biosimilar statutes, and in situations where the infringers' state of mind may be in issue, such as when they are accused of having induced infringement under 35 USC 271(b).

Free and open communication relating to patent rights is also fundamental to the efficiency of our economy. Routine patent licensing, patent sales, research collaborations, joint ventures, venture financings, and many other transactions involve issues of patent ownership, coverage, validity and enforcement. When disputes relating to patent rights arise, parties should feel that they can freely express their views, so that reporting obligations can be met, and amicable resolutions can be negotiated without resorting to litigation. Such communications also should be encouraged as a means for resolving patents disputes quickly and amicably. Over regulation in this area thus brings with it a clear and present danger of chilling free speech, and of forcing parties into court for fear that pre-litigation communications may otherwise spawn secondary liability issues.

Thus, efforts to regulate patent licensing communications should be narrowly-tailored and measured to avoid the risk of unintended consequences or collateral damage to legitimate patent licensing, settlement and enforcement communications. The 21C is concerned that some calls for FTC oversight of patent demand letters represent thinly-disguised efforts to devalue patent rights, to make patent infringement a less risky business decision, to make patent enforcement more difficult, or to use patent law to pick winners and losers among different industries. That is why the 21C urges that any legislation in this area be framed in terms of objectively defined and identifiable unfair or deceptive acts or practices, involving widespread communications targeting multiple recipients, to protect consumers while avoiding unintended consequences that may upset the balance of the patent ecosystem as a whole.

iii. Suggestions for a Balanced Approach

In the sections that follow, the 21C's specific suggestions are offered relating to legislative measures that can achieve the needed balance between the need for consumer protection against bad faith demand letters and the need to ensure that we do not weaken our patent system by making patent licensing or enforcement more difficult or less certain.

iv. The Need to Define Specific, Objective Acts or Practices as Unfair or Deceptive

It is important that any legislation clearly define what are considered to be unfair or deceptive acts of practices in a clear and objective fashion. Patent owners engaged in legitimate patent licensing communications have no desire to deceive or mislead any recipients of their communications. To the contrary, it is in their interest to provide sufficient information to make clear their ownership of the patent rights in question and their intentions to license or enforce those rights.

So as not to impede such communications, any legislation should clearly spell out those objectively-identifiable acts or practices that the FTC may deem to be unfair or deceptive. This may include false statements of patent ownership or the right to enforce or license patents, as well as misleading basic disclosures that would deceive recipients so that they would be unable to make informed decisions, leaving consumers vulnerable to abuse. But determinations of the merits or sufficiency of allegations of patent infringement included in demand letters are questions of substantive patent law, not consumer protection. The role of the FTC should be to protect the recipients of demand letters against false or materially misleading statements of fact, not to stray into substantive patent law by weighing in on the merits or sufficiency of patent disputes.

Thus, the appropriate role of legislation in this area should be to identify, and empower the FTC to address through its enforcement powers, only those demand letters that are truly intended to deceive or mislead their recipients. Demand letters may be considered to be objectively false or misleading if they:

- Falsely state that litigation has been filed against the recipient, or falsely threaten litigation if compensation is not paid;
- Originate from a person or entity that does not have the right to enforce or license the patent, and is not the representative of a person or entity with the right to enforce or license the patent;
- Seek compensation for a patent that has not been issued or that has been held to be invalid or unenforceable in a final, unappealable or unappealed decision; or
- Seek compensation for activities by the recipient undertaken after the patent has expired.

Likewise, demand letters may be materially misleading if they mislead the recipient concerning basic facts underlying the demand, namely:

- The identity of the person or entity with the right to enforce or license the patent;
- The patent or patents forming the basis of the demand; and
- The identity of at least one product, service or other activity of the recipient alleged to infringe the identified patent or patents.

Any legislation should clearly spell out and enumerate these and any other acts or practices that the FTC will be entitled to address as an unfair or deceptive trade practice. Patent owners pursuing legitimate licensing activities should have clear guidance as to prohibited communications and should not be left wondering about the rules they must follow.

Also, as further protection for legitimate licensing communications, the FTC's enforcement authority should be invoked only when the foregoing activities are numerous and widespread. The problem to be addressed, from a consumer protection standpoint, is caused by those patent owners who send hundreds – or even thousands – of letters to small businesses or individuals with false or misleading threats of litigation and demand for payment. Limiting the FTC's enforcement authority to these widespread practices furthers its consumer protection role while reducing the risk that the FTC will be drawn into individual disputes between patent owners and particular potential licensees or alleged infringers. Those one-off disputes should be decided by federal courts applying substantive patent law, not by the FTC under the guise of consumer protection.

v. The Need to Define a Safe Harbor for Legitimate Patent Communications

To mitigate the risk of chilling effects on legitimate patent licensing, sale, enforcement and settlement communications, the legislation should include "safe harbor" language that makes clear it is not intended to impinge on a patent owner's obligations under applicable laws and policies, his right to inform others of the existence of, need to license, infringement of, or right to put others on notice of its patent rights and/or the availability of, of need for, a license.[61] Such language will also help to ensure that the legislation is not vulnerable to challenge on Constitutional grounds as intruding upon protected rights of free speech in connection with legitimate patent licensing and enforcement activities.[62]

vi. The Need for Federal Preemption

The public and patent owners alike will benefit from the adoption of clear, balanced and uniform legislative guidance regarding the FTC's authority to target bad-faith patent demand letters that, when sent on a widespread basis to multiple recipients, may constitute unfair or deceptive trade practices within the meaning of Section 5(a)(1) of the Federal Trade Commission Act. These interests of balance, uniformity and clarity apply nationally and are furthered by the adoption of exclusive federal legislation. Just as substantive patent laws derive from the Constitution and are exclusively within the province of federal statutes and courts, so too should issues relating to patent demand letters be applied consistently and uniformly nationwide through federal legislation, regulation and judicial action. The FTC, rather than individual states, is in the best position to weigh the balance that federal legislation establishes between the need for consumer protection against bad faith demand letters and the need to ensure that we do not weaken our patent system by making patent licensing or enforcement more difficult or less certain. Thus, legislation in this area should expressly provide that it preempts state law or regulation directed to patent demand letters.

In view of the above, our Coalition is supportive of the approach of treating bad faith demand letters as false and deceptive trade practices, provided it is clear that the FTC will have jurisdiction only in instances where the bad faith assertions are widespread, i.e., to a very large number of unaffiliated recipients, where the statements made are clearly false and deceptive, where it is clear to patentees that they may continue to make good faith statements as required and/or encouraged under the patent laws and other statutes and/or current practice without concern of FTC scrutiny, and where the subject matter of the nature of the demand letters is within the exclusive jurisdiction of the FTC.

D. Improved Post-Grant Issuance Procedures

Section 7 of the Leahy-Lee Bill and Section 9 of the Innovation Act eliminate "could have raised" estoppel provisions from post grant and inter partes reviews, and require that the USPTO apply the same claim construction principles in conducting these proceedings as are applied in court proceedings.

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[61] *See, e.g.*, *Virtue v. Creamery Package Mfg. Co.*, 227 U.S. 8, 37-38 (1913) ("Patents would be of little value if infringers of them could not be notified of the consequences of infringement, or proceeded against in the courts. Such action, considered by itself, cannot be said to be illegal."); *Va. Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 869 (Fed. Cir. 1997) ("[A] patentee must be allowed to make its rights known to a potential infringer so that the latter can determine whether to cease its allegedly infringing activities, negotiate a license if one is offered, or decide to run the risk of liability and/or the imposition of an injunction.").

[62] Courts have held that patent demand letters fall within the First Amendment's guarantee of "the right of the people . . . to petition the Government for a redress of grievances," U.S. Const. amend. I, and thus are protected from liability by the *Noerr-Pennington* doctrine. *See, e.g.*, *In re Innovatio IP Ventures, LLC Patent Litig.*, 921 F. Supp.2d 903 (N.D. Ill. 2013) (collecting cases).

Our Coalition supports these changes as necessary to carry out the letter and intent of the AIA.[63] It was never intended that the estoppel standard for post grant reviews ("PGRs") be the same as that for inter partes reviews ("IPRs"). To the contrary, because PGRs must be brought immediately after the patent first issues when it is unlikely challengers would be willing to forego all possible grounds for challenge, it was never intended that PGRs would be subjected to a "could have raised" estoppel standard. And this was how the legislation was written until a scrivener's error resulted in it being erroneously conformed to the standard applicable to IPRs, where the estoppel standard is indeed one of "raised or could have been raised."[64]

21C similarly supports the requirement for the USPTO to use the same standards to assess patent validity in post grant and inter partes reviews as are used in the courts. In assessing the validity of already-granted patents in adjudicative proceedings, it makes no sense to judge their validities by one standard in the courts and the ITC, and by an entirely different one in the USPTO. While the USPTO's use of the "broadest reasonable interpretation" ("BRI") during patent examination proceedings makes sense when the USPTO is writing on a blank slate and applicants many freely amend their claims as often as needed in response to USPTO rejections of them, it makes no sense in judging the validities of the claims of issued patents where the prosecution histories of their previous examinations are available, and where the patent owners are given no opportunity to amend the claims of the patents[65] after learning the positions of the Patent Trial and Appeal Board ("PTAB") on their validities. The USPTO is already using the "ordinary and customary meaning" approach to interpreting claims in certain reexamination proceedings where amendments to patent claims are no longer allowed, and can easily do so in PGR and IPR proceedings, so that patent validity will be determined uniformly regardless of the forum in which the issues are raised.

As the comments of the three major IP associations – ABA-IPL Section, AIPLA and IPO -- pointed out during the rulemaking process to implement the AIA, Congressional intent was clear in enacting both the PGR and IPR procedures that the USPTO was being given a new authority to adjudicate the validity of issued patents in fully contested proceedings before the Office under the same legal precedents applicable in the courts.[66] The USPTO nonetheless opted to employ the procedural "BRI" protocol used by patent examiners, both during original examinations and in reexaminations, where the patentee has a right to amend the claims at issue in response to examiners' rejections.

Under the BRI protocol, the USPTO limits its consideration of claims in post-grant proceedings to the express language of the claims and the patent specification, ignoring the prosecution history of those claims, prior statements made by the applicant and the patent examiner about the scope of those claims, and evidence concerning the ordinary and customary meanings of the claim terms as understood by those of ordinary skill in the art, all of which are routinely used by the courts in reaching proper constructions of the claims.

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[63] *See A "REASONABLY COULD HAVE RAISED" ESTOPPEL IN LITIGATION FOLLOWING POST-GRANT REVIEW WILL PREVENT THE ENVISIONED BENEFITS OF THE NEW PROCEDURE FROM BEING ACHIEVED,* available at http://www.patentsmatter.com/issue/pdfs/WhyRCHRJudicialEstoppelShouldNotApplytoPGR6-19-2013.pdf .

[64] *"REASONABLY COULD HAVE RAISED" ESTOPPEL A Technical Error That Should Be Corrected,* available at http://www.patentsmatter.com/issue/pdfs/CorrectiontoJudicialEstoppelinPGRNeeded6-19-2013.pdf

[65] Pursuant to Sections 316(d) and 326(d) of the AIA, the only option available to patent owners in PGR and IPR proceedings is to cancel their patent claims. While the statute does allow patent owners to propose a "reasonable number of substitute claims," these new claims must be proposed early in the instituted proceeding, before any ruling by the PTAB, are subject to the application of intervening rights which causes the forfeiture of past damages collection, and still cannot be amended after finding out the PTAB's position on their validities.

[66] Available at http://www.uspto.gov/aia_implementation/comment-aba-aipla-ipo.pdf.

In doing so; the USPTO overlooked existing precedent that authorizes the use of BRI only in examinations where the applicant still enjoys the right to freely amend the claims at issue in response to USPTO rejections--- a right not provided under PGR or IPR. Since the purpose of PGR and IPR was to provide procedures for testing the validity of issued patents using the same principles applied in the courts or an invalidity challenge before the ITC, it is entirely appropriate that the same claim constructions be used in IPR and PGR and in the courts and ITC. Moreover, this change would bring uniformity to proceedings in the USPTO where it presently uses judicial claim constructions in reexaminations involving expired patents where, as in PGR and IPR, the claims can no longer be freely amended.[67]

While Section 7 appropriately specifies for both PGRs and IPRs that the Office may consider claim constructions previously rendered by the courts, it could be further improved by clarifying that petitioners who were parties to those court proceedings are collaterally estopped by those constructions in the USPTO, just as they would be in the ITC and in other court proceedings. This clarification would simplify the USPTO proceedings such cases, and would ensure that petitioners are not motivated to seek PGR or IPR review solely for the purpose of upsetting already litigated issues.

In addition, both the Innovation Act and the Leahy-Lee Bill should be further amended to ensure that these provisions apply equally to business method patent reviews.

E. Protection of Intellectual Property Licenses in Bankruptcy

Section 6(d) of the Innovation Act and Section 8 of the Leahy-Lee Bill contain provisions intended to protect patent and trademark licenses in foreign bankruptcies. Subsection 6 (d) of the Innovation Act would amend Chapter 15 of the bankruptcy code to make it clear that, in U.S. bankruptcy proceedings involving foreign bankruptcy administrators, U.S. courts will apply the protections of §365(n) of title 11 to prevent unilateral rejection of the debtor's existing intellectual property licenses.

The 21C continues to support these provisions as they will ensure that existing licensees of U.S. intellectual property owned by foreign entities will receive the same protection as licensees of U.S. intellectual property owned by domestic entities. This ensures that existing licenses will not lose their license rights if the foreign intellectual property owner files for bankruptcy under the laws of a foreign country that allow existing intellectual property licenses to be rejected by the bankruptcy administrator.

F. Standards for Awarding Attorney Fees To Prevailing Parties

i. Fee Shifting Provisions of the Cornyn Bill, the Hatch Bill and the Innovation Act

Section 3(b) of the Innovation Act and Section 5 of the Cornyn bill would revise 35 USC 285 to presume that attorney fees and expenses should be shifted to the prevailing party absent certain circumstances. The Innovation Act specifies that such awards are to be made "unless the court finds that the position and conduct of the nonprevailing party or parties were reasonably justified in law and fact or that special circumstance (such as severe economic hardship to a named inventor) make an award unjust. The Cornyn bill is similar, providing that fees and other expenses are to be awarded "unless the court

[67] As the PTO's MPEP § 2258 G explains, "In a reexamination proceeding involving claims of an expired patent, claim construction pursuant to the principle set forth by the court in Phillips v. AWH Corp., 415 F.3d 1303, 1316, 75 USPQ2d 1321, 1329 (Fed. Cir. 2005) (words of a claim "are generally given their ordinary and customary meaning as understood by a person of ordinary skill in the art in question at the time of the invention) should be applied since the expired claim are not subject to amendment."

finds that the position of the losing party was objectively reasonable and substantially justified" or "exceptional circumstances make such an award unjust." [68] The wording in the Hatch Bill is similar but not identical to that of the Cornyn bill, awarding fees, "unless the court finds that the position and conduct of the nonprevailing party or parties were substantially justified or that special circumstances make an award unjust." The 21C supports these provisions in concept because they are (a) bilateral, (b) fairly restricted to only those parties whose conduct is improper, (c) does not attach until after the merits of the case have been finally decided, (d) cannot be easily avoided and (e) encourage the bringing of meritorious suits while discouraging frivolous ones.

Both the Cornyn Bill and the Innovation Act further specify that if a losing party is unable to satisfy the award, the court is empowered to make the reasonable costs and other expenses recoverable against any interested party joined pursuant to proposed new section 299(d) (discussed below). The Innovation Act further adds a new subsection (c) to § 285, to provide that a party giving a unilateral covenant not to sue shall be deemed a "nonprevailing" party for purposes of fee shifting. This provision would not advance the interests of prompt and efficient resolution of patent disputes. This proposal is clearly unfair to parties asserting their patents, and represents poor public policy. First, the unilateral nature of the this provision is unfair to patent owners in that the same right to fees is not given in instances where the accused infringers give up on all or some of their defenses. Second, there are many reasons a patent plaintiff may wish to give up on the assertion of a patent that should not trigger fees liability. Included in these may be that the infringer has stopped the infringing activity, that market conditions or the expenses of the action itself no longer make the case worth pursuing, or that even though believed to be meritorious, the probability of success may no longer justify prosecution of the action. In such circumstances, parties should be encouraged to offer covenants not to sue rather than to continue the litigation to avoid the risk of an automatic application of this provision. Third, the effect of the provision will be to discourage defendants from settling actions in the hope of gaining attorney fees by prolonging and expanding the case to the point where the patent owner will abandon it and have to pay fees. Fourth, sound public policy strongly favors the early termination of cases, by settlement or otherwise, to conserve judicial resources. For these reasons, the 21C opposes this subsection.

Currently, 35 U.S.C. § 285 empowers district courts to award attorney fees to prevailing parties in "exceptional" cases. The 21C believes, however, that existing § 285 is invoked too rarely to serve as an effective deterrent against litigants who seek to assert specious positions – including questionable assertions of infringement or questionable infringement defenses. The 21C has long advocated for a relaxation of the "exceptional" case standard to permit fee shifting in more cases and thereby encourage both plaintiffs and defendants alike in patent infringement actions to assert only meritorious positions. As noted above, with the grant of *certiorari* in the *Highmark* and *Octane* cases, it now appears likely that the Supreme Court is about to do just that, perhaps mooting the need for any new fee shifting legislation.

In the absence of such judicial action, the 21C would continue to support fee shifting to address the litigation behavior sought to be discouraged – the assertion of unjustified claims or defenses in patent infringement cases – in a balanced fashion, seeking to curtail such behavior whether it comes from a plaintiff or a defendant. In other words, such abusive litigation behavior should be targeted regardless of the party that engages in it. Any litigant asserting non-meritorious litigation positions should face the prospect of "loser pays."

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[68] The 21C believes that this language should be amended slightly, to read: "unless the court finds that the position <u>and conduct</u> of the losing party was substantially justified or that special circumstances make an award unjust." Addition of the words "and conduct" will make clear that litigation misconduct can form the basis for an award of attorney fees, as is currently the case under Section 285. *See, e.g., MarcTec, LLC v. Johnson & Johnson*, 664 F.3d 907, 919 (Fed.Cir.2012) ("[I]t is well-established that litigation misconduct and unprofessional behavior may suffice, by themselves, to make a case exceptional under § 285.") (internal quotations omitted).

ii. Fee Shifting When The Losing Party Is Unable To Pay

A number of proposals have been introduced to address the situation where the losing party in an action is unable to satisfy a fee award. This is of particular concern due to the perception that NPEs are often created and structured to be shell entities with no assets other than the patents that are being enforced, and that any fee shifting provision will have no practical effect in deterring abusive litigation if its effect can be easily avoided.

The 21C also supports authorizing courts to order the recovery of reasonable fees and expenses in certain circumstances when the losing party is unable to pay and a related nonparty should be responsible for satisfying the fee award. Specifically, courts should be empowered to address the situation where an entity has transferred a patent to a shell company with assets inadequate to satisfy a fee award, who then asserts that patent in a way that violates Section 285.

For the reasons explained further below, however, the 21C questions whether joinder of parties with a direct financial interest in the case is the appropriate mechanism to ensure that an attorney fees award is collectable when the named party against whom the fees have been assessed is unable to pay such fees. As both the Cornyn Bill and the Innovation Act acknowledge, joinder is an impossibility in instances where the party to be joined is not subject to service of process, where the court would lose jurisdiction as a result of the joinder, or when venue would be improper. Since at least the last of these conditions can easily be created by NPEs who are so inclined, these joinder provisions will likely be easily avoided, rendering this approach not only one of limited utility, but one that will likely drive up the cost of litigation with little positive effect.

The Innovation Act would amend 35 U.S.C. § 299 to add new subsection 299(d), requiring courts in any civil action arising under the patent laws to grant a motion by a party defending an infringement action to join an "interested party" to the case if the party alleging infringement has no substantial interest in the patent(s)-in-suit other than litigation – *i.e.*, the patent owner is a so-called patent assertion entity. A joinder motion could be denied, however, if the party sought to be joined is not subject to service of process in the action or if joinder would deprive the court of subject matter jurisdiction or make venue improper. The joinder requirements in the Innovation Act are largely the same as those in the Cornyn bill.

The definition of an "interested party" who can be joined under this provision includes assignees of the patent at issue, persons who have a right to enforce or sublicense the patent, or a person who has a "direct financial interest" in the patent. However, a direct financial interest would not include i) an attorney or law firm providing legal representation in the action or ii) a person whose sole financial interest in the patent is ownership of an equity interest in the party alleging infringement, unless that person has the right or ability to influence, direct or control the civil action.

With respect to the impact of joinder under this provision, proposed subsection 285(b) would extend contingent liability to satisfy an attorney's fee award made pursuant to proposed subsection 285(a) to an interested party joined pursuant to section 299(d):

"If a nonprevailing party is unable to pay reasonable costs and other expenses awarded by the court pursuant to subsection (a) [35 U.S.C. § 285(a)], the court may make the reasonable costs and other expenses recoverable against any interested party joined pursuant to section 299(d)."

21C questions whether the joinder provision will function as intended. In particular, we question the scope of the third category of persons who may be joined, and whether the provision will achieve its

objective of adding the parent companies of shell patent plaintiffs or litigation funders as parties to patent infringement cases. 21C believes that more effective mechanisms exist for achieving that purpose.

With respect to the categories of persons who may be joined, the first two categories – assignees and persons with the right to enforce or sublicense the patent – are relatively noncontroversial. For the most part, such persons must be joined as plaintiffs in patent infringement actions for standing purposes under existing law.

The third category of persons who may be joined – persons with a direct financial interest in a patent-in-suit – raises several concerns. First, the language "direct financial interest in the patent or patents at issue, including the right to any part of an award of damages or any part of licensing revenue" is ambiguous. For example, would this include persons or entities who might stand to benefit from a successful patent infringement action, but who are not so-called "third party litigation funders" who would receive a share of a damages award or who control the conduct of the litigation? The second exception (which would exclude from joinder "a person whose sole financial interest in the patent at issue is ownership of an equity interest in the party alleging infringement, unless such person has the right or ability to influence, direct or control the civil action") would alleviate some, but not all, of our concerns. We still question, however, whether this language would permit joinder of parent companies, or shareholders, of a named plaintiff, since it could be alleged that such persons have at least the ability to "influence" the civil action. The provision should be tightened to clarify that the joinder provision would only reach those persons who have the right to receive proceeds from an award of damages or settlement of the action. We believe that such tightening would better reflect the intent underlying the provision to join only those persons with a right to share in the proceeds of the litigation.

Another problem with joinder is that it is likely to engender collateral disputes over the question of whether joinder is proper at the outset of many patent cases, even those in which a fee award is ultimately not an issue. Such collateral disputes risk delaying and unduly complicating the resolution of patent disputes generally. Equally problematic are the questions of jurisdiction and venue over the parties sought to be joined. Proposed subsection 299(d)(2) provides that joinder may be denied where the interested party is not subject to service or process, or where joinder would deprive the court of personal jurisdiction over the parties or make venue improper. This exception creates a risk that nominal plaintiffs who are shell companies lacking the resources to satisfy fee awards will bring suits in courts where their nonparty owners or litigation funders are not subject to jurisdiction, thus defeating the intended purpose of the joinder provision.

An alternate approach to this collection problem is contained Title II of the Hatch Bill, which proposes that motions to require bonding be brought to force parties who may not be able to satisfy a fee award to post a bond to guarantee that payment. Unfortunately, this bonding provision suffers from a number of disadvantages. First, the proposal would be applied at the outset in all actions, regardless of the merits of the claim being advanced. Indeed, while the proposal lists a number of factors to be considered in deciding whether to require a bond, none of them goes to the merits or potential merits of the claim. As a result, a large class of plaintiffs with meritorious cases will be burdened by the bonding requirement even though there is no possibility that fees will ever be awarded against them. Second, for small businesses and independent inventors, the bonding requirement may foreclose their access to the courts. Given that attorney fees and costs can easily run into the millions of dollars in these cases, to meet a bonding requirement patent owners would need to pledge, i.e. freeze or post, assets at least equal to the amount of the bond, and pay a bonding agency or other service provider for the bond itself. This burden, unilaterally imposed on patent owners but not accused infringers, would be grossly unfair. Third, the proposed procedure in the Hatch Bill will increase the costs of and prolong the patent litigation in all cases where it is raised, even though only a small percentage of them will ever result in fees being awarded. Fourth, rather than being a simple procedure, the factors to be considered are complex,

including such issues as the projected amount of fees to be incurred in the litigation, "whether the party alleging infringement can demonstrate that it has and will have the ability to pay the accused infringer's fees and other expenses if ordered to do so" and "whether any party will agree to pay the accused infringer's shifted fees and other expenses, provided that the person or entity can demonstrate that it has and will have the ability to pay the accused infringer's shifted fees and other expenses." Fifth, some of the factors specified to be considered in bonding are totally irrelevant to the issue of whether fees are likely to be awarded, or could be paid. These include whether the party alleging infringement is an institution of higher education or non-profit technology transfer organization, or a licensee thereof who conducts further research on or development of the subject matter to make the subject matter more licensable; "is a named inventor of or an original assignee to an asserted patent"; or is one who "makes or sells a product related to the subject matter described in an asserted patent." Yet the abilities of these exempted parties and organizations to bring frivolous suits or engage in abusive litigation conduct is no different than any other type of patent owner. Finally, the principal factor that will be litigated in most cases where other exemptions don't apply is "whether the bond will burden the ability of the party alleging infringement to pursue activities unrelated to the assertion, acquisition, litigation, or licensing of any patent." This provision is objectionable not only due to its vagueness, but because it plainly discriminates against assertion, acquisition, litigation or licensing activities, which themselves are perfectly legitimate pursuits. The unfairness of this provision is underscored by the fact that a plaintiff would not be able to avoid a bond in the action if its consequence would be to "burden the ability" of that party to continue the very litigation in which the bond is sought.

iii. Contingent Liability – An Alternative Approach to the Fee Collection Problem

The 21C acknowledges that a fee-shifting provision without the ability to assess fee awards against certain third parties may not be effective in deterring litigation misconduct, because litigation funders could bring suits in the name of shell corporations that lack adequate funds to satisfy a fee award. Thus, we recognize that fee-shifting needs to reach beyond the nominal plaintiff.

In our view, a better approach is to extend contingent liability for satisfaction of a fee award to certain non-parties related to a losing party against whom fees have been assessed – specifically, to any person with a direct financial right to share in damage awards or settlement proceeds from the action. Such contingent liability would be triggered when the named party against whom the fees have been assessed is unable to pay the awarded fees. Notice would be given to any third party with a financial interest in a patent when that patent has been asserted in litigation. The notice would inform the third party that the patent is being litigated and would allow the third party to protect itself against any liability by renouncing its right to receive proceeds from an award of damages or settlement of the action. This would ensure that such third parties would be fairly treated and be guaranteed due process.

This approach would extend contingent liability for fee awards to certain third parties without generating fights over bonding or joinder at the outset of patent cases. In addition, this approach would not be subject to circumvention by a plaintiff bringing suit in a court lacking personal jurisdiction over the third party. It might, in some cases, require collateral litigation to collect the fee award at the conclusion of the patent infringement action, but only in that subset of cases in which 1) fees are actually awarded following adjudication on the merits, 2) the nominal plaintiff is unable to pay, and 3) the third party refuses to pay voluntarily.

To ensure that the reach of this contingent fee liability proposal is properly limited, it could be made clear in the legislation or its legislative history that it would not reach to non-parties who are not the real-party-in interest, who are not in privity with a party to the action, and who would benefit only indirectly from a favorable litigation outcome. It would not encompass, for example, patent owners who

have exclusively licensed their patents to the plaintiff, with the only interest in the litigation being the possibility of increased royalties if successful litigation allows the licensee to expand its revenue. Rather, it would extend only to those third-parties who own a stake in the proceeds from the litigation. The 21C believes that such an approach would directly address any concern that fee-shifting might be ineffective because patent owners would bring suits in the name of shell corporations that lack adequate funds to satisfy a fee award. It would be both more efficient, and more effective, than would the joinder of interested parties approach currently proposed in the Innovation Act (H.R. 3309), or bonding as proposed in the Hatch Bill (S. 1612).

G. Heightened Pleading Requirements Provisions in the Cornyn Bill & the Innovation Act

Section 2 of the Cornyn Bill and Section 3 of the Innovation Act both require substantially more information to be included in complaints, counter-claims and cross-claims of patent infringement.[69]

The Cornyn Bill would require any pleading alleging patent infringement to include the following: an identification of each patent and each claim allegedly infringed; and an identification of each accused instrumentality, including its name or model number; an explanation of all theories of infringement; an identification of the right of the party alleging infringement to assert the patent(s)-in-suit; a description of the principal business of the party alleging infringement; a list of prior litigation involving the patent(s)-in-suit; disclosure of whether the patent(s)-in-suit have been declared essential in a standard-setting body; disclosure of the identity of any person other than the party alleging infringement who owns, co-owns, or is an exclusive licensee of any asserted patent; disclosure of the identity of any other person that the party alleging infringement knows to have a legal right to enforce an asserted patent or to have a license under such patent; disclosure of the identity of any person with a direct financial interest in the outcome of the action; and a description of any legal basis for a financial interest of another in an asserted patent.

Unlike the Innovation Act, the Cornyn Bill does not 1) except allegations of infringement under cases including Section 271(e)(2) allegations, i.e., Hatch Waxman and biosimilar cases, from these requirements, 2) provide any flexibility where the required information is not readily accessible, or 3) provide for a court, for good cause shown, to allow information determined to be confidential to be filed under seal.

Currently, the content of complaints, counter-claims and cross claims is subject to the requirements established by a network of Federal Rules of Civil Procedure ("FRCP"), and substantial case law precedent that interprets what is needed to plead such a claim. FRCP Rule 8 requires of all claims for relief include (1) a short and plain statement of the grounds for the court's jurisdiction, unless the court already has jurisdiction and the claim needs no new jurisdictional support; (2) a short and plain statement of the claim showing that the pleader is entitled to relief; and, (3) a demand for the relief sought, which may include relief in the alternative or different types of relief. FRCP Rule 9 of the Federal Rules addresses "Pleading Special Matters." In general, Rule 9(a)(1) specifies that, unless required to show that the court has jurisdiction, a pleading need not allege (A) a party's capacity to sue or be sued; (B) a party's authority to sue or be sued in a representative capacity; or (C) the legal existence of an organized association of persons that is made a party. Rule 9(a)(2) requires that to raise any of those issues, a party must do so by a specific denial, which must state any supporting facts that are peculiarly with the party's knowledge. Rule 9(b) requires that in alleging fraud or mistake, a party must state with particularity the circumstances constituting fraud or mistake. Malice, intent, knowledge, and other

[69] The Leahy-Lee Bill is silent with respect to pleading requirements, appropriately relying on the courts and Judicial Conference to react to and appropriately adjust pleading requirements to reign-in abusive litigation practices

conditions of a person's mind may be alleged generally. Rule 9(b) has generally been made applicable to the pleading of inequitable conduct defenses in patent infringement actions. Other matters that need to be pleaded specially include conditions precedent, official documents or acts, judgments, special damages and admiralty or maritime claims. Rule 9(f) further specifies that allegations of time or place are material when testing the sufficiency of a pleading.

The pleading of claims in the federal courts is a "notice pleading" system where only the nature of a claim, not the underlying evidence supporting it, is to be pled. Rule 11(b) of the Federal Rules, however, specifies that by presenting a pleading to the court, an attorney or unrepresented party certifies that to the best of the person's knowledge, information and belief, formed after an inquiry reasonable under the circumstances, that: (1) it is not being presented for any improper purpose, such as to harass, cause unnecessary delay or needlessly increase the cost of litigation; (2) the claim is warranted by existing law or by an nonfrivolous argument for extending, modifying, or reversing existing law or for establishing new law; (3) factual contentions have evidentiary support or, if specifically so identified, will likely have evidentiary support after a reasonable opportunity for further investigation or discovery; and (4) the denial of factual contentions are warranted on the evidence or, if specifically so identified, are reasonably based on belief or lack of information. Rule 11(c) authorizes the court, on motion or sua sponte, to impose sanctions on an attorney, law firm, or party who violates this rule.

Under the FRCP, several options are made available to defendants who do not think a claim has been sufficiently pleaded. FRCP Rule 12(b)(6) provides that a party served with a complaint may move to dismiss that complaint for failing to state a claim upon which relief can be granted. In addition, a party who does not believe that there is sufficient disclosure in a complaint may move under Rule 12(e) to compel a more definite statement. Pursuant to Rule 12(e), a more definite statement will be required if the complaint was "so vague or ambiguous that the party cannot reasonably prepare a response." Pursuant to Rule 12(e), once the court has required a more definite statement, if it is not obeyed within 14 days or such other time as the court may set, the court may strike the pleading or issue any other appropriate order. Since its inception in 1937, these rules have been reviewed and revised as needed to keep up with modern practice, and are now again under review by the Federal Judicial Conference. This general approach has served us well for more than 70 years, and has provided defendants ample protections against complaints that are insufficient, vague or ambiguous.

The Innovation Act and the Cornyn Bill would single out patent infringement cases as the only federal civil actions that are required to comply with substantially higher pleading requirements. While the idea of raising the requirements for pleading is patent cases is no doubt well intended, it is likely to lead to exactly the opposite of the results the drafters intend. With heightened, technical pleading requirements, the parties will be drawn into preliminary motion practice, e.g., fighting over whether the pleading is properly framed, rather than getting down to the merits of the case. This is precisely why the Federal Rules adopted a simplified notice pleading approach in the first place. Moreover, the result of such extended motion practice will not be to deter a motivated plaintiff from successfully instituting an action against a party, but will instead consume the parties' and court's time, while unnecessarily delaying the initial disclosure, case management, initial discovery and claims construction phases of the case. These provisions are therefore misdirected and if adopted, will be counterproductive.

Nonetheless, it is fair to say that some of what the Innovation Act and the Cornyn Bill would mandate is fairly necessary to a well pleaded complaint for patent infringement anyway. Included in this category is: (1) the identification of the asserted patent(s), and (2) a description of the product, process or other instrumentality that is the basis for the allegation of infringement. While an identification of the plaintiff's principal business may be relevant to the kind of relief sought, as for example when the defendant is a competitor, in many suits its disclosure in the complaint will be irrelevant. Beyond that, much of what is proposed to be included in a complaint is unnecessary to fairly place the defendant on

notice of the nature of the claim, and is best left to the initial disclosure, discovery and case management processes. Other provisions, such as paragraphs (a)(2), (3) and (4) could be improved by limiting paragraph (a)(2) to the identification of at least one claim of each asserted patent, and by limiting (a)(3) and (a)(4) to the identification of each "accused instrumentality" alleged to be infringed under each patent.

Paragraphs (a)(5) and (a)(6) of the Cornyn Bill are inappropriate, as they go far beyond notice pleading, seeking the pleading of evidence and the details of infringement contentions that should not be required at the outset of the proceeding. First, the plaintiff will often not have enough information about the nature and operation of the accused instrumentalities to make such contentions, and in any event, as the claims will not yet have been construed by the court, any contentions that could be made would need to be revised after the *Markman* ruling. Paragraph (a)(7) could be made acceptable if amended to be limited only to the identification of the right to assert each patent, as that requirement would fall within the requirements of Rule 8 that the pleading should generally identify the basis for the court's jurisdiction. Since that jurisdiction is not determined on a claim by claim basis, further specification by claim would be inappropriate. Paragraphs (a)(9) and (a)(10) are also subjects that would be better left for initial disclosure and/or discovery, however if appropriately amended to conform to the Innovation Act's corresponding provisions, could be seen to provide information that might be helpful to a defendant in preparing the answer to the complaint.

The Cornyn Bill could also be improved by adopting the provisions of paragraphs (b) and (c) of the Innovation Act relating to information not accessible to the plaintiff, as these provide important safeguards relating to information not readily accessible to the plaintiff, or that is confidential. Arguably, even in the absence of paragraph (b), Federal Rule 11(b) would have authorized pleadings based on a party's best information and belief, however paragraph (b), as it appears in the Innovation Act, makes this specific for patent cases. Further, paragraph (c) as proposed gives the plaintiff the automatic right to file confidential information under seal, recognizing that the parties will routinely stipulate to a protective order to provide the defendant access to the information while protecting its confidentiality.

In the absence of the changes suggested, pleading requirements requiring this degree of specificity will simply engender disputes at the outset of cases about the sufficiency of the pleadings, even in cases where the parties fully understand the basis for the allegation of infringement. The new pleading requirements in the Cornyn Bill will add to the costs, burdens and time it takes to identify and narrow the issues in dispute and to resolve patent infringement actions.

Apart from pleading requirements, the 21C would support a more robust exchange of information underlying the allegations in initial pleadings at the outset of patent infringement actions. A more fulsome exchange of information at the outset of infringement actions by plaintiffs and defendants alike will advance their efficient resolution. As a practical matter, however, the 21C believes that the judiciary is in the best position to determine what additional pleading specificity will in fact best advance the efficient resolution of patent cases.

H. Discovery Management Requirements for Patent Cases

Both the Cornyn Bill and the Innovation Act would limit discovery in every civil action relating to patents where construction of the terms used in a patent claim is required until the court has rendered such decision. Discovery would only be permitted of information "necessary for the court to determine

the meaning of the terms used in the patent claim, including any interpretation of those terms used to support the claim of infringement."[70]

Since judicial construction of claims is sooner or later required in almost every patent case, the effect of this provision would be to delay and bifurcate merits discovery. Even in courts where claims construction is routinely conducted early in the proceeding, it takes at least several months, and sometimes up to a year or more for the court to issue its order. In other jurisdictions, it can take up to 18 months or more before the final *Markman* ruling is issued. Under the proposals in the Cornyn Bill (S. 1013) and Innovation Act, discovery that might otherwise be undertaken concurrently during this period will be postponed, thus delaying consideration of potentially dispositive pre-trial motions until the necessary re-started discovery is completed, and delaying both trial and the ultimate resolution of the case.

Such a bifurcated approach would be less efficient and likely more costly. Discovery disputes over which documents must be produced in the first phase of discovery and which may be withheld would be likely, as would the necessity to recall witnesses for further depositions as the case progresses.

Under current practice, where discovery on all issues starts immediately, additional evidence will normally be adduced that may facilitate the early termination of the case by summary judgment ruling or settlement. If discovery is not allowed prior to claims construction, the court will often be required to delay or deny early disposition of the case pending its completion.

While some patent cases might be managed more efficiently by deferring some, or all, discovery pending the claims construction ruling, courts are already empowered to manage discovery in this manner and to tailor case management to the particular facts and circumstances of each case. District courts across the country with the most experience and skill in managing patent infringement cases have already adopted local rules that specify the timing and scope of discovery and, to our knowledge, none of those courts has put in place an automatic stay of discovery pending claim construction. To the contrary, most local patent rules provide for initial disclosures at the outset of cases mandating an early, robust exchange of documents and information related to the merits of the action, recognizing that such disclosures help to clarify and narrow the issues in dispute and often foster early settlement. These courts also recognize that a developed evidentiary record at the time of the "*Markman*" proceedings assists judges in making claim construction rulings. For these reasons, an automatic stay of discovery pending claim construction is likely to be counterproductive. Simply put, the case has not been made to legislate this one-size-fits-all approach to patent infringement case management.

Although both the Cornyn Bill and the Innovation Act would allow a court to exercise its discretion to expand the scope of discovery for the limited subset of cases where federal law requires completion of the case in a "specified period of time," or "when necessary to resolve a motion properly raised" before the claims construction ruling, neither of these exceptions would remedy the principal concerns with the proposal: that it would prolong almost all patent litigation and substantially increase its already high expense.

The hardship that would be created by this bill would be particularly great on patentees who are marketing products which compete with unlicensed infringements, and whose purpose in bringing suit is to gain relief from the harm being caused them in the marketplace by that infringement. The Innovation Act contains a limited exception in Section (d)(4) for "Actions seeking relief based on competitive harm," but unfortunately limits that exception only to actions seeking preliminary injunctions. If any limitation

[70] The Leahy-Lee Bill, S. 1720, the "Patent Transparency and Improvements Act of 2013," appropriately does not provide for staying discovery.

on discovery is to remain, the words "a preliminary injunction" should be replaced by "relief" to thereby exempt all competitor suits seeking "relief to redress harm arising from any allegedly infringing instrumentality that competes with a product sold or offered for sale, or a process used by a party alleging infringement."

This proposed change is necessary, because, as the statistics bear out, preliminary injunctions are extremely rare in patent cases, as judges are very reluctant to enjoin a party on a preliminary record. Manufacturers filing legitimate claims for infringement to protect their investments against infringement should not be forced to file needless preliminary injunction motions, which will burden the courts, simply to avoid having the stay of discovery delay resolution of their cases for months. There is no reasonable basis for objection to a broad competitive harm exception for cases involving practicing patent owners by those who believe stays of discovery pending claim construction should be automatic in Non Practicing Entity (NPE) cases. Such an exception would not impact NPE cases.

In addition to the practical difficulties with the proposed stay of discovery provision, it raises serious concerns regarding the role of an independent judiciary. The power of U.S. courts to manage their own calendars and adopt their own case management procedures has long been recognized. The authority to establish and revise the Federal Rules of Civil Procedure has long fallen under the auspices of the United States Supreme Court, which manages the process of reviewing and revising these rules in reliance upon the recommendations of the Judicial Conference of the United States. In respect for this tradition, Congress should not lightly encroach on these procedures. The 21C believes it would be far preferable for Congress to offer recommendations to the Judicial Conference and leave the development of specific in-court practices to its deliberations.

The 21C believes the Leahy-Lee Bill takes the proper course, leaving it to the judiciary to appropriately manage the cases before them.

I. Recommendations to the Federal Judicial Conference in the Innovation Act and Proposals In the Innovation Act & Cornyn Bill Specifying Discovery Sequence, Subject Matter and Cost Shifting

Subsections 6(a)-(b) of the Innovation Act require the Judicial Conference of the United States to develop rules to implement specific requirements set forth in the section to address asymmetries in discovery burdens, including how and when payment for discovery in addition to core discovery is to occur and what information must be presented to demonstrate financial capacity before permitting discovery in addition to core documentary evidence. Section 6 further mandates the specific types of discovery that will and will not be permitted, how it must be requested, and the conditions upon which modifications can be made. Section 6 further instructs the courts as to what must be discussed by the parties concerning discovery, and requires the adoption of such rules, and corresponding local court rules, within specified time frames. The Cornyn Bill goes even further, simply proposing to legislate a one-size-fits-all approach to patent case management.

The Innovation Act and the Cornyn Bill approach to patent case discovery reflects a narrow and one-sided view of patent litigation, in essence legislating that each case be managed in the manner that a defendant in an action brought by a non-practicing entity would seek to have the action managed, when 80% of all patent cases do not involve assertions by such entities. This unbalanced and inflexible approach to all cases is reflected in the automatic stay of discovery pending claim construction, as discussed above. It is also reflected in the definitions of "core documentary evidence" set forth in Section 6(a)(3)(A)(i). Such evidence does not even include, for example, any documents showing the sales of the products accused of infringement, either in dollars or units. On the other hand, the patent owner is

required to produce "documents sufficient to show profit attributable to the claimed invention of the patent or patents at issue." Sec. 6(a)(3)(A)(i)(V).

Appropriately, it is within the discretion of the district court judge to decide whether or not to bifurcate damages discovery. But to legislate an approach whereby basic information showing the defendant's sales of the accused product is not "core" discovery, when it is sought by nearly every patent owner in nearly every patent case, and is essential to proving the patent owner's entitlement to its requested relief, reflects a troubling bias against all patent owners seeking to enforce their rights against alleged infringers.

> Putting aside the issues of whether the particular proposals might have merit as to some cases if considered by the Judicial Conference, they raise serious concerns regarding the role of an independent judiciary. As explained above, U.S. courts traditionally manage their own calendars and adopt their own case management procedures. The authority to establish and revise the Federal Rules of Civil Procedure has long fallen under the auspices of the United States Supreme Court, which manages the process of reviewing and revising these rules in reliance upon the recommendations of the Judicial Conference of the United States. Indeed, such an effort is currently underway. For example, Judge Jeffrey S. Sutton, Chair of the Committee on Rules of Practice and Procedure of the Judicial Conference, just published a request for "Comments on Proposed Rules and Forms Amendments" on August 15, 2013. This rules package includes proposals to amend Rule 26, Duty to Disclose; General Provisions Governing Discovery; Rules 30 and 31, Depositions by Oral Examination and by Written Questions; Rule 33, Interrogatories to Parties; and Rule 34, Production of Documents – to list just a few. Comments are due February 15, 2014. The 21C believes Congress should offer recommendations to the Judicial Conference and leave the development of specific in-court practices to its deliberations.

VII. Other Legislative Proposals

A. Double Patenting Codification for First Inventor To File Patents

Section 9(c) of the Innovation Act and Section 9(d) of the Leahy-Lee Bill would add a new § 106 to codify the judge-made law of "double patenting" for patents that will be subject to the AIA's new first-inventor-to-file standard for patentability. Under current law, if an inventor files a patent application within 18 months of a prior patent application claiming an obvious invention from the original invention, there is no mechanism in the AIA to disallow issuance of the obvious invention. The double-patenting doctrine ensures that an inventor cannot secure a second valid U.S. patent that has up to 18 months of additional enforceability by simply making slight variations in the claimed inventions in a first patent. In addition, this provision prevents the possibility that these two patents could become separately owned and be separately enforced, creating the potential for separate assignees to each bring an infringement action against an accused infringer.

The provision would codify the concept that, unless two patents from the same inventor could have validly issued had they been sought by two different inventors, the two patents must be owned by the same entity, and must both terminate upon the earliest termination of either patent.

The 21C supports these amendments.

B. Schumer Bill Proposed Changes To Covered Business Method Patent Reviews

Section 18 of the AIA authorizes certain business method patents to be challenged under the early review procedures established by the AIA. The patents singled out for such challenges are those covering methods or apparatus "used in the practice, administration, or management of a financial product or service" and which are not for "technological inventions." The provision is transitional in nature with an eight-year life because it was intended to apply to a very limited class of patents and the time allotted was deemed sufficient to complete the review.

The Schumer Bill (S. 866) would greatly expand the scope of the business method patents which could be challenged under section 18 by broadening the scope to methods or apparatus used in the management of "an enterprise" or of any "product" and would make section 18 permanent by eliminating its eight-year sunset. 21C believes this change would upset the balance of the carefully constructed 2-tier post grant challenge mechanism established under the AIA. Further, we have yet to see any evidence of a need to expand the program or to make it permanent since it became operational last year.

A major goal of the AIA was to improve the quality of patents. The AIA accomplished this goal by adopting a first-inventor-to-file priority system, simplifying and making more objective the criteria for determining patentability, and making the system more transparent by allowing greater public participation in the patent granting and review process.

Certain enhancements to the review process were key to improving the quality of issued patents. A two-pronged approach was developed: a first prong that allows the public to participate in the examination process by bringing relevant information to the attention of examiners, and a second prong that established two post-grant proceedings in which the public could challenge the validity of issued patents. The first post-grant procedure (Post-Grant Review or PGR) allows any member of the public to challenge the validity of a patent granted under the new first-inventor-to-file rules within nine months of grant on any ground that could be raised under paragraph (2) or (3) of section 282(b). The second post-grant procedure (known as Inter Partes Review or IPR) is available to allow the public to challenge the validity of all patents – both patents granted under the previous first-to-invent rules and, following the 9-month eligibility period for PGR[71], patents granted under the new first-inventor-to-file rules. Patents may be challenged in an IPR until their terms expire, but only on the basis of patents and printed publications.

Together, PGR and IPR are intended to fairly balance the interests of patent holders in obtaining quiet title to their patents and the interests of both the public and patent holders in increasing overall patent quality. PGR allows members of the public to promptly challenge questionable patents on all grounds for the first nine months. The limitation of PGRs to the initial nine months after grant is necessary because all issues of invalidity can be raised – patents, printed publications, and public uses and sales anywhere in the world. The uses and sales could involve evidence based upon oral recollections of events which could have occurred years earlier, including activities that took place outside the United States, in an administrative proceeding with a limited opportunity for discovery. This is just one of the reasons why limiting PGRs to the first nine months is crucial to ensure fairness for patentees.

For those situations where a person has no reason to consider challenging a patent until many years after its issuance, IPR is available throughout the life of a patent to challenge its validity on the basis of patents and printed publications, grounds which do not raise the evidentiary issues of public uses and sales.

[71] Or now, immediately for patents not eligible for PGR.

Rationale for Section 18

The transitional program for challenging "financial sector" business method patents was proposed during the consideration of the legislation that resulted in the AIA as a very narrow and limited one. During the consideration of Section 18, it was made clear that this program was to be narrowly focused, and that it was approved in reliance on its narrow scope. As Chairman Leahy explained,

> "There has been some question about the scope of patents that may be subject to the transitional program for covered business method patents, which is section 18 of the AIA. This provision is intended to cover only those business method patents intended to be used in the practice, administration, or management of financial services or products, and not to technologies common in business environments across sectors and that have no particular relation to the financial services sector, such as computers, communications networks, and business software." 157 Cong. Rec. S5441 (daily ed. Sept. 8, 2011)

Chairman Lamar Smith held a similar view:

> "Section 18 would not cover patents related to the manufacture and distribution of machinery to count, sort, and authenticate currency." 157 Cong. Rec. H4497 (daily ed. June 23, 2011)

Senator Kyl was in full agreement, noting that a CBM patent typically "reads on products or services that are particular to or characteristic of financial institutions"; 157 Cong. Rec. S1379 (daily ed. Mar. 8, 2011) As the time, Senator Schumer assured those concerned that this program might become a vehicle to harass patent owners that this provision was narrowly targeted:

> "In response to concerns that earlier versions of the amendment were too broad, we have modified it so it is narrowly targeted. We want to make sure to capture the business method patents which are at the heart of the problem and avoid any collateral consequences." 157 Cong. Rec. S1053 (daily ed. Mar. 1, 2011) (statement of Sen. Charles E. Schumer).

Senator Schumer also provided an exemplary list of the kinds of "financial products or services" implicated by the statute:

> "[E]xtending credit, servicing loans, activities related to extending and accepting credit, leasing of personal or real property, real estate services, appraisals of real or personal property, deposit-taking activities, selling, providing, issuing or accepting stored value or payment instruments, check cashing, collection or processing, financial data processing, administration and processing of benefits, financial fraud detection and prevention, financial advisory or management consulting services, issuing, selling and trading financial instruments and other securities, insurance products and services, collecting, analyzing, maintaining or providing consumer report information or other account information, asset management, trust functions, annuities, securities brokerage, private placement services, investment transactions, and related support services. 157 Cong. Rec. S5432 (daily ed. Sept. 8, 2011)

Accordingly, at the time of its adoption, critics concerned about the breadth of the program were assured that it was and would remain targeted at patents on a narrow class of financial products and services.

The underlying rationale advanced in support of the program was that the growth in business method patents began in 1998 with the U.S. Court of Appeals for the Federal Circuit decision in *State*

Street Bank & Trust Co. v. Signature Financial Group, Inc.[72] Critics claimed that *State Street* launched an avalanche of patent applications seeking protection for common business practices, but clearly the improved search database created by the Office to review such inventions and the *Bilski* decision's[73] narrowing of the subject matter which could be patented as a business method have ended any such avalanche.

Authorizing such previously granted business method patents to be challenged under the new PGR procedures was said to be necessary because these patents granted by the USPTO following the *State Street* decision were questionable because the Office only had access to "patent defeating information" contained in printed patents and publications, and did not have the ability to uncover public uses and sales of such inventions. Furthermore, the new PGR procedures would allow "financial sector" business method patents to be challenged on the basis that the inventions covered were not eligible for patent protection under section 101 of title 35

But It Is Little Used and Nothing Has Changed

Notwithstanding the alleged urgent need to allow challenges to business method patents under the PGR procedures at the time of the consideration of Section 18, just 39 challenges have been filed and only 12 proceedings have been instituted as of July 31, 2013[74] – barely one per month since the section 18 proeedures were available. Moreover, there has been no study or evaluation of the 12 challenges accepted to determine whether or not the expansive procedures of PGR which permit all grounds of patentability to be raised have actually been necessary. It is entirely possible that all of the challenges could have been brought under the IPR procedures which are based only on patents and printed publications. Accordingly, there has been no showing that section 18 has been insufficient to satisfy the purposes for which it was created.

Moreover, no reasons have been given for the need to broaden the definition of the inventions covered in section 18 from methods or corresponding apparatus "used in the practice, administration, or management of a financial product" to a definition expanded to include methods or corresponding apparatus used in the administration or management of "an enterprise" or the practice of a "product." The 21C believes it would increase the opportunities for copyists to harass legitimate patent holders. Absent further study demonstrating that broadening the definition of covered business method patent as proposed in the Schumer Bill (S. 866) is either necessary or effective, the proposed expansion of the definition of the business method patents subject to section 18 challenges would clearly be premature and unfair to inventors and patent owners.

In addition, there is no basis for removing the provision that would sunset section 18 after eight years. By the time the current sunset is reached, all of the patents being granted will be first-inventor-to-file patents and eligible for challenge upon grant under PGR without the need for the transitional provision established by section 18. To extend section 18 indefinitely as proposed in the Schumer Bill would be very prejudicial and unfair to the owners of valuable, new, patent-eligible innovative methods for enhancing commerce and industry because the public will not be encouraged to challenge patents promptly under PGR, but will instead wait and attack later in the life of the patent. This delay will also subject the public to patents which perhaps should not have been granted and would destroy the carefully crafted balance between the PGR and IPR procedures reached during the consideration of the AIA.

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[72] 149 F.3d 1368 (Fed. Cir. Jul. 23, 1998).
[73] *Bilski v. Kappos*, 130 S. Ct. 3218 (2010).
[74] See USPTO Trial Proceeding Statistics at http://www.uspto.gov/ip/boards/bpai/stats/aia_trial_proceedings.pdf.

The Schumer Bill (S. 866) would also be detrimental to U.S. industry seeking to protect its innovations abroad. It would set a precedent to which our trading partners could point when amending their patent laws to add special interest exceptions inimical to U.S. inventors.

And now, there is yet another reason not to tinker with the provisions of Section 18. The Supreme Court's has just granted certiorari in *Alice Corp. Pty. Ltd v. CLS Bank International*[75] on December 6, 2013. The Court's answer to the question presented

> "Whether claims to computer-implemented inventions – including claims to systems and machines, processes, and items of manufacture – are directed to patent-eligible subject matter within the meaning of 35 U.S.C. § 101 as interpreted by this Court.?"

will provide additional guidance on the patent eligibility of business method patents. Congress should not prematurely extend Section 18 to address a problem critics assert exists which, if it ever existed, may be totally mooted by the Court's decision.

For all these reasons, 21C opposes amending Section 18 of the AIA at this time.

C. <u>The Innovation Act's Clarification of Limits on Patent Term Adjustment</u>

Section 9(f) of the Innovation Act codifies for currently pending applications the USPTO's *current practice of excluding any time consumed by a request for continued examination ("RCE") from* the calculation of patent term adjustment under 35 U.S.C. §154(b)(1)(B). The amendment would overturn the November 1, 2012 decision of Judge Ellis in the EDVA in *Exelixis, Inc. v. Kappos* I[76] and codify the January 28, 2013 decision of Judge Brinkema, also in the EDVA, in *Exelixis, Inc. v. Kappos* II.[77] In *Exelixis* I, Judge Ellis held that "the plain and unambiguous language of subparagraph (B) requires that the time devoted to an RCE tolls the running of the three year clock if the RCE is filed within the three year period" but has "no impact on PTA if filed after the three year deadline has passed." Judge Brinkema in *Exelixis* II concluded that "the PTO's regulation denying PTA for the time period during which an RCE is under consideration, regardless of when the RCE is filed, is a reasonable implementation of the statute."

Patent term adjustments are critically important to the inventor community. At the time the United States entered the GATT treaty, inventors accepted that their future patents would expire 20 years from their filing date, rather than 17 years from their issue date on the understanding that the terms of these patents would be adjusted to recover any time lost if the USPTO's examination lasted more than 3 years. In recent years, the duration of USPTO examination has substantially increased, meaning that many patents, through no fault of the patent applicants, are entitled to adjustments to extend their patent terms.

A practical reality in the prosecution of patents before the USPTO is that agreement is not always reached in the exchanges that take place between patent examiners and applicants during the initial portion of the examination that is covered as part of the original filing fee paid. To allow for additional consideration and exchanges, USPTO rules provide that an additional fee may be paid together with a

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[75] Supreme Court Docket No. 13-298, opinion below, *CLS Bank International v. Alice Corp. Pty. Ltd.*, 717 F.3d 1269 (Fed. Cir. 2013)(en banc)(per curiam), replacing the vacated panel opinion, 685 F.3d 1341 (Fed. Cir. 2011). See http://www.supremecourt.gov/Search.aspx?FileName=/docketfiles/13-298.htm and http://www.supremecourt.gov/qp/13-00298qp.pdf.

[76] *Exelixis, Inc. v. Kappos*, I 12cv96 (E.D. Va. Nov. 1, 2012).

[77] *Exelixis, Inc. v. Kappos*, II 12cv574 (LMB/TRJ) (E.D. Va. Jan. 28, 2013).

request for continued examination, so that the examination may progress further, and hopefully reach a mutually acceptable conclusion. Just as with the negotiation of any agreement, it is usually difficult to assign fault when agreement is reached later rather than sooner. In considering whether an applicant would be credited with pendency towards a patent term adjustment, Judge Ellis in *Exelixis* I appropriately interpreted the statute as allowing for such tolling, provided the RCE was made within the first three years. This is an entirely appropriate outcome that should not be disturbed by statute.

In any event, Congress should not intervene in overruling Exelixis I while the matter is still in the courts. Over fifty civil cases have been filed in the EDVA seeking increases in PTA. Exelixis I has been appealed to the Federal Circuit and it is anticipated that Exelixis II will also be appealed, be joined with Exelixis I, and that a decision will be reached later this year. Given the pending appeal(s) of this question to the Federal Circuit, it would clearly be premature to pursue legislation at this time.

D. The Innovation Act's Clarification of Jurisdiction

Section 9(f) of the Innovation Act would have Congress find that the Federal interest in preventing inconsistent final judicial determinations as to the legal force or effect of the claims in a patent presents a substantial Federal issue that is important to the Federal system as a whole.

As we understand it, this "finding" is intended to address a concern that the Supreme Court's recent decision in Gunn v. Minton 78 has cast doubt over whether state law actions, such as actions for breach of a licensing agreement in which liability turns on whether a party has sold products that infringe a patent,79 continue to "arise under" federal patent law. The Court's opinion in Gunn notes that "arising under" jurisdiction exists when the validity or construction of a federal statute is in question, when a case's resolution will affect numerous other federal cases, or when a case affects the federal government.80 If Gunn's enumeration of "arising under" factors is thus treated as exclusive listing of such factors, "arising under" jurisdiction could be deemed to no longer extend to the case merely threatening inconsistent determinations as to the effect of a patent.

Although the Federal Circuit has recently suggested that its past cases finding "arising under" jurisdiction for patent-related state-law business disparagement and injurious falsehood claims "may well have survived the Supreme Court's decision in Gunn,"81 there is concern that the matter remains unresolved in the Federal Circuit. Moreover, some regional courts of appeals have begun to apply Gunn broadly, effectively treating Gunn's partial enumeration of the factors that can render a patent issue "substantial" for purposes of arising under jurisdiction as an exclusive list.82

It is important that "arising under" jurisdiction continue to extend to these types of cases. If it were otherwise, a patent owner could successfully prosecute an infringement action in federal court with respect to a product, yet simultaneously be held liable for "business disparagement" in state court for asserting that the same product infringes the same patent. Similarly, a licensee manufacturer could successfully assert a defense of noninfringement in federal court, yet be held liable for breach of contract in state court with respect to the same patent and the same product. One of the principal reasons for creating the Federal Circuit in 1982 was to prevent inconsistent adjudications as to the legal effect of a

[78] 133 S. Ct. 1059 (Feb. 20, 2013).
[79] *Scherbatskoy v. Halliburton Co.*, 125 F.3d 288 (Fifth Cir. 1997). Other such causes of action include state-law actions for business disparagement, unfair competition, injurious falsehoods, or interference with prospective economic advantage in which liability depends on whether a patent is infringed by a product, or whether a patent is invalid or unenforceable.
[80] *Gunn*, 133 S.Ct. at 1066-67.
[81] *Forrester Envntl. Servs., Inc. v. Wheelabrator Techs., Inc.*, 715 F.3d 1329 (Fed. Cir. 2013).
[82] *MDS (Canada) Inc. v. Rad Source Technologies, Inc.*, 720 F.3d 833, 842-43 (11th Cir. 2013).

patent – that is, to avoid situations where one circuit finds a patent valid and infringed and another circuit finds the opposite. But a broad reading of Gunn threatens this very type of result.

Ed Reines and Professor Hellman have proposed that, in lieu of the language now contained in section 9(f), the section would add a new subsection to 28 U.S.C. § 1338 that would read as follows:

> (d) For purposes of this section, section 1454, and section 1295(a), a claim of legal malpractice that necessarily raises a disputed question of patent law shall be deemed to arise under an Act of Congress relating to patents.

The 21C generally agrees with what we understand to be the intent of Section 9(f), but we believe the provision would be improved if more directly worded to express its purpose.

VIII. Conclusion

The Coalition for 21st Century Patent Reform appreciates the invitation to provide our views on these and other patent reform proposals, and looks forward to working with Members of the Committee as it continues to consider these issues.

Prepared Statement of Steve Bossone, Ph.D., Vice President, Intellectual Property, Alnylam Pharmaceuticals, Cambridge, Massachusetts

Testimony of Steve Bossone, Ph.D.

To the United States Senate Committee on the Judiciary

Committee Hearing on "Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse"

December 17, 2013, 10:00 AM, Dirksen Senate Office Building, Room 226

Summary of Testimony

My long experience in biotechnology research and patenting, coupled with Alnylam's remarkable journey as a pioneer in this field, has taught me three essential truths relevant to today's hearing. First, the life sciences ecosystem of university research, technology transfer to the private sector, venture capital funding, and industry collaborations is a lengthy, expensive, and high-risk enterprise. Second, changes that create uncertainty regarding the strength and enforceability of patents undermine both the ecosystem and the job creation generated by thousands of companies such as ours. And, third, harming this sensitive ecosystem has real health care consequences – millions of patients suffering from life-threatening and debilitating diseases are counting on these partnerships to produce the next wave of cures and therapies for so many currently unmet medical needs.

So I am not here to defend or attack the abusive patent enforcement practices of so-called "patent trolls." Indeed, certain targeted reforms – such as those embodied in Chairman Leahy's recently introduced Patent Transparency and Improvement Act – likely will help small businesses such as Alnylam by protecting us against bad faith patent enforcement by others. But I am here today primarily because, in their well-intentioned efforts to curb such abuses, many other proponents of patent litigation reform are rushing ahead with sweeping ideas to remake the patent litigation system in fundamental and untested ways, without sufficient consideration of the impact of those changes on the vast majority of patent owners and licensees who engage in legitimate and good faith patent licensing and enforcement activities. This concern is especially acute for critically-important fields such as biotechnology, which is largely made up of small, investment-intensive businesses that are at the cutting-edge of innovation in America. Thus, our experience is highly relevant to the subject of today's hearing.

Proposals that would routinely and indiscriminately complicate, delay, and make more risky and expensive the efforts of all patent owners or licensees to protect and enforce their patents would do serious harm to the life sciences ecosystem in particular. In this regard, I commend to the Committee's consideration the excellent summary of views on patent litigation reform submitted by our partners in academia, who conduct the basic research and discovery that fuel the biotechnology enterprise, as well as the views of our partners in the venture capital community, without whom those inventions would never be developed into beneficial and often life-saving products for millions of our families, friends, and neighbors. We are united in our desire to support targeted reforms that will protect all of us

from unscrupulous patent assertion activities that serve only to raise the cost of doing business, and thus the cost of our products to consumers. But we also are united in the firm belief that, if we do not go about such reforms in the right way that protects patent holders, the long-term costs to the entire innovation ecosystem and overall American job creation will be far greater than any short-term benefits that might be derived by one or two sectors of our economy.

I commend Chairman Leahy for beginning this process with this hearing to give Senators a variety of stakeholder perspectives. I urge the Committee and the full Senate to proceed thoughtfully and deliberately in this complex area, and to focus on those reforms that would clearly target abusive behavior without undermining the ability of small, investment-intensive businesses to be able to protect and enforce their key assets – their patents – in a timely and efficient manner. The Chairman's America Invents Act of 2011 is a model for a balanced approach that ultimately benefitted the vast majority of patent stakeholders and enhanced the most innovative economy in the world.

Introduction

Chairman Leahy, Ranking Member Grassley, members of the Judiciary Committee, thank you for inviting me today to testify on the subject of protecting small businesses and promoting innovation through further patent reform.

By way of personal introduction, I am vice president for intellectual property for Alnylam Pharmaceuticals in Boston MA. I am a registered patent attorney and have over 18 years of experience in the biotechnology field, beginning my career as a bench scientist at Millennium Pharmaceuticals. For the past 14 years, I have been part of the intellectual property department of companies ranging from a small privately held start-up company to a large multinational biotechnology company with sales in excess of $5 billion annually, starting as a technology specialist up through my current position. While I speak today on behalf of Alnylam, my views are informed by the shared corporate experience of many colleagues in the biotechnology industry from companies both large and small. Alnylam is not unique in its views on the importance of intellectual property to the biotech business model, but my company has been recognized as a compelling example of how intellectual property can be used to fund R&D efforts and accelerate drug development.[1]

Alnylam is an innovator company developing, protecting, and actively practicing its intellectual property. So I speak today not on behalf of patent monetization entities or on behalf of those who have been the target of their patent enforcement efforts, but to discuss the collateral impact of pending legislation on *investment-intensive* innovation, especially in the life sciences sector. It is critical that legislation addressing patent litigation balance the need to preserve the strength and enforceability of patents to foster innovation with protection from unfair patent enforcement practices.

Background

[1] Shih, Willy C., and Sen Chai. "Alnylam Pharmaceuticals: Building Value from the IP Estate". Harvard Business School Case 611-009, September 2010. (Revised July 2013)

Alnylam was founded in 2002 to develop human therapeutics based on the Nobel Prize-winning discovery termed RNA interference or RNAi, first published in 1998 by Andrew Fire and Craig Mello based on their work in the nematode worm. RNAi is a biological process in which double stranded RNA (dsRNA) inhibits gene expression. The implications of this discovery, if it existed in the human, had the potential to transform drug development as it meant that one could design a dsRNA to inhibit in a specific manner any gene. The founding scientists of Alnylam extended the original work of Fire and Mello and showed that RNAi did indeed exist in mammals. They then designed synthetic dsRNA molecules and showed how these had drug-like properties and the potential to be used as human therapeutics. One benefit of this technology over traditional small molecule drugs or other biologics is the ability to target any gene in the body, and thus design therapeutics for diseases that are not treatable by previously existing technology. To protect the invention of this entirely new class of potential drugs, the Alnylam scientists filed patent applications and founded the company with the goal to further develop this remarkable invention into commercial products to benefit patients. Very early on, Alnylam's management sought to identify and license any available intellectual property, as well as to continue filing patents on inventions made at Alnylam to establish a leadership position on RNAi therapeutics and intellectual property. This strategy proved successful in that Alnylam was able to leverage this leadership position in forming major alliances with leading companies including Merck, Medtronic, Novartis, Biogen Idec, Roche, Takeda, Kyowa Hakko Kirin, Cubist, Ascletis, Monsanto, Genzyme, and The Medicines Company. The revenue obtained from licensing the intellectual property and know-how developed at Alnylam was used to fund the company's research and development efforts and accelerate our efforts to bring RNAi therapeutics to patients in need. A mere four years after its founding and only six years after RNAi was discovered in the worm, Alnylam conducted its first clinical trial in healthy volunteers. Its second clinical trial began in 2009 with a dsRNA designed to target two key genes in the pathway of liver cancer, and was conducted in volunteers with advanced liver cancer. Multiple individuals achieved stable disease and one had a complete response.

Currently, a little more than a decade after the company's founding, Alnylam has conducted nine clinical trials with 11 programs in clinical development, with the most advanced, an investigational candidate called patisiran for the treatment of associated fatal neurologic amyloidosis, in a pivotal Phase III clinical trial. The Phase I results for patisiran have been published in the New England Journal of Medicine.[2] In addition, Alnylam has active research programs in, among other areas, hemophilia, cardiac disease, complement-mediated diseases, and liver cancers. To enable development and protect this clinical pipeline, the patent department manages a portfolio of over 1800 active patent applications, with over 700 granted patents world-wide.

This remarkable achievement by Alnylam was enabled by our ability to raise large amounts of private capital to carry on research and conduct clinical trials. Research and development within the biotechnology industry comes at a very high cost, and every idea that is funded comes with a much greater risk of failure than success. Investment thus is predicated on an expected return in the form of patent-protected products or services that ultimately

[2] Coelho *et al.*, *N Engl J Med* 2013;369:819-29

reach the market. Alnylam does not have a product on the market yet, nor a steady source of revenue, and continues to spend tens of millions of dollars on R&D annually. The biotechnology industry as a whole is responsible for well more than 20 billion dollars of annual research investment, and provides employment to millions of individuals nationwide. Virtually all of this investment is through private funding.[3] Developing a single therapy requires an average investment of $1.2 billion, and the clinical testing period alone consumes more than 8 years on average.[4]

Such investments are not only expensive; they are risky. For every successful biopharmaceutical product, thousands of candidates are designed, screened, and rejected after significant investments have been made. The chances that a biopharmaceutical medicine will advance from the laboratory bench to the hospital bedside are approximately one in 5,000.[5] Only a small minority of drugs even advance to human clinical trials, and most of those will never ultimately reach the market. For example, at the time human clinical testing begins, the odds that a biopharmaceutical compound will eventually receive FDA approval are less than one-third.[6]

Because such risks and costs cannot usually be borne by any one entity alone, biotech drug development depends heavily on licensing, partnering, and access to capital. Patents allow biotech inventions of great societal value to be passed or shared among parties best suited to unlock their potential at any given stage of development and commercialization – each contributing their part, each sharing the risk of failure, each increasing the odds that a product eventually reaches patients.

Alnylam is an example of a company that has benefitted from having valid and enforceable patents and has used these patents in a responsible, ethical, and strategic manner to accelerate the development of RNAi therapeutics for patients in need. If these patents can be invalidated under overly broad criteria, or if the ability to enforce them becomes limited due to an incredibly high bar to filing a lawsuit or excessive delays in prosecuting a case through the courts, third parties would be less likely to invest in or license the technology, and a major source of Alnylam's R&D funding would dry up. The result – patients waiting for the next new cure or treatment will have to wait longer, or may not ever get it at all.

For these reasons, currently-pending patent litigation reform legislation is highly relevant to the biotech business model. A small or mid-sized biotech company that today decides to begin development of, for example, an Alzheimer's cure must look a decade or more into

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[3] Moving Research from the Bench to the Bedside: Hearings Before the Subcomm. on Health of the House Comm. on Energy and Commerce, 108th Cong., 1st Sess. 47 (2003) (testimony of Phylliss Gardner, M.D) (http://archives.energycommerce.house.gov/reparchives/108/Hearings/07102003hearing990/Gardner1579.htm) ("The biotechnology industry is the most research and development-intensive and capital-focused industry in the world," noting that 98 percent of research and development investment comes from the private sector).

[4] Joseph A. Di Masi and Henry G. Grabowski, The Cost of Biopharmaceutical R & D: Is Biotech Different? Manage. Decis. Econ. 28: 469-479, 2007)(hereafter: "Di Masi and Grabowski").

[5] Secretary of Health and Human Services Tommy G. Thompson, Remarks at the Milken Institute's Global Conference (Apr. 26, 2004), available at www.hhs.gov/news/speech/2004/040426.html

[6] Di Masi and Grabowski, 472-3

the future. Long-term financial commitments will be required; several hundred million dollars will need to be raised; and development partnerships will need to be secured in a situation where the cost of capital is high and the odds of ultimate success are small. Because investment-intensive businesses can tolerate only so much risk, even moderate additional uncertainty can cause business decisions to tip against developing a high-risk, but potentially highly-beneficial, product. This is not an academic consideration. Every biotech executive has stories to tell about promising experimental compounds that had very favorable medicinal properties, but were never developed because their patent protection was too uncertain. In this way, the injection of additional systemic uncertainty by, for example, making the enforceability of patents against infringers more uncertain can negatively affect which new cures and treatments may become available a decade from now.

The average American today can realistically hope to live into her or his 8th decade. At retirement, one out of five Americans can expect to develop Alzheimer's disease during her or his remaining years. The risk of developing cancer is even greater. While much has been said about inefficiencies in the patent system that drive up business costs and prices for consumers in some sectors today, we must keep in mind that that same patent system encourages risk-taking and long-term investment in potential solutions for the biggest problems facing our world and the generations to come: disease, hunger, and pollution. Great care must be taken to ensure that we do not focus too heavily on current complaints about abuses in the patent system without appreciating the system's longer-term benefits to society.

In this regard, it is important that we do not overlook a recent nonpartisan Government Accountability Office (GAO) report[7] that found that patent assertion entities bring less than 20 percent of patent litigation cases while operating companies bring 68 percent of patent litigation. Any solutions proposed by this Congress must not impede the vast majority of patent owners from trying to enforce their legitimate patents in a legitimate way. With this in mind, I would like to provide the following views on specific legislation currently under consideration.

Discussion of Legislative Provisions Currently under Consideration

As the title of this hearing indicates, the most stridently-voiced concerns in the current round of patent reform involve the need to protect small businesses, end-users, and others who do not have the resources or the means to defend themselves from unfair or misdirected patent enforcement efforts by patent assertion entities, or "trolls." Alnylam believes that the Patent Transparency and Improvement Act (S. 1720), introduced by Chairman Leahy, contains multiple, targeted provisions that would effectively advance the goal of protecting small businesses from abusive patent enforcement practices, while at the same time sustaining the ability of innovators to rely on their patents for long-term business and investment decisions. Specifically, S. 1720 would

[7] Government Accountability Office report 13-465, August 2013, *Assessing Factors That Affect Patent Infringement Litigation Could Help Improve Patent Quality.*

- bring the indiscriminate, widespread sending of bad-faith demand letters within the ambit of the Federal Trade Commission's enforcement authority if it qualifies as an unfair or deceptive trade practice;
- advance transparency of patent enforcement in litigation by leveraging familiar "interested party" disclosure obligations that are already in use under certain local court rules;
- provide for "customer stays" that would make it easier for willing manufacturers of allegedly infringing products to join infringement suits against resellers or end-users of their products, thereby providing their customers with relief from litigation pressure.

While modifications to these provisions will be needed to guard against opportunities for misuse and unintended consequences,[8] S. 1720 represents a targeted patent enforcement reform package that, in comparison with other bills, is most likely to offer specific relief to small businesses that have been unfairly targeted by patent assertion entities, and that presents much less risk for systemic negative impact on innovative businesses in capital-intensive R&D areas such as biotechnology.

In contrast to the targeted proposals of S. 1720, other pending bills propose a wide range of more far-reaching general litigation reforms, such as

- mandatory stays of discovery pending patent claim construction;
- new impleader authority under which additional parties could be joined to the litigation as unwilling co-plaintiffs;
- cost and fee award provisions under which "loser pays" awards could be recovered against third parties;
- new requirements under which complaints in patent cases would have to set forth vastly increased amounts of detailed information;
- "requester pays" proposals providing for upfront payment of the costs of electronic discovery to the producing party;
- provisions for singling out patents on software-implemented technologies for particularly unfavorable treatment by subjecting them to harsh administrative invalidation proceedings in the PTO; and
- authority to require plaintiffs to post litigation bonds at the inception of district court litigation.

Many of these provisions represent stark departures from the normal civil litigation rules that apply to other commercial litigation under the U.S. system. While this Committee would do well to consider carefully the wisdom of singling out patent litigation for such an astonishing array of special rules found in no other area of civil litigation, it would be even

[8] For example, the "customer stay" provision of S. 1720 currently appears drafted to benefit accused infringers at every level of the manufacturing and distribution chain, contrary to its declared goal of protecting ends-users and retailers of infringing products. As written, it would allow even manufacturers of infringing products to deflect infringement suits towards their parts suppliers, thereby inviting piecemeal adjudication and systematic litigation delays in conventional infringement cases having nothing to do with end users, retailers, or "patent trolls." Additional amendments should provide more clarity around the class of intended beneficiaries, the scope of the stay, and the circumstances under which a litigation stay would be inappropriate. S. 1720's "demand letter" provisions likewise need minor amendments to ensure that legitimate licensing communications remain protected, and to guard against non-uniformity and interference with the statutory scheme due to state enforcement efforts.

more important to consider their impact on the intended beneficiaries of these reform proposals. Litigation reform, by its very nature, most benefits those who have the means and the will to litigate. In my opinion, large businesses with well-funded litigation budgets are most likely to leverage these litigation reform provisions to their advantage. At the same time, it is questionable whether small businesses that need protection from patent troll abuse would benefit from sophisticated new litigation maneuvers – such as impleader practice and extensive early motion practice – that would be enabled by the various pending litigation reform proposals. Patent litigation is already known as a "game of kings" and surely the pending litigation reform proposals would make it even more so. Further, in their current form these litigation reform provisions will almost uniformly work against patentees of all stripes. In an effort to erect barriers against patent-asserting entities, these provisions would systematically raise the cost and risk of patent enforcement for all patentees, with disproportionately greater negative impact on smaller, poorly-funded patent holders who must defend their businesses against patent infringement.

The risk of unintended negative consequences on small-business innovation can be illustrated by consideration of specific pending provisions:

Enhanced pleading requirements: H.R. 3309, and to an even greater extent S. 1013, would require that complaints, and counter- or cross-claims, for patent infringement include a number of new information items to be considered legally sufficient. The level of required detail is high and would require plaintiffs to fill out a potentially very large matrix of information: each asserted patent; each claim for each patent; each accused product for each claim; for each accused product an explanation of how each claim element of each claim meets each feature of each accused product, and the like. For each allegation of indirect infringement, a description of the direct infringement, the identity of known direct infringers, and a description of the acts constituting indirect infringement would need to be provided. In addition, a number of other information items such as licensing rights, licensing obligations, the identity of co-owners, assignees, and exclusive licensees, and other parties with a financial interest in the matter, would need to be disclosed. Both bills would direct the Supreme Court to amend Form 18, used for filing infringement complaints, accordingly.

Few stakeholders would disagree that the pleading requirements in patent cases should be enhanced to conform with the standards generally applicable in civil litigation. However, the now-proposed amount of information and the specificity with which it would need to be pleaded go far beyond what is necessary to support a patentee's claim for relief and to provide the defendant fair and reasonable notice of the infringement allegation. To legislate pleading requirements at such a high level of specificity invites litigation over the sufficiency of the patentee's efforts even in instances where the parties fully understand the factual basis for the infringement allegations. Instead of streamlining the litigation process, the proposed provisions of S. 1013 and H.R. 3309 would enable accused infringers to litigate whether otherwise sufficient pleading-stage information was nevertheless incomplete; would fuel disputes over whether information was or was not readily accessible and whether the patentee tried hard enough to obtain it; and would empower well-funded defendants to engage in extensive motion practice and "churn" to prevent the litigation from advancing to even its preliminary stages.

The provisions also lack balance and reciprocity: responsive pleadings by alleged infringers often contain counterclaims and affirmative defenses that likewise can fail to provide sufficient notice to the other party (the patentee) of any underlying factual allegations. But this practice by alleged infringers would not be addressed under the provisions of H.R. 3309 or S. 1013; only patentees are singled out for additional, burdensome requirements.

This Committee should be mindful that patentees do not always have access to the information needed to plead at the outset, with the required specificity, how the accused infringer's conduct precisely infringes which patent claim. This consideration is particularly relevant to biotechnology, where, for example, a competitor's sophisticated biomanufacturing process, or the use of precursor molecules or proprietary production cell lines, are simply not accessible to a patent owner without some discovery, even if there is good reason to believe that a patent is being infringed.

Accordingly, I do not believe that such high levels of additional pleading specificity offer a targeted solution that would protect small businesses from abusive patent assertion on the one hand, while at the same time enabling them to protect their own businesses against patent infringement on the other hand. To be sure, some additional information beyond what is currently required under Form 18 of the Federal Rules of Civil Procedure may be beneficial for inclusion in model complaints for patent infringement, so as to convey reasonably detailed information on which the infringement allegation is based. The level of detail should be adequate to allow parties and judges to decide whether there is a sufficient basis for a lawsuit. Indeed, if the complaint sets forth sufficiently detailed grounds why and how at least one patent claim is believed to be infringed, then good grounds for a lawsuit exist. There is no need to additionally require the inclusion of dozens of alternative grounds, or to litigate the sufficiency of such alternative grounds, when it is already clear that there is "enough" for a lawsuit to proceed. To require otherwise would impose undue burden on the patent owner to plead all details of its case before any discovery has commenced.

It would be preferable to amend the pending "enhanced pleading" provisions in ways that ensure that the judiciary would play a greater role, and assume more responsibility, for developing the applicable pleading standards in a balanced manner, as part of its traditional rulemaking function. Any final approach also would need to ensure that existing statutory schemes governing certain biopharmaceutical patent litigation are not covered by these new rules, in order to avoid conflicts with the highly detailed nature of the statutory rules already in place for such litigation.

"Interested parties": S. 1013 and H.R. 3309 contain similar definitions for "interested parties" that cover anyone who has an ownership interest in the patent, or is an exclusive licensee, has enforcement rights, or who has a direct financial interest in the outcome of the litigation, including a right to receive royalties or part of a damages award. Such "interested parties" can be impleaded into the lawsuit and held liable for the winning party's costs, expenses and attorney fees.

There is nothing remarkable about the proposition that litigants should identify to the court those who have a financial interest in the litigation or the litigated assets. Under many local

court rules, judges require such information today, as they need to know when to recuse themselves from a case, or to take other action to avoid conflicts of interest. But there is a real question whether the pending "real party in interest" provisions go too far when they are being leveraged to join third parties into the lawsuit as unwilling plaintiffs, or to subject them to liability for litigation conduct that is beyond their control.

Within the context of both H.R. 3309 and S. 1013, the concepts of "real party in interest," "loser pays," and "impleader" are all connected, and should be appraised together. The cost award and recovery provisions of both bills constitute a true "loser pays" system: as a default, the nonprevailing party must pay the winner's reasonable costs and expenses, and the burden will be on the loser to explain why it should not have to pay. The nonprevailing party can meet this burden by a showing of special circumstances making an award unjust, or by showing that its position was "objectively reasonable and substantially justified."[9] Among its proponents there is an assumption that this standard will be easy to meet, and that fee and cost awards will therefore occur only in truly frivolous cases. In the same vein, it has been said that this standard is not unprecedented – it is the same standard that has been in place since 1980 in the Federal Equal Access to Justice Act.

Despite such assurances, there is reason to wonder whether cost and fee awards would not occur more often than expected if this standard were transposed to patent litigation.[10] At a minimum, its predicted operation is very unclear: unlike many other tort cases, patent cases often do not have clear winners and losers; each party may prevail on some issues and lose on others,[11] such that it may be very unpredictable how fee awards would be assessed under such a system.

The proposed "loser pays" provisions also use strikingly broad language in defining the classes of civil actions to which they would apply, and are in no way limited to patent infringement actions under title 35 or section 337 investigations in the International Trade Commission under title 19. For example, by their plain terms the provisions describe claimants who neither enforce, attack, nor defend against patents – such as a disappointed patent applicant who obtains judicial relief against the U.S. Patent and Trademark Office

[9] The applicable, similar standard in H.R. 3309 is: "reasonably justified in law and fact."

[10] In practice, the FEAJA standard may be more often met than one might assume. The Veteran's Administration, for example, estimates that around 45% of all cases before the Court of Veteran's Appeals result in a FEAJA attorney fee and cost award against the Government. Social Security cases in which the claimant prevails result in awards over 40% of the time. The Supreme Court has noted that these are "hardly vanishing odds of success for an attorney deciding whether to take a client's case" (Astrue v. Ratliff, 130 S. Ct. 2521 (2010), at n. 2, Sotomayor, J., concurring). It also should be noted that the EAJA's fee recovery provisions are only available to small entity, nonprofit, or non-wealthy individual claimants, whereas H.R. 3309 and S.1013 would let all prevailing parties recover regardless of their wealth. Moreover, the EAJA caps recoverable attorney fees at a default of $125/hour, whereas neither H.R. 3309 nor S.1013 provide such caps - or other protection - against runaway costs.

[11] To give a simple example: assume a patentee sues a competitor for patent infringement. The competitor alleges that the patent is (i) invalid, (ii) unenforceable, and (iii) not infringed. The court rules *against* the competitor on the question of patent validity and enforceability, but agrees that the patent is not infringed. In this scenario, the competitor ultimately "prevailed" because it escaped liability, but did not "prevail" in its attempt at striking down the patent. Who reimburses whose litigation costs? Does the competitor reimburse the patentee for defending the patent? Or does the patentee pay the competitor for unsuccessfully attacking the patent? Or do both parties reimburse each other for portions of each other's cases?

(PTO), or an academic inventor who seeks an accounting of royalties from a non-profit university under the Bayh-Dole Act. Much litigation over the applicability of the provision could, and should, be avoided by narrower legislative language.

In addition, under H.R. 3309's provision, patentees (but not defendant-counterclaimants) would be penalized for extending a covenant not to sue after an answer has been filed in the lawsuit, by deeming such a patentee to be a non-prevailing party for purposes of recovering the defendant's attorney fees and costs. Doing so would create disincentives for the private resolution of patent litigation. There also are many legitimate reasons why either party to a patent infringement case may extend a covenant not to sue at some point in the litigation. It remains unclear why covenants not to sue should be disfavored in such a blanket fashion.

Impleader of interested parties: As currently drafted, both H.R. 3309 and S. 1013 provide new impleader authority under which the court "shall" grant a defendant's motion to join "interested" third parties as plaintiffs. These impleader provisions are closely linked to the bills' litigation cost-shifting provisions, and are intended to ensure that somebody will be responsible for paying the winning party's litigation expenses if the losing party cannot or will not pay. Both bills seem to be targeted at ensuring that only winning defendants will be reimbursed, as there are no comparable provisions under which winning patentees can join potential payors on the defendant's side.

The procedures for joining third parties as plaintiffs to the litigation differ between the two bills. S. 1013 provides that the defending party can at any time join an interested party by showing that the plaintiff's interest in "any patent identified in the complaint, including a claim asserted in the complaint, is limited primarily to asserting any such patent claim in litigation." While this definition is intended to capture only "patent troll" lawsuits, it could easily apply to conventional litigation between brick-and-mortar businesses:

- For example, if a complaint asserts 20 claims in three patents, and the defendant makes the requisite showing with respect to one of these claims, the litigation would become subject to the impleader provision. This would be the case even if the remaining claims in the litigation involve patent-infringing products that compete with the patentee's own products. Moreover, it is not uncommon, especially among start-up businesses, to hold patents on "unfunded" technology. For example, a company may start out with two in-licensed portfolios of patents, and proceed with R&D work on one of them while seeking funding to begin development of the other. If a patent on such unfunded technology is infringed, even a brick-and-mortar research company that sees its chances for future funding evaporate if it does not defend itself against ongoing infringement could be deemed indistinguishable from a patent-assertion-entity under the definition in S. 1013.

The business and litigation ramifications of joining unwilling "interested" third parties as co-plaintiffs on the patentee's side of the lawsuit are significant. As described above, S. 1013 defines an interested party as anyone who has an ownership interest in the asserted patent, is an assignee, or an exclusive licensee, or who has a direct financial interest in the outcome

of the litigation, including the right to receive proceeds from the litigation. Under this definition, university licensors or business partners who have sublicensed the patent to the plaintiff could be impleaded into the litigation at the infringer's option, and face potential liability for the defendant's litigation costs. While university-licensors today often appear as co-plaintiffs in patent cases *pro forma*, the prospect of potentially having to pay part or all of the infringer's defense costs is an entirely new proposition for academic institutions. This is especially problematic when the university-licensor, as is common, does not actually have control over the litigation.

Because they would now face potential liability for the patentee's litigation decisions, impleaded university-patent owners or corporate licensors likely would have to hire their own legal teams to participate in the litigation, complicating and raising the costs of patent litigation for all parties. Existing and future licensing agreements would need to be restructured to insulate licensors or business partners from potential liability in these circumstances, or to provide for indemnification. The more risk-averse parties to patent licensing agreements will want to retain enforcement rights or the right to veto patent enforcement decisions and litigation strategies – or worse, may decide against entering into these transactions at all.

The net result would be that, on the plaintiff's side, S. 1013's joinder provision would create many additional encumbrances for legitimate small innovators that would make partnering and collaborations, as well as the enforcement of patents, more expensive and more complicated. Defendants, on the other hand, would have opportunities for ancillary joinder litigation before the case can proceed to the merits. Such delays would be compounded if S. 1013's impleader provision for interested parties were stacked with the "covered manufacturer" stay provision in S. 1720, thus providing defendants multiple opportunities to engage in front-end litigation about who should be in the lawsuit before the lawsuit can even get underway.

Given their potential negative impact on the businesses of legitimate patent-owning innovators, the justifications for creating such new impleader provisions for "interested parties" deserves to be questioned. If these provisions are being proposed to ensure that someone will be responsible for reimbursing the winner's litigation costs, this Committee should keep in mind that S. 1013 would allow unwilling "interested parties" to be impleaded before it is known that the patentee lost the case, before it is known that the patentee acted unreasonably and without justification, and before it is known that the patentee cannot or will not reimburse the defendant's litigation costs. Not all patentees lose, not all act unreasonably, and not all are penniless. S. 1013 would create a great deal of litigation over who should be in a patent case at its inception when, after all is said and done, it likely will not have been necessary to do so.[12]

[12] If, on the other hand, the reason for impleading "interested parties" is to address "privateering" – a practice whereby large companies reportedly license or assign their patents to other entities that then assert these patents as a proxy for the large company – it is unclear what the impleader provision would accomplish in such instances. For example, it has been said that large companies assert patents through proxies in this way to insulate themselves from counterclaims – but if good grounds for a meritorious counterclaim exist,it should almost certainly be possible to sue such a company separately. At any rate, under U.S. corporate law, it is perfectly common and permissible to establish corporate affiliates for the purpose of isolating assets or liabilities, and that holds true for

Impleader and cost recovery from "interested parties" under H.R. 3309: The process by which "loser pays" awards can be recovered from third parties under H.R. 3309 differs from that described above for S. 1013. First, under section 4 of H.R. 3309, the plaintiff must disclose the identity of "interested parties" at the inception of the litigation. Then, the defendant can provide these interested parties notice that they could be impleaded and that the defendant's litigation expenses could be recovered from them if the court confirms that they are an interested party. The third-party recipient of such a notice then has the option to renounce, within 30 days, any and all ownership, right, or direct financial interest in the patent – or otherwise face the risk of being joined to the action at the end to pay the winner's bills. Later, if the plaintiff loses and is subjected to a "loser pays" award that it cannot satisfy, the prevailing defendant can make a showing that the plaintiff had "no substantial interest in the subject matter at issue other than asserting such patent claim in litigation." If this showing is met, the court "shall" grant a motion to implead the third party that was earlier notified. The award can then be made recoverable against the impleaded interested party.

The impleader provision of H.R. 3309 is both byzantine and problematic. A third party would be identified at the beginning of a lawsuit with no input from that party, and would receive a notice of potential liability with an invitation to renounce all interest in the patent at that time. Later, after the plaintiff loses the case, the third party could be impleaded "after the fact" and made responsible for meeting unsatisfied "loser pays" awards that are premised on litigation conduct over which the third party may have had no control. The required showing of "no substantial interest in the subject matter at issue other than asserting such patent claim in litigation" is unintelligible and, like the parallel definition in S. 1013, does not clearly limit the provision to litigation that was brought by patent assertion entities, but could capture R&D businesses that have to enforce patents they were not yet able to develop or commercialize. Like the provision in S. 1013, the impleader provision of H.R. 3309 could make arm's-length business partners of the patentee, such as university licensors, venture capital investors, and other entities liable for fee awards *even if they have no control over the litigation*, thereby injecting uncertainty and complication into the legitimate licensing and partnering activities of research and development-intensive companies that must defend their businesses against patent infringement. In this regard, I would direct the Committee to the excellent summary of concerns raised by various university associations about several of these related provisions.[13]

In short, the fee-shifting and joinder provisions of H.R. 3309 and S. 1013 present a great departure from normal civil litigation under the American system, with the potential for

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IP assets as well. There also is a well-developed body of law that allows veil-piercing, not just to establish liability but also to collect debts and unpaid awards, and U.S. courts have not shied away from allowing recovery against corporate parents or affiliates that sought to hide behind paper entities. We are not convinced that opening the doors to new, relatively unselective impleader authority would accomplish anything that cannot already, under existing law, be done more selectively and with less collateral damage.

[13] Statement from the Higher Education Community on S. 1720, the "Patent Transparency and Improvements Act of 2013", on behalf of the Association of American Universities, Association of Public and Land-grant Universities, American Council on Education, Association of University Technology Managers, Association of American Medical Colleges, and the Council on Governmental Relations; dated 12/11/2013; available at: http://www.acenet.edu/news-room/Documents/Statement-Senate-Judiciary-S1720.pdf

significant negative business impact on investment-intensive innovation especially for smaller companies and non-profit and academic innovators. If Congress wishes to go forward with a "loser pays" system for patent litigation, such a system must incorporate safeguards against runaway awards and provisions that offer at least some predictability of a litigant's potential liability. Courts also should have clear authority to offset "loser pays" awards under circumstances where the prevailing party engaged in dilatory litigation conduct or otherwise unreasonably "ran up the bills." The joinder/impleader provisions should likewise, at a minimum, be changed to limit the class of "interested parties" that could be brought into the lawsuit as unwilling co-plaintiffs. Business partners, patent owners, financing companies, and others who engage only in arm's length business with the patentee should not be subjected to potential liability or forced to renounce all of their rights in a patent just to avoid being dragged into litigation between two other parties. On the other hand, with proper safeguards it may be fair to permit impleader of entities that benefit from and have the right to control the patentee's litigation conduct. Courts should be encouraged to look to well-established bodies of law that permit vicarious liability or corporate veil-piercing to identify patent enforcers who operate through undercapitalized paper entities, rather than creating broad and vague new categories of potentially impleaded parties.

Bonding: Another pending bill, S. 1612, would offer an alternative to the above-described impleader provisions that is problematic in its own way: S. 1612 would establish a "loser pays" system similar to those discussed above, but would add a bonding provision under which a court would be authorized, on motion by a defendant, to order the patentee to post a bond sufficient to ensure payment of the accused infringer's reasonable litigation costs.

From a small-business perspective, financial inequality between litigants is a significant concern under such a system. Bonds are costly and accrue interest during the time they are kept on a company's books over potentially several years of litigation. Bonds are easily available to well-funded litigants, but for a small company to borrow or set aside potentially several million dollars to cover an accused infringer's prospective litigation expenses could be so burdensome that unfavorable settlements or non-enforcement of its patent rights could become the only practical option.

Perplexingly, S. 1612's factors for ordering the posting of a bond do not require any consideration of the likelihood that a litigation fee award will actually be imposed against the plaintiff.[14] Thus, motions for posting burdensome litigation bonds are likely to be brought at

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[14] The factors to be considered are:
(1) whether the bond will burden the ability of the party alleging infringement to pursue activities unrelated to the assertion, acquisition, litigation, or licensing of any patent;
(2) whether the party alleging infringement is--
(A) an institution of higher education (as defined in section 101(a) of the Higher Education Act of 1965 (20 U.S.C. 1001(a))); or
(B) a non-profit technology transfer organization whose primary purpose is to facilitate the commercialization of technologies developed by one or more institutions of higher education;
(3) whether a licensee, who has an exclusive right under a patent held by an institution of higher education or a non-profit organization described in paragraph (2), conducts further research on or development of the subject matter to make the subject matter more licensable;
(4) whether the party alleging infringement is a named inventor of or an original assignee to an asserted patent;

the inception of a litigation, before there is a factual record in the case or any indication that the plaintiff's allegations are unjustified. Because only patentees would be subject to bonding under S. 1612, defendants would be free to make counterclaims regardless of their merit.

While a bonding approach could be preferable to the alternative impleader provisions discussed above, this Committee should give substantial thought as to whether existing mechanisms for piercing corporate veils and other "sham" corporate structures are sufficient to achieve this same purpose without engendering the types of inequalities and negative impacts on small-business innovation that such new approaches could bring. At a minimum, any further consideration of bonding proposals must consider any potential interference of such a requirement with the plaintiff's business operations. Small, innovative businesses should not be put to the choice of suspending their ongoing R&D efforts or enforcing their patent rights against ongoing infringement. An obligation to post a litigation bond in the amount of several million dollars can easily mean deferring the advancement of a promising drug candidate through preclinical development or disbanding a team of scientists.

Deferral of discovery: Both S. 1013 and H.R. 3309 contain provisions that would require courts to defer discovery in patent cases except as necessary to judicially construe the meaning and scope of the asserted patent claims. In effect, these provisions would routinely defer merits discovery in virtually all patent cases until after the court issues a claim construction order. While there undoubtedly are cases in which such discovery deferrals are appropriate, doing so as a general rule would effectively bifurcate discovery on the merits in most cases and tend to prolong patent litigation by 9-12 months, if not longer, across the board. Such delays would accrue even in routine patent litigation that does not involve meritless claims, small businesses defendants, or "patent trolls."

In my opinion, these proposals are too rigid and interfere unduly with the responsibility and authority of district courts to manage patent litigation in a case-specific manner. In instances where there is ongoing infringement, these provisions would perpetuate uncertainty for patentees whose market share continues to erode, as well as for accused infringers whose potential damages continue to accrue. Settlement negotiations would be hampered by delays in developing a sufficient factual record. The development of other potentially case-dispositive issues would be put on hold, and opportunities for early resolution of the litigation on other grounds would be lost. Interlocutory appeals from claim construction orders would become more common, which would contribute to further piecemeal adjudication and delay. In such ways, legislation that is intended to make patent litigation more streamlined and less costly could end up achieving the opposite result.

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(5) whether the party alleging infringement makes or sells a product related to the subject matter described in an asserted patent;
(6) whether the party alleging infringement can demonstrate that it has and will have the ability to pay the accused infringer's fees and other expenses if ordered to do so; and
(7) whether any party will agree to pay the accused infringer's shifted fees and other expenses, provided that the person or entity can demonstrate that it has and will have the ability to pay the accused infringer's shifted fees and other expenses.

To be sure, both H.R. 3309 and S. 1013 permit limited flexibilities – for additional discovery as necessary to ensure timely resolution of certain litigation that is required by existing federal laws to proceed under defined statutory timelines, or as necessary "to resolve a motion properly raised" prior to claim construction, or to prevent "manifest injustice." But these provisions do not detract from the overall result: that patent litigation in the overwhelming majority of patent cases would incur significant across-the-board delays and increased expense for all parties. Even in cases where these very limited flexibilities can be invoked, it is clear that litigants would NOT be entitled to discovery as under current practice. Instead, the burden would be on the requesting party to show why its discovery request is necessary and how its rights would be affected if the discovery request were not granted, all of which would be subject to dispute and counterarguments by the opposing party. In other words: there are no true exceptions – all patent cases would be subject to deferred discovery, no litigant seeking additional discovery would be exempt from having to make a burdensome showing, and any additional discovery would be granted only to the extent it was shown to be necessary for a small number of permissible purposes.

If the goal is to rein in a subset of cases – abusive litigation by patent-assertion entities – it is unclear why Congress would insist on such across-the-board rigidity. The majority of patent litigation manifestly does not involve "patent trolls," and while it may be difficult to define "troll" cases *affirmatively* in statutory language, it is not too difficult to identify whole classes of cases that have nothing to do with "patent trolling." For example, as passed by the House, H.R. 3309 was amended to provide that the limitation on discovery would not apply to "an action seeking a preliminary injunction to redress harm arising from any allegedly infringing instrumentality that competes with a product sold or offered for sale, or a process used by a party alleging infringement." Providing such a categorical exemption for cases between manufacturing marketplace competitors is a step in the right direction. It is perplexing, however, that this exemption should be limited only to preliminary injunction cases. Preliminary injunctions are uncommon in cases between manufacturing competitors, and it is not understood how the goal of limiting discovery in patent-assertion-entity (PAE) cases would in any way be advanced by interfering with patent litigation between marketplace competitors. If there is a reasonable basis for objecting to a broad competitive harm exception for cases between practicing patent owners, it has not been articulated.

In the same vein – and of particular relevance to biotechnology companies – patent litigation under the Hatch-Waxman (HWA) or the Biologics Price Competition and Innovation Acts (BPCIA) likewise manifestly does not involve patent-assertion entities. These statutes spell out in detail the identity of the parties, the products that are the subject of the litigation, and the timelines under which the litigation must commence and proceed. Not only is there no question that the parties to this special kind of patent litigation are each involved in the real-life commercialization of valuable therapeutic products, but there is also a real risk that the currently-pending general patent litigation reforms could interfere with the detailed litigation schemes previously established by Congress under the HWA and BPCIA. Patentees under the HWA and BPCIA have very little leeway as to who they can sue, when they can sue, and the timelines under which the litigation must go forward. It would be simply inconsistent with these statutory litigation schemes to now inject systematic discovery stays into these cases, to require the parties to such litigation to make

burdensome showings why any given discovery request is necessary under the circumstances of their case, and to narrowly tailor permissible discovery accordingly. Notably, parties to such litigation may not be able to take advantage of a broad competitive harm exemption such as the one discussed above, because under the unique provisions of the HWA and the BPCIA, patent litigation is intended to begin before the allegedly infringing product enters the marketplace. Accordingly, for reasons that are at least as strong as those supporting a broad competitive harm exception between actively marketing competitors, a clear exemption for patent litigation under the HWA and BPCIA should also be included.

Going beyond the question of statutory exemptions from the pending discovery stay provisions, it must be understood that not all patent litigation in biotechnology will fall into the above categories. The vast majority of American biotechnology businesses are far from having a product on the market, yet depend critically on the enforceability of their patents to attract funding, to enter into development partnerships, and to advance their technology. A solution must be found for such businesses as well, businesses that are actively trying to develop, and seeking investment to further develop, patent-protected inventions.

In my opinion, innovative small businesses would be best served by dedicating the question of discovery stays to the judiciary, which is in the best position to further develop its case-management practices to prevent discovery abuses in cases where they occur. At a minimum, judges should be given much more discretion as to when additional discovery should be permitted. For example, the Judicial Conference could be asked to develop discovery management standards for cases falling outside the above described statutory exemptions, under which additional discovery should be granted for good cause shown. Such recommended standards, to be developed and implemented by the courts, would go a long way to addressing Congress's concern about discovery abuses by the few without causing systemic harm to the large majority of legitimate participants in the patent litigation system.

Changes to the America Invents Act:

Covered Business Method Patent Review Expansion: The 2011 Leahy-Smith America Invents Act (AIA) provides that certain business method patents can be challenged administratively in an enhanced post-grant review proceeding in the PTO. This "CBM" proceeding was designed as a transitional program, with an eight-year sunset. This was done with the expectation that non-technological patents on financial services could be subjected to enhanced review during a sufficiently-long eight-year window, after which they could be challenged only in the normal inter partes review (IPR) or post-grant review (PGR) proceedings that apply to all patents. S. 866 would significantly expand the scope of this two-year old proceeding by broadening the class of reviewable patents to a wide range of methods used in the management of an enterprise and to the software that implements them, and would make this expanded review proceeding permanent by eliminating the sunset.

I am troubled by the proposed expansion of the scope and length of this special type of proceeding barely two years after it was first created by Congress. The class of patents that

could be subjected to this harsh administrative review proceeding appears broad and could be construed to encompass many, if not most, software-implemented processes. Many biotechnology companies in the medical, pharmaceutical, and agricultural spaces do have proprietary software for a wide range of processes, including drug design, inventory tracking, and product distribution, or for providing value-added services that help their customers use their products more effectively. Some such software may be patented, so it is possible that biotechnology companies could be affected by the proposed provision.

More importantly, I believe that singling out patents on certain classes of technology for particularly unfavorable treatment undermines the basic principle in U.S. and international law that patent rules must be technologically neutral and non-discriminatory. Internationally, the United States has always advocated for robust and technology-neutral patent rules, and the proposed provision undermines U.S. credibility in international fora and in negotiations with our trading partners. The biotechnology industry – a field the United States has created and led – is acutely aware that policymakers in a number of countries would like nothing more than to subject patents on medical and agricultural biotechnological products to selective, unfavorable rules under their own patent laws. In my opinion, the provisions of S. 866 that would greatly expand and make permanent this system for review of business method patents would set an alarming precedent of technology-discrimination that will sooner or later come back to haunt other industries, including biotechnology.

PTO Claim Construction Standard in Administrative Patent Review Proceedings: Both S. 1720 and H.R. 3309 include an important provision that would specify, in statute, that patent claims in PGR and IPR proceedings are to be construed as they were or would be in district court, according to their ordinary and customary meaning as understood by one skilled in the art (under a *Phillips v. AWH* standard). I believe this provision is necessary to ensure that patent claims are not unjustifiably invalidated under a misguidedly broad administrative standard that is currently being used by the PTO. This statutory fix should be part of any final patent reform bill.

The AIA's IPR and PGR provisions were designed to provide a quicker, cost-effective alternative to litigation. More than 500 IPR proceedings have been received by the PTO since September 2012. However, the overwhelming majority (up to 80% by some accounts) involve patents that are in concurrent district court litigation. This creates a great risk of duplicative litigation and inconsistent outcomes. Accordingly, it is important that challenged patent claims are interpreted the same way in both litigation fora. Like other legal instruments (such as contracts or wills or statutes), the language of patents must often be construed to establish their precise scope and applicability in a legal dispute. Depending on how patent claims are interpreted, a patent case can be won or lost.

In administrative IPR and PGR litigation, the PTO now uses the "broadest reasonable claim construction." District courts, on the other hand, use the "most" reasonable claim construction, i.e., unlike the PTO, courts take into account the examination record of the patent, and earlier statements of the patentee and the patent examiner about the scope of the claims, as well as evidence about how scientists or engineers in the field would have

understood the language of the patent claims and other evidence. As a result, district courts often give patent claims a narrower, more particularized meaning than the PTO.

These dual standards in concurrent litigation work against the patentee in two ways: by giving patent claims their broadest reasonable meaning, the PTO makes it harder for patentees to defend the validity of their claims in IPR or PGR because, as interpreted, the claims are more likely to impermissibly capture preexisting technology (i.e., the broader they are interpreted, the more likely they would be deemed obvious or anticipated). And by giving the same patent claims a narrower meaning, district courts make it harder for the patentee to show that its patent claims actually cover the infringing product.

By harmonizing the claim construction standards in PTO litigation with those in district court litigation, both parties will gain predictability, and avoid inconsistencies and wasteful litigation. Challengers who would no longer be able to take advantage of two different standards would be encouraged to choose one or the other forum (instead of litigating in both), while patentees would be required to prove infringement in district court under the same standard that would apply to the potential invalidation of their patent claim in the PTO. This is a common sense reform that Congress should adopt.

Repeal of 35 U.S.C. 145: As reported by the House Judiciary Committee, H.R. 3309 included a provision that would have repealed Section 145 of the Patent Act. This provision was struck from the bill by amendment on the House floor – so, as passed, the Innovation Act no longer provides for repeal of 35 USC 145. In my opinion, the provision was rightly eliminated from the bill and should not be resurrected by the Senate, at least not in the same form.

Currently, final adverse decisions of the PTO in patent examination can be appealed either to the U.S. Court of Appeals for the Federal Circuit (under 35 USC 146), or to U.S. district court under section 145. This right has existed in U.S. patent law for a long time. Today, patent applicants rarely use section 145 appeals. I myself have never used it on behalf of my employers, and I am aware of only a few colleagues in my industry who have. I believe that there are relatively few situations where such appeals would be necessary, such as, for example, in instances where certain testimonial evidence must be elicited in order to establish an applicant's entitlement to a patent. Accordingly, Section 145 should not be repealed outright: when such appeals are needed they are important because appeals to the Federal Circuit are not a viable alternative.

On the other hand, I understand that such appeals are a significant burden on the PTO's small litigation team. Also, it is not clear that all section 145 appeals are brought truly because the patent applicant has no other alternative and needs to pursue an appeal in district court to establish his entitlement to a patent. Given the disproportionate burden on the PTO to try such cases compared to the perhaps rare instances when such appeals are really necessary, I wonder if middle ground could be found whereby such appeals would continue to be available to those applicants who truly need them, while some constraints might be introduced for applicants who merely use them as one of several options.

Miscellaneous provisions: H.R. 3309 and S. 1720 would codify the judicially-created doctrine of "double patenting" for patents that are prosecuted under the AIA's new first-inventor-to-file standard for patentability. I believe this provision to be both beneficial and uncontroversial, and would support its inclusion in any final bill.

On the other hand, H.R. 3309 contains a provision that would change the way patent term adjustment for prosecution delays in the USPTO would be calculated. This particular issue is currently under judicial review, such that legislation on the matter would seem premature.

Finally, I would like to express my disappointment that after nearly eight years of sustained Congressional interest in improving the nation's patent system, resulting in landmark legislation in 2011 and now progressing towards another major bill, the PTO still has neither full funding nor access to all user fees it collects. I would urge Congress to fix this problem once and for all.

Conclusion

I want to thank the Committee for the opportunity to testify today and explain a view of patent litigation reform from the perspective of a small, innovative, investment-intensive company like Alnylam. I urge the Members of this Committee and the full Senate to tread more carefully than your counterparts in the House of Representatives, to ensure that adopted reforms are truly targeted at abusive practices and do not have negative, unintended consequences for the vast majority of legitimate patent owners or licensees who simply are seeking to protect and enforce their patents in good faith. The long-term benefit to society of a strong and predictable patent system may hang in the balance.

Prepared Statement of Harry A. Wolin, Senior Vice President, General Counsel and Secretary, Advanced Micro Devices, Inc., Austin, Texas

Testimony of Harry Wolin

Senior Vice President, General Counsel, and Secretary

Advanced Micro Devices, Inc.

Before the

United States Senate Committee on the Judiciary

December 17, 2013

Mr. Chairman, Ranking Member Grassley, Senator Cornyn, and other members of the Committee, thank you for the opportunity to share information about abuses plaguing the U.S. patent system and the significant harm they are causing to U.S. companies and the U.S. economy.

I currently serve as AMD's Senior Vice President, General Counsel and Secretary. I am a registered patent attorney and have spent the last 25 years working for technology companies on IP protection, licensing and enforcement. AMD has been both a plaintiff and defendant in patent litigation matters, and I bring that perspective to bear in my testimony today.

Innovation, and Consequently Patent Protection, is Crucial to AMD

Founded in 1969 in Sunnyvale, California, Advanced Micro Devices, Inc. (NYSE: AMD) is a semiconductor company headquartered in Silicon Valley that employs more than 10,000 engineers, professionals, and staff throughout the U.S. and around the world. We design and integrate technology that powers millions of intelligent devices, including personal computers, tablets, game consoles and cloud servers. Our business portfolio ranges from providing microprocessors for the U.S. Government's most powerful supercomputers and for notebook and desktop computers produced by companies such as HP, Dell, and Lenovo, to designing the chips that power the recently launched Microsoft XBox One, Sony PlayStation 4, and Nintendo Wii U game consoles.

As a company that depends on innovation to drive our business, AMD invests approximately 20 percent of our annual revenues on research and development activities. **Over the years, we have built a patent portfolio of approximately 4,600 active U.S. patents, and since our inception we have easily had more than twice that number issued to AMD. This portfolio represents an investment of many billions of dollars in products and innovation, as well as approximately one billion dollars just to procure the patents themselves.** The result is that AMD's business, our ability to create and retain jobs, and our ability to innovate and deliver new technologies to our customers, depends on our ability to vigorously protect and defend our intellectual property. We are a staunch supporter of strong patent rights.

Abusive Litigation Tactics are a Drain on AMD's Resources and Our Economy as a Whole

Let me begin by stating that it is my strong belief that the current patent litigation system is broken and can be improved only through legislative action. Years of worsening abuse demonstrate that the courts do not have the tools needed to address these problems and confirm that, without reform, the current abuses in patent litigation will continue to spread, further harming American businesses, consumers, and the economy as a whole.

In the United States, abusive patent litigation practices are systemic and there is a growing body of research that indicates the problem is increasing and causing considerable economic damage. A recent report based on data from RPX found that the number of unique defendants targeted by patent assertion entities ("PAEs") tripled from 2006 to 2012, and that PAEs initiated 62% of all patent lawsuits in 2012. (Chien, 2013) Another well-known study estimates that PAE suits cost U.S. companies as much as $80 billion in 2011, including $29 billion in direct costs. (Bessen & Meurer, 2012) That same study reported that patent litigation costs as much as $5 million per case, and that the total costs imposed account for more than 25% of the total amount that U.S. businesses spend on research and development each year.

For companies like AMD, patent litigation abuses are siphoning critical funds that we need to keep our companies healthy, create jobs, and drive innovation. In our industry, one million dollars can pay a years' wages for 8-10 engineers. **But, each year, AMD is forced to spend tens of millions of dollars to defend against and/or settle patent infringement allegations that are often completely unfounded and purely frivolous.** This diverts funds from critical areas of our business and has a direct impact on our employees and operations. For example, in 2012, AMD made the very difficult decision to have a reduction-in-force that affected a large number of our employees. **We could have saved a number of jobs, but for the significant and wasteful expense of abusive patent litigation.** Company operations are also affected by the cost of patent litigation because fewer dollars are available to invest in product research and development and other critical areas. **Each time we are forced to settle a frivolous claim because it is the least expensive solution, we are literally reducing the number of jobs we can create or retain and the amount we can invest in our business and the communities in which we operate.**

In my role as General Counsel of AMD, I see first-hand the patent litigation abuses faced by AMD and other companies. I can provide the Committee with a few examples to demonstrate the cost, harm, and disruption these problems cause companies in our industry.

My first example demonstrates the surprisingly high-cost of defending against even frivolous patent cases. Optimum Processing Solutions asserted a single patent against AMD "computer processor chips" as well as the products of several other defendants. **Although the allegations were clearly unsupported, AMD incurred over a million dollars in attorney fees and expenses before opting to settle the case solely because it would have cost more to prove that the plaintiff's allegations were specious.** As it turns out, the majority of the other defendants to that lawsuit also settled, leaving one defendant who did not negotiate a settlement. Ultimately the court vindicated AMD's initial assessment of the case by invalidating the asserted claims of the plaintiff's patent in a summary judgment order.

While the final outcome was favorable, the current patent litigation system clearly failed the defendants and the court.

Other recent examples show that some plaintiffs drive-up a defendant's discovery costs to essentially extort a settlement. In one case, the plaintiff asserted patents against basic circuits that clearly had been disclosed in patents from the early 1980's, many years prior to the inventions claimed by the asserted patents. However, despite overwhelming evidence of invalidity and non-infringement, the plaintiff continued to press its claim and demanded extensive discovery including highly confidential and detailed technical information regarding **all** aspects of **thousands** of AMD products, not just the portions of the products that were accused of infringement. After two years of litigation, disruption for numerous AMD employees, and roughly one million dollars in expenses, with no end in sight, AMD chose to pay a settlement, rather than continue to pay its lawyers to defend against these frivolous allegations solely for economic purposes. In another case, AMD provided extensive discovery on a set of accused products, only to have the plaintiff abandon its original allegations in favor of a new theory on an entirely different set of products several years into the case. As these two cases demonstrate, it is common to use discovery as a weapon, rather than as a way of discovering the facts to prove one's case. By requiring a plaintiff to identify its infringement allegations and pay for discovery beyond core documentary evidence relevant to those allegations, the legislation proposed to the Committee would curb these abuses.

The litigation rules that permit these abuses also lead to egregious conduct outside the courtroom. After investigating a demand letter (often through the use of expensive outside legal counsel and other technical experts), AMD often determines that there is no infringement and explains this to the patentee. But many of these patentees persist in their claims in pursuit of a settlement in spite of clear evidence refuting their claims. In fact, one patentee responded to AMD's evidence by completely ignoring the substantive merits of their patents, instead arguing that AMD should pay for a license because the costs of litigation could exceed the license amount requested. This type of "pay us with no risk, or pay for litigation and roll the dice" technique used by abusive litigants is, unfortunately, typical. To make matters worse, an increasing number of the worst offenders have learned to demand a non-disclosure agreement at the beginning of patent licensing discussions, which contractually precludes a recipient of these abusive tactics from later exposing egregious behavior to the public (or to Congress).

We hope these examples provide you with a sense of the egregious nature of patent litigation abuses that companies like AMD regularly face and the considerable negative impact they have on the health of American businesses, as well as job creation and the U.S. economy.

Immediate and Impactful Reform is Necessary

We are greatly encouraged by the interest from this Committee and the House to curb abuses in the patent system. **There is no one solution to these problems—they are intertwined with several fundamental aspects of the U.S. patent system, making the situation too complex for a single solution. Because different entities are using different means to exploit the system to the detriment of a wide variety of business, multiple reforms are necessary to provide effective relief.**

For example, certain provisions of the Patent Transparency and Improvements Act, introduced by Senators Leahy and Lee, can help address the problem, particularly for small businesses. The transparency provisions in Section 3 help to shed light on the patent marketplace and thereby discourage bad behavior. Section 5, regarding bad faith demand letters, will help curb the abusive practice of mass-mailing frivolous demand letters in the hopes of securing a settlement from victims.

These provisions alone, however, are insufficient to curb the abuse plaguing our patent system. To that end, we respectfully urge the Committee to include the provisions co-sponsored by Senators Cornyn and Grassley, such as heightened-pleading, discovery reforms, and fee shifting, in any bill. These measures, more than any others in our view, are essential to any meaningful and impactful reform. We note that versions of them are key parts of the Innovation Act (HR 3309), introduced by Chairman Goodlatte. Their importance is underscored by the fact that the House overwhelmingly passed the Innovation Act earlier this month, in a dramatic and encouraging showing of bipartisan support. That support was further emphasized in a statement issued by the White House. Let me explain their importance.

Heightened Pleading Requirements

Under current law, a plaintiff can file a patent infringement lawsuit by merely identifying the patent-in-suit and providing a general allegation that the defendant's products infringe. As a result, it can be months or even years before a defendant knows what is actually at issue. A plaintiff needn't identify what claims are being infringed, or what product infringes or how the product infringes. The result is an unnecessary waste of the parties' and the court's limited resources.

Heightened pleading requirements would add clarity to a patent infringement lawsuit from its inception. As proposed in the Innovation Act and as proposed by Senators Cornyn and Grassley, a plaintiff would be required to allege patent infringement with specificity, identifying not only the specific products at issue, but also the plaintiff's reason for believing that these products infringe.

There are numerous benefits to this proposal. First and foremost, it would require all plaintiffs to do their homework before subjecting a defendant to millions of dollars in attorney fees and expenses. This helps deter frivolous lawsuits and eliminates much of the wasted resources and expenses that are consumed at the beginning of a patent infringement lawsuit to determine what technology is at issue.

Equally importantly, this proposal presents no downside to a legitimate plaintiff. We don't take lightly any legislation that would place an additional burden on a plaintiff—AMD actively enforces its patent rights against infringers, and we occasionally have needed to resort to filing patent infringement lawsuits. However, a party seeking to enforce its patent rights, rather than seeking to extort a settlement, will investigate to determine which products are infringing and the basis upon which it finds infringement. In short, a legitimate plaintiff will have already done the homework required by the provisions of the Innovation Act and proposed by Senators Cornyn and Grassley. Although additional time will be required to prepare for litigation and draft the complaint, those additional hours represent a fraction of a legitimate plaintiff's effort and a sound investment in the efficiency of our patent system.

Discovery Reforms

In a patent infringement case, discovery can be financially debilitating. It underlies much of the abuse we see and the "troll" business model. Parties abuse discovery to increase an opponent's cost to litigate. The resulting inefficiencies are well known, and widely felt: Parties are forced to produce millions of pages of documents, where only a few hundred documents are ultimately determined to be relevant, and only a handful are used at trial. AMD has firsthand experience with such practices, including a case that forced AMD to initially collect over 100 million pages of information, at a cost of nearly $2 million, plus much more in attorney's fees and expenses. In the end, less than one percent of these documents were tendered to the Court. Discovery reforms like those in Senator Cornyn's bill and the Innovation Act are, thus, a crucial piece of meaningful legislation.

We encourage the Committee to move legislation that delays unnecessary discovery until the parties know what they are litigating, something that ought to be a matter of common sense. In patent litigation, a court determines whether a patent is infringed by looking to the language of the patent's claims, which define the scope of the patentee's right to exclude. Often, the meaning of the terms used in a claim is unclear, and the court is tasked with defining (or "construing") those claim terms. The majority of cases are resolved (by the court or the parties) after disputed claim terms are construed because, frankly, the court's construction of claim terms will often make it clear that a product either infringes or does not, or that a piece of prior art either invalidates the patent or does not. Even when a claim construction order does not fully resolve a case, it will narrow the issues disputed between the parties. Thus, discovery before the claim construction order is typically a significant and overbroad exercise that results in wasted expense. By staying most discovery prior to a claim construction order, the parties can efficiently focus their resources on the disputed issues in the case, if any remain.

In addition, discovery cost shifting reforms will help reduce the abusive discovery practices. The cost-shifting proposals present in the Innovation Act and Senator Cornyn's bill require the producing party to pay to produce the most relevant documents and allow the other side the ability to request additional documents of questionable relevance at their own expense. This approach helps reduce the potential for abuse, while ensuring that all parties have access to relevant information.

Attorney-Fee Shifting

Unlike many American businesses, some patent holders have little to no litigation risk and, therefore, have an incentive to litigate meritless claims in the hopes of getting a lottery-like return. A defendant, on the other hand, is almost always assured of high litigation costs and the risk of crippling liability. This risk-reward imbalance results in uneven bargaining power, which is often used to unfairly extract licenses or settlements that substantially exceed the value of the asserted patents. In fact, several notorious PAE's are known for pursuing frivolous claims against a large number of defendants with the expectation of receiving a settlement from each. (This is a profitable venture because such settlements are typically six-figures or low seven-figures.) Each settlement funds additional lawsuits filed against additional parties, creating a domino effect.

Entities who exploit the system know that a defendant is far more likely to pay to settle a lawsuit rather than pay the same or more in attorney fees and expenses to prove that the allegations are frivolous.

This imbalance can be corrected by enacting legislation that encourages district courts to award legal fees and expense to the prevailing party in abusive patent infringement lawsuits. The Innovation Act and Senator Cornyn's legislation correctly provide that fees are only awarded when the losing party did not have a justified position, protecting parties who legitimately believed they had a good case, but ultimately lost. **In our view, this is one of the most effective reforms the Committee can pursue.**

Conclusion

We urge the Committee to act quickly and decisively. This issue has been deferred time and time again, to the detriment of U.S. companies of all sizes and the U.S. economy as a whole.

Again, thank you for the opportunity to share information about the negative impact patent litigation abuses have on AMD and other U.S. companies, our employees, and the U.S. economy. We welcome any questions you may have.

PREPARED STATEMENT OF HON. Q. TODD DICKINSON, EXECUTIVE DIRECTOR, AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION, AND FORMER UNDER SECRETARY FOR INTELLECTUAL PROPERTY AND DIRECTOR, U.S. PATENT AND TRADEMARK OFFICE, ARLINGTON, VIRGINIA

AIPLA

Testimony of

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Executive Director

American Intellectual Property Law Association

before the

U. S. Senate Judiciary Committee

hearing on

"Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse"

December 17, 2013

I. Introduction

Chairman Leahy, Ranking Member Grassley, and distinguished members of the Judiciary Committee, on behalf of the American Intellectual Property Law Association (AIPLA), I would like to thank you for the opportunity to present our views on patent litigation abuse and its effect on small businesses and innovation.

My name is Q. Todd Dickinson and I am the Executive Director of AIPLA. Prior to becoming Executive Director, I was Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office, and Vice President and Chief Intellectual Property Counsel for the General Electric Company.

Founded in 1897 as the American Patent Law Association, AIPLA is a national bar association with approximately 15,000 members who are lawyers in both private and corporate practice, judges, patent agents, academics, law students and patent and trademark office professionals. Our members practice in a wide and diverse spectrum of intellectual property fields, including patent, trademark, copyright, and unfair competition law, as well as other areas of law affecting intellectual property. They represent both owners and users of intellectual property, as well as those who litigate and prosecute before patent and trademark offices, giving AIPLA a unique and varied perspective on patent procurement, licensing and litigation practices.

This hearing provides an occasion for this Committee and the stakeholder community to look at recent complaints leveled at the practices of certain patent owners, licensees and representatives, give careful consideration to the alleged harm, and propose appropriate remedies, with an eye toward deterring undesirable practices while avoiding unintended consequences to our critically important patent system. Generally speaking, the reported practices involve the attempted enforcement of potentially invalid or overbroad patents, often aggregated and asserted against multiple alleged infringers for the purpose of threatening litigation and obtaining below-cost-of-litigation settlements. Not surprisingly, the cost of such threatened litigation is often an effective lever for extracting large settlements in lieu of litigation.

The reports of such practices have received widespread publicity and understandably provoke a "where there's smoke, there must be fire" reaction. Such a reaction is appropriate in the sense that these reports may very well indicate aspects of the intellectual property system that require thoughtful investigation, and as an organization representing lawyers for both plaintiffs and defendants, AIPLA is extremely sensitive to any abuses of the patent system. At the same time, we also are committed to making sure that any proposed changes to the system are balanced and do not risk unintended consequences. Furthermore, the seriousness of the alleged abuses of the system, and the concurrent need for reforms of various types, cannot be fully understood without a careful examination of the magnitude and scale of the concerns, an understanding of the various types of behavior giving rise to those concerns and the need to understand them in the context of the overall patent system. Oftentimes, the solution to a perceived problem is not a "one-size-fits-all" solution, and care needs to be taken in attempting to find a "quick fix."

a. Past Is Prologue

We wish to make clear that we neither intend to minimize the current concerns about litigation abuse, nor intend to suggest that Congress should refrain from acting where necessary to address current concerns. However, in pursuing the solution to the current problem of patent litigation abuse, we also believe that it is useful to initially consider the history leading up to the culmination of the last and recent legislative reforms in this area: the Leahy-Smith American Invents Act (AIA).

Improvements in the intellectual property system were very much the object of patent reform efforts that AIPLA joined 10 years ago after multi-year studies of the patent system by the National Academy of Sciences (NAS) and the Federal Trade Commission (FTC).[1] Those efforts included concrete reform proposals from AIPLA as early as 2004, followed by a series of town hall meetings that year which we co-sponsored with the FTC and NAS to air reform issues to stakeholders of the patent system, both in and out of government.

[1] See Committee on Intellectual Prop. Rights, National Research Council, *A Patent System for the 21st Century* (2004); and Federal Trade Comm'n, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* (2003).

Reflecting on those early days, it is instructive to note that several concerns expressed at the beginnings of the AIA patent reform process are similar to those that have been expressed in current discussions. For example, much of the early AIA debate was driven by proposals to address concerns about the assertion of poor quality patents against companies and the need for better tools and litigation reforms to more efficiently and cost effectively resolve such disputes. As an example, as far back as June 2005, this Committee held a hearing entitled "Patent Law Reform: Injunctions and Damages."[2] Witnesses testified then about the relatively recent phenomenon of patent owners filing infringement complaints against large companies (in particular financial services and media companies) who were thought not to be "patent savvy." They complained of demands for large settlements and that the law at the time exposed them to easily obtained permanent injunctions and to expansive damages awards from juries in certain jurisdictions recently new to large-scale patent litigation. Other issues being discussed at that time included the ease of pleading willfulness, the difficulty of transferring venue from places such as the allegedly "patent friendly" confines of the Eastern District of Texas, the difficulty of proving invalidity on the basis of obviousness, and the proliferation of inequitable conduct claims, leading to excessive discovery costs.

Not unlike the recent passage of the "Innovation Act" (H.R. 3309), the House of Representatives on September 7, 2007, passed a patent reform bill (H.R. 1908) which at the time was called "a work in progress." In 2008, this Committee took up its own patent reform bill (S. 1145), then took the time to ask stakeholders tough questions, and worked out the difficult details of the legislative language. In the meantime, however, something interesting occurred: the courts, including the Supreme Court, began to address a number of litigation issues that were the very subject of a number of the most hotly-debated provisions of proposed legislation, in fact, addressing them in such a deliberate and almost "surgical" way that eventually each issue to drop out of the final Senate bill. In essence, the Courts were working on patent reform right alongside

[2] The Senate Committee on the Judiciary Subcommittee on Intellectual Property hearing on *Patent Law Reform: Injunctions and Damages*, June 14, 2005.

the Congress.[3] In the process, the Senate heard from many different and distinct stakeholder groups and coalitions, the legislative language was continuously refined after no small amount of time and resources were expended to ensure that unintended consequences were considered and collateral damage scenarios were also addressed.

Following that instructive example, now as then, we believe that great care is needed to resist a legislative quick fix to reported problems, to get input from the wide variety of affected stakeholders, and take the time to get it right. More simply put, as my friend and fellow former Director of the USPTO Dave Kappos put it in his recent testimony before the House Judiciary Committee on the same topic: we should follow the axiom taken from Hippocrates: "first do no harm."

b. Let the AIA Reforms Have an Opportunity to Prove they Work

A recurring theme that can be traced through the patent reforms of the AIA to the current debate over patent litigation abuse is the issue of patent quality. A key component of the reported abuses is the assertion of allegedly invalid or overbroad patents, the very abuse for which AIA post-grant procedures were created, in order to improve paten quality. These matters of patent quality are being addressed by the changes made to the law by the Judiciary and by Congress in the AIA, which are only now beginning to be felt.[4] It may well be premature to conclude that they are not doing the job.

Take one major example, as a former Director of the USPTO in particular, I would support, as former Director Kappos did, giving the post-grant processes in the USPTO a chance to work. They have only been in place for less than two years, and in the case of PGR, less than one.[5]

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[3] *See, e.g., Lucent Technologies, Inc. v. Gateway, Inc.*, 580 F.3d 1301 (Fed. Cir. 2009); *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006); *In re TS Tech USA Corp.*, 551 F.3d 1315 (2008).

[4] Regarding patent quality, no issue is of greater importance than sustainable funding of the USPTO. We will discuss this in more detail below.

[5] With respect to Inter Partes Review (IPR) petitions, trials have been instituted in over 80% of cases, since the proceedings became available on September 16, 2012. For Post Grant Review (PGR), these proceedings are available for patents that issue under a file-inventor-to-file (FITF) system and no trials have yet been instituted since the FITF system has only been in effect since March 2013. See *Trial Proceeding Statistics* available at http://www.uspto.gov/ip/boards/bpai/stats/aia_trial_proceedings.pdf.

Early data suggests that they are performing in many ways as Congress intended, at least at the macro level, to provide an efficient, less expensive means to address potentially low quality patents. We believe that the prudent course is to give these reforms the chance to demonstrate their efficacy to deal with the concerns for which they were created before we consider making significant additional changes which may have their own unintended consequences. In support of this proposition to wait and see how they are working, we would simply point out that the AIA itself requires that USPTO study the reforms implemented by the AIA and report back to Congress by September 16, 2015. Those reports would serve as an important and more empirically-driven body of data which would allow for greater clarity and direction in making any necessary changes.

c. The Current Environment

Nonetheless, we do understand that there is something different about certain abusive behaviors currently plaguing the business community. Specifically since the passage of the AIA, there has emerged a practice by some patent rights holders of sending widespread distributions of demand letters – often to small and patent unsophisticated end users such as "mom and pop" businesses, coffee shops, retail stores, or restaurants, who have often acquired and used equipment or services often ancillary to their primary business. These letters, often threatening, allege infringement of a patent or patents, sometime without citing to them specifically, rarely suggesting how the end-user is infringing specifically other than perhaps by using a particular broadly identified technology, such as "scanner," and demanding relatively small amounts to settle an alleged dispute or provide a license. Demand letters are nothing new and have been sent and received by both large and small companies for years. However, the law has evolved such that it has become more difficult for patent holders to assert allegations of direct infringement against service providers or product suppliers, with the result that more and more patent holders have reached out to downstream customers to assert their patents.

We would also note that this is an area where there is little empirical data on which to gauge the magnitude of the problem. Some have suggested that there are only a handful of entities engaging in abusive behavior, but the large cumulative number of demand letters creates the

impression of a more pervasive problem. Additionally, as the Vermont Attorney General has noted in his complaint against one of the most notorious of these abusers, in spite of the significant number of demand letters which were purportedly sent out, as of July 8, 2013, the date of the complaint, that company had not filed a single infringement lawsuit.[6]

In point of fact, therefore, many of these practices—sending a multiplicity of demand letters containing vague allegations and minimal information, with persistent but relatively modest settlement terms, and apparently with little preparation for actually bringing a lawsuit—may have less to do with abusing the rules and procedures in patent litigation per se than they have to do with consumer fraud and deceptive trade practices arising from the demand letter. In some respects, this problem is similar to the problem we saw in the late 1990s involving invention promotion firms preying on innocent inventors, who had little knowledge of the patent system and paid exorbitant fees to such firms in exchange for very little in return. In both cases, the targets of the abuse have been exploited with misleading information about patents and the patent system.

Law enforcement has developed measures to deal with such wrongdoers. With respect to invention promotion firms, the FTC responded to a massive fraud committed by many such firms by launching in 1997 "Project Mousetrap" to identify, prosecute and fine firms engaged in fraudulent or deceptive practices.[7] As will be discussed further below, the FTC has already undertaken a thorough study of all of these practices, and is in a traditional and well-understood position to take action against consumer fraud and deceptive trade practices. In addition, state attorneys general have similar long-term experience and authority to deal with abusive behavior. As already stated, recently several attorneys general have pursued state law actions against certain patent owners for abusive litigation behavior.[8] Given the nature of this more recent

[6] See the complaint of the Attorney General of Vermont in State of Vermont v. MPHJ Technology Investments, LLC, at http://www.atg.state.vt.us/assets/files/Vermont%20v%20MPHJ%20Technologies%20Complaint.pdf.
[7] See http://www.ftc.gov/news-events/press-releases/1997/07/ftcstate-project-mousetrap-snares-invention-promotion-industry
[8] See the complaint of the Attorney General of Vermont in State of Vermont v. MPHJ Technology Investments, LLC, at http://www.atg.state.vt.us/assets/files/Vermont%20v%20MPHJ%20Technologies%20Complaint.pdf; see cease and desist letter from Nebraska Attorney General, at http://www.ago.ne.gov/resources/dyn/files/1069534z3005a836/_fn/071813+Farney+Daniels+LLP+-+Cease+%26+Desist+Letter+and+Civil+Investigative+Demand.pdf; see consent order reached by Minnesota Attorney General at http://www.ag.state.mn.us/Consumer/PressRelease/130820StopPatentTrolling.asp.

problem, which in many ways has triggered the broader political reaction among organized constituencies such as retailers, restaurants and real estate agents that has led us here today, we would suggest that it would be prudent to consider allowing those enforcement bodies with the appropriate experience and authority to pursue the matter.

However, state law remedies also require careful examination, first to guard against encumbering legitimate patent enforcement, and second to guard against limiting the litigation privilege and free speech right to send demand letters in the first instance.

d. AIA Reforms Were Directed to Many Complaints About Litigation

Any further proposed legislative remedy should not overlook the extensive revisions which the AIA only recently accomplished. The AIA includes a variety of reforms directed to improving the quality of pending patent applications and the enforceability of issued patents. With respect to patent quality, the legislation institutes a first-inventor-to-file system that will provide a more objective basis for establishing the priority of rights. It also provides tools to allow third parties to participate in patent examination[9] or challenge the validity of an issued patent.[10] These tools are expected to decrease abusive patent litigation practices by reducing the issuance of low quality patents and by providing a lower-cost administrative procedure for challenging issued patents. With respect to patent enforcement, the AIA reforms to prior user rights,[11] case removal,[12] false marking,[13] and joinder practice,[14] are all areas in which the interests of plaintiffs and defendants were in need of rebalancing. The exact balance struck by these various reform provisions is just beginning to unfold.

[9] AIA, Pub. L. No. 112-29, § 8.
[10] AIA, Pub. L. No. 112-29, § 6.
[11] AIA, Pub. L. No. 112-29, § 5.
[12] AIA, Pub. L. No. 112-29, § 19(c).
[13] AIA, Pub. L. No. 112-29, § 16(b).
[14] AIA, Pub. L. No. 112-29, § 19(d)(1).

e. Evidence of the Problem

One particular challenge in crafting any legislative remedy to a problem is understanding the metes and bounds of the problem at hand. Such is the case in this current discussion. The nature and the scale of abusive patent litigation continue to be strongly debated, with partisans rising from academia, the media, Congress, and the White House. In general, at least the theme of early studies was to focus on the nature of the actor rather than the act. In this case, identifying or labeling them as "trolls," "non-practicing entities," or "patent assertion entities" who are gaming or manipulating the intellectual property system for their private advantage and to the detriment of the economy and society. These studies often provided the analytical underpinnings framing the debate, and found their way into many other reports and news articles.

What is still under serious debate is how well the available data supports the conclusions of these studies, which are often based on confidential information and surveys. A recent study responding to the debate put it this way:

> "While the rhetoric in these studies is often sharp and clear, the same cannot also be said for the disclosures of the underlying data. The studies merely provide summary data to the public and often do not differentiate among the various types of NPEs. Instead, the studies broadly classify companies as either NPEs or not NPEs (sometimes, trolls or non-trolls). Importantly, nearly all of the data upon which these studies are premised are confidential and thus are not available for peer review or for use in other studies." [15]

Another reaction to the PAE debate in this area has come from the Government Accountability Office (GAO), which was tasked by Section 34 of the AIA to study the consequences of patent litigation by PAEs.[16] Concerning the size of the problem, the August 22, 2013, the GAO report confirmed a 33% increase in patent litigation from 2010 to 2011, but said that most stakeholders attributed that increase to anticipated changes in the joinder rules in 2011 under the AIA. A

[15] Christopher Anthony Cotropia, Jay P. Kesan & David L. Schwartz, *Patent Assertion Entities (PAEs) Under the Microscope: An Empirical Investigation of Patent Holders as Litigants,* http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2346381, page 5.

[16] Intellectual Property: Assessing Factors That Affect Patent Infringement Litigation Could Help Improve Patent Quality, GAO-13-465, Aug 22, 2013, available at http://www.gao.gov/products/GAO-13-465 (visited Nov. 21, 2013).

further finding of the report, based on a representative sample of 500 patent infringement lawsuits from 2007 to 2011, shows that manufacturing companies brought most of the lawsuits, and that NPEs brought about 20% of all of the lawsuits. The report also identified other causes for increased patent litigation, such as (1) the prevalence of patents with unclear property rights, (2) the attraction of large monetary awards, and (3) corporate recognition that patents are a more valuable asset than previously thought.

Further investigation continues with the Federal Trade Commission's announcement of its Section 6(b) Study, 15 U.S.C. §46(b), of patent assertion entities, evidencing the dearth of data on this subject.[17] The Federal Register notice observed that the joint FTC and Justice Department Workshop, conducted last April on this subject, lacked sufficient empirical data on PAEs.[18] However, as we commented to the FTC at the time, the studies in this area become imprecise when they rely on labels for the actors to define the problem rather than focusing on the misconduct at issue.

The Federal Register notice describing the FTC study on patent assertion entities defines such entities as "firms whose business primarily involves purchasing patents and attempting to generate revenue by asserting them against persons already practicing the technology."[19] Not unlike other studies, the FTC uses a label that is excessively broad because it refers to completely legitimate activities that are available to all patent owners and that are essential to the property value of patent rights.[20] There is nothing new about non-practicing entities and many patents and innovations develop with companies and individuals that do not have the resources to practice the technology of their inventions.

Any investigation into this area must be directed at those patent owners that appear to be abusing the system, no matter what label is attached to them. The heart of the matter is the misconduct

[17] See 78 Fed. Reg. 61352.
[18] "Patent Assertion Entity Activities Workshop" ("Workshop") jointly conducted on December 10, 2012, by the FTC and the Department of Justice ("DOJ").
[19] 78 Fed. Reg. 61352
[20] In a post on the George Mason Law School web site for the Center for the Protection of Intellectual Property, Professor Adam Mossoff comments on a frequently cited study on "troll" litigation. Under the definition used in that study, no less a patent holder than IBM must be considered a troll. See http://cpip.gmu.edu/2013/11/13/the-nadir-of-patent-troll-rhetoric.

itself. To the extent that studies are directed at patent owners engaged in perfectly lawful conduct, i.e., acquiring and enforcing intellectual property rights, those studies are flawed.

Finally, with regard to the benefit of additional data, we would also note that S. 1720 also provides for a study on secondary market oversight for patent transactions (Sec. 11. Reports). AIPLA generally supports this type of study (unless they may divert resources more appropriately used elsewhere especially in times of resource constraint), and supports this specific study and notes that it would likely yield additional valuable data that may more accurately guide the Congress in crafting such legislation.

f. Judiciary Appropriately Reacts to Abuses in Enforcement Proceedings

As was the case when Congress was developing the patent reforms that became the AIA, the judiciary has continued to address many issues plaguing the system in the course of its interpretation and application of the patent laws. In addition, many district courts themselves have recognized the need for innovations to streamline proceedings, as such developing local patent rules and e-discovery rules for cases,[21] or focusing on potentially dispositive issues early in a case. For example, it is worth noting that all courts in the patent pilot program are required to develop patent rules. In addition, the Judicial Conference frequently reviews the Rules of Civil Procedure and amends them to conform to the realities of the day.

One particular issue being addressed that has direct relevance to patent litigation abuse is the lack of detail in complaints alleging patent infringement. The sufficiency of pleadings generally was addressed by the Supreme Court rulings in *Twombly* and *Iqbal*,[22] which arguably set the bar higher for patent complaints than Form 18 of the Federal Rules of Civil Procedure. The Federal Circuit in *K-Tech Telecommunications v. Time Warner Cable* confronted the conflict of pleading

[21] Local Rules for Eastern District of Texas, Appendix P Model Order Regarding E-Discovery In Patent Cases, available at http://www.txed.uscourts.gov/page1.shtml?location=rules:local.
[22] *Ashcroft v. Iqbal*, 556 U.S. 662 (2009); *Bell Atlantic Corp. v. Twombly*, 550 U.S. 544 (2007).

standards and said that, notwithstanding the *Twombly* and *Iqbal* rulings, the Forms control because the rules of procedure may not be changed by judicial interpretation.[23]

With regard to proposals to direct specific procedural rules by legislation, we would note that last August, the Judicial Conference Advisory Committee on Civil Rules proposed a series of changes to the rules of civil procedure, and included a proposal to abrogate Rule 84 entirely, with all of its forms, making specific reference to Form 18 and the *Twombly* and *Iqbal* requirements.[24] Hopefully, this process will obviate the need for similar statutorily-mandated rules.

Also high on the list of many reformers is a change to 35 U.S.C. § 285 to make it easier for trial courts to award attorneys' fees to prevailing parties. The current statute permits an award to a prevailing party in "exceptional cases," which the Federal Circuit has interpreted in a way that makes fees very difficult to recover. The Judiciary is currently addressing this issue as well. Pending in the Supreme Court right now is a case that could change the standard used by district courts in awarding fees,[25] and another case that could change the standard used by the Federal Circuit in reviewing such awards.[26] AIPLA has filed amicus briefs in both cases arguing that district courts require more discretion to award attorneys' fees where warranted.[27]

Probably the most tumultuous issue in patent law right now is the question of patent eligibility under 35 U.S.C. § 101. While that statutory language is fairly straightforward, identifying the various categories of inventions that are patentable subject matter, the Supreme Court years ago staked out exceptions to statutory subject matter where the patents recite a law of nature, a natural phenomenon, or an abstract idea. The Court has taken a number of cases recently involving method claims and found them ineligible as claiming an abstract idea, but in *Alice Corp. Pty, Ltd. v. CLS Bank International*, the Court is currently considering whether a system claim, i.e., one that combines a method and an apparatus, can be ineligible as an abstract idea.[28] This case has the potential to resolve numerous questions created by past decisions which could

[23] 714 F. 3d 1277, 1283 (Fed. Cir. 2013).
[24] See http://www.uscourts.gov/uscourts/rules/preliminary-draft-proposed-amendments.pdf.
[25] *Octane Fitness, LLC v. Icon Health and Fitness, Inc.*, U.S., No. 12-1184.
[26] *Highmark Inc. v. Allcare Health Management Sys.*, U.S., No. 12-1163.
[27] Also pending before the Federal Circuit is *Kilopass Technology, Inc., v. Sidense Corp.*, Fed. Cir., No. 2013-1193.
[28] *Alice Corp. Pty, Ltd. v. CLS Bank International*, U.S., No. 13-298.

impact the entire software industry. To the extent that confusion over the law of software patents has provided an opportunity for questionable infringement claims, the Court's decision to review *Alice* to clear up such confusion is another example of action by the Judiciary to address the validity of some patents that may be the subject of perceived patent litigation abuses.

The complexity of patent law and its scientific and technical subject matter is compounded by the complexity of the litigation procedures for enforcement that gives the patent rights its value.[29] All of this complexity may well provide extraordinary opportunity for misconduct, but the challenge for Congress is to see that the cure is not worse than the disease. Oftentimes, the procedures that may be applied for efficient management of one case will not necessarily be effective in another case.

Below we consider the specific provisions of S. 1720, as well as the issues raised by alternative approaches to litigation abuse.

II. Legislative Proposals

When considering changes to the patent system, it is important to take into account that the purpose of the system, according to the U.S. Constitution, is to promote innovation.[30] As an incentive for continuous innovation and as a driver of the U.S. economy, the patent system is working. According to a report released by the U.S. Department of Commerce in March 2012, "IP is used everywhere in the economy, and IP rights support innovation and creativity in virtually every U.S. industry."[31] The report attributed 27.7% of U.S. jobs directly or indirectly to IP intensive industries. This is what is at stake when we discuss reforms to the system.

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[29] Some are concerned that the cost of patent enforcement has deprived small inventors of the value of their patents. AIPLA believes it would be desirable to investigate the possibility of a small claims procedure, conducted in either the United States Court of Federal Claims; in that Court in conjunction with Federal District Courts that are participating in the existing patent pilot program; or only in the existing patent pilot program as proposed in Section 11(d) of S. 1720.

[30] U.S. Const., art. 1, sec. 8, cl. 8.

[31] "Intellectual Property and the U.S. Economy: Industries in Focus," March 2012, available at http://www.uspto.gov/news/publications/IP_Report_March_2012.pdf.

To the extent that legislative reforms are necessary to curb abusive practices in patent litigation, Congress needs to ensure that, while reducing incentives for abuse, any reforms preserve the traditional rights of patent owners to protect and secure reasonable returns on their innovations,[32] safeguard the interests of users before the USPTO and the courts, and maintain judicial discretion to appropriately manage litigation. The reforms should approach the process by carefully targeting specific abusive actions rather than a particular category of actors. Congress should also avoid singling out patent litigation or a particular category of litigant with inflexible statutory changes to the judicial process. Instead, it should encourage courts to more readily exercise their discretion with existing tools for case management, or, where necessary, the courts acting collectively could provide new tools that maintain the discretion and flexibility so important to trial judges.

a. S. 1720, The Patent Transparency and Improvements Act

AIPLA commends Chairman Leahy for taking a careful and targeted approach to addressing the problems in the patent litigation system in S. 1720. AIPLA believes the bill is a positive contribution to the legislative discourse and readily supports some provisions, particularly those that strengthen and clarify the reforms already implemented through the AIA. That said, as detailed below, AIPLA believes that other provisions require further study and modification before they can be supported.

S. 1720 seeks to address abusive behavior that exploits the strength of the patent system to coerce American businesses, such as retailers and hotels, into paying settlements to avoid the expense of defending a patent infringement suit, regardless of the merits of the infringement claim. It does so by imposing heightened patent ownership disclosure requirements, providing stays for suits against downstream users, and giving the Federal Trade Commission the authority to police bad faith patent demand letters, among other things.

More specifically, we offer the following comments and suggestions:

[32] It should be noted that the very first patent law of 1790 allowed for assigns the full rights of original inventors or owners. Patent Act of 1790, Ch. 7, Sec. 1 Stat. 109-112 (April 10, 1790).

i. Transparency in Patent Ownership (Section 3)

S. 1720 would give defendants the ability to better assess the litigation risks that they might be facing by requiring plaintiffs at the time a case is filed to disclose certain ownership, licensee and assignee information. Additionally, the provision requires patent owners to update assignee information with the USPTO. AIPLA conceptually supports this provision. However some of its language could benefit from further consideration.

The current proposed provisions require initial disclosures of any person or entity with a financial interest in the outcome of the litigation, which we believe, require further clarifications and safeguards. The definition of financial interest should exclude obvious and expansive interests, like those of the shareholders of a company, or other internal corporate holders aside from the parent corporation. And the requirement for such initial disclosures should provide for the ability to file information under seal, since certain interests may contain commercially sensitive information that should be protected by the courts and the parties.

Additionally, the requirement to update assignment information on the ultimate parent entity with the USPTO within 3 months of the assignment may be too short an interval in practice. Congress also should to consider that assignment is complex and may involve daughter entities and parent companies, or "ultimate" parties who may have no direct involvement in the assignment changes. Where the ultimate parent corporation is readily obvious from the name of the currently listed patent owner, for example in the case of a subsidiary, we respectfully suggest some form of safe harbor should apply.

In that same light, we are also concerned that the penalty for non-compliance as proposed in S. 1720, i.e. loss of the ability to recover potential attorney's fees or enhanced damages during a period of non-compliance, is overly harsh. Finally, this provision includes a strict penalty of requiring an award of attorneys' fees to any prevailing accused infringer upon discovery of "any previously undisclosed ultimate parent entities in the chain of title." AIPLA does not support the

mandatory imposition of attorneys' fees. Courts should be given the discretion to determine where an award of attorneys' fees is appropriate on a case-by-case basis.

We note that the USPTO has recently indicated they will soon publish a proposed rule on "real party in interest," which relates to these same transparency issues. We would respectfully suggest that the Committee consider deferring any specific legislation in this area, such as in Section 3, until this additional information is available to help guide the Committee in its drafting process.

ii. Customer Stays (Section 4)

As discussed above, one abusive litigation practice used by some parties is to send numerous demand letters or to threaten or initiate infringement actions against multiple retailers or other downstream end users of a patented product or process to increase settlement prospects. In pursuing such potential infringers, the assertion entity may seek to gain an advantage over parties with inadequate experience or resources to litigate the matter. S. 1720 proposes a framework to allow a "covered manufacturer" to intervene in such patent infringement litigation with its customer or end user, and gives the customer or end user the right to stay infringement actions against them pending the outcome of litigation between the "covered manufacturer" and the patent owner.

AIPLA supports encouraging the courts to more frequently allow manufacturers to intervene in litigation brought against its customers or users, as many do now. While courts have the power to grant stays now, we conceptually support this provision of S. 1720. Staying customer litigation would be consistent with the rule that infringement actions against manufacturers have priority over infringement actions against customers, despite the general rule that a first-filed suit has priority over a later-filed suit.[33] The Federal Circuit has explained that "[t]he customer suit exception is based on the manufacturer's presumed greater interest in defending its actions against charges of patent infringement; and to guard against possibility of abuse."[34]

[33] *Gluckin & Co. v. International Playtex Corp.*, 407 F.2d 177, 179 (2d Cir. 1969).
[34] *Kahn v. General Motors Corp.*, 889 F. 2d 1078, 1081 (Fed. Cir. 1989).

We believe it is important to address the issue of unsuspecting end-users without real knowledge of how their products or systems operate from having to individually defend against abusive enforcement tactics with little to no resources. It is crucial that the language is carefully crafted so that only appropriate end users are covered. The proposal should not have the unintended effect of strong-arming all manufacturers and suppliers into heavy-handed contractual indemnification language or making cases even more complicated in which multiple potentially responsible parties are involved.

As such, the customer stay provision would benefit from further clarity, particularly as to when a court may deny such a request. The proposal also needs to address added complexities of multiple vendors, manufacturers, and retailers as potentially responsible parties, and how stays would work in such instances, i.e., where there is a multi-supplier market. In addition, the proposal needs to consider whether it is likely to result in larger companies requiring much smaller importers and resellers, among others, to agree to heavy-handed contractual obligations, in which they are not in any better position to handle the subject claims than the company they have been asked to defend. In other words, the reality of distribution chains should be taken into account, especially where an accused product is manufactured and originates overseas.

iii. Bad Faith Demand Letters (Section 5)

S. 1720 seeks to target demand letter abuse by giving the FTC the express authority to police the widespread sending of bad faith demand letters by treating it like a deceptive trade practice. It is difficult to use a single definition for the term "demand letter" because such letters are sent with a variety of legitimate purposes. A patent owner may send a genuine inquiry letter to find out whether a product includes his patent with no threat or intention of future litigation. They may send an offer of licensing in order to begin negotiations, which may later result in a threat of litigation for failure to accept or comply with a licensing agreement. A patent owner may also send a letter stating that the patent owner believes there is infringement and threatens to file suit to defend its rights if the infringing action is not stopped or a royalty paid. These are all essential

enforcement tools for patent owners, and they allow many patent disputes to be resolved long before court intervention is necessary.

AIPLA appreciates that providing some form of oversight to the actions of parties prior to the institution of a lawsuit may help relieve the burden on retailers and downstream users of patents. However, there are several issues that need further consideration and clarification.

The existing studies of litigation do not necessarily capture the full picture of misconduct because they fail to take into account the actions of patent owners prior to the filing of suit, which may be where most of the abusive behavior is actually taking place. In some cases, there may be patent holders who are sending thousands of demand letters to unknowing end users of allegedly patented products, using the recipient's lack of experience with the patent system to coerce them into paying settlements.

We note that patent owners sending demand letters are not immune from challenges by the potential infringers targeted by the letters. If the letters give rise to an "actual controversy" between the parties under the Declaratory Judgment Act, the recipient can file its own lawsuit to challenge the validity of the patent or obtain a declaration that it is not infringing the patent being asserted.[35] The U.S. Supreme Court recently lowered the burden for establishing "actual controversy." In *Medimmune v. Genentech*, the Supreme Court rejected the "reasonable apprehension of imminent suit" test applied by the Federal Circuit, in favor of a broader "totality of the circumstances" test to determine whether a case or controversy exists between the parties for the purposes of a declaratory judgment action.[36] This decision gave recipients of demand letters the ability to bring declaratory judgment actions where there is a mere potential for future litigation and placed the burden on the patent owner to show there is no actual controversy.

In *Medimmune*, the existence of a licensor/licensee relationship did not immunize the patent holder from a declaratory judgment action from their licensee. In the cases following, standing

[35] The Declaratory Judgment Act provides, "In a case of actual controversy within its jurisdiction...any court of the United States, upon the filing of an appropriate pleading, may declare the rights and other legal relations of any interested party seeking such declaration, whether or not further relief is or could be sought. Any such declaration shall have the force and effect of a final judgment or decree and shall be reviewable as such." 28 U.S.C. 2201(a).
[36] 549 U.S. 118 (2007).

for a declaratory judgment action was found in the following circumstances: where parties engaged in pre-suit negotiations but failed to come to an agreement even in the absence of a threat to sue;[37] where the party seeking a declaratory judgment believed that further negotiations with the patent owner would not result in an agreement and the patent owner made a press statement after winning an infringement case against a third party stating "its intention to continue ongoing licensing discussions with other companies;"[38] and where a patent owner "bragged in a trade magazine of its habit of threatening to sue (or actually suing) the customers of allegedly infringing vendors or manufacturers, presumably as a means of pressuring the parties to cease their activities or sign a license agreement" though no threat of suit was made to the party bringing the declaratory judgment action.[39]

It should also be noted that a patent owner's knowledge of potential infringement, but failure to act by sending a demand letter or filing an infringement action, could provide a basis barring relief if they decide to later file suit under the doctrine of laches. Laches provides a limit on liability for alleged infringers where "the neglect or delay in bringing suit to remedy an alleged wrong, which taken together with lapse of time and other circumstances, causes prejudice to the adverse party and operates as an equitable bar.[40]

The extensive use of demand letters to extract payments from downstream customers has caught the attention of state attorneys general from Vermont, Minnesota, and Nebraska, who have been looking to consumer protection and unfair competition laws to stop the abusive behavior.[41]

The Bad Faith Demand Letters provision in S. 1720 would give the FTC the authority to investigate persons who "engage in the widespread sending of written communications," but it fails to define "widespread." This term is ambiguous and would benefit from specifying how many demand letters need to be sent to trigger this provision. However, Congress should be careful not to set the bar too low, which could sweep in patent owners seeking to legitimately

[37] *SanDisk Corp. v. STMicroelectronics Inc.*, 480 F. 3d 1372 (Fed, Cir. 2007).
[38] *EchoStar Satellite LLC v. Finisar Corp.*, 515, F. Supp. 2d 447, 451-52 (Dist. Ct. D. Delaware 2007).
[39] *WS Packaging Group v. Global Commerce Group, LLC*, 505 F. Supp. 2d 561, 565-66 (Dis. Ct. ED Wisconsin 2007).
[40] *A.C. Aukerman Co. v. R.L. Chaides Constr. Co.*, 960 F.2d 1020, 1028-29 (Fed. Cir. 1992).
[41] As noted above, Minnesota Attorney General Swanson has already used her state's consumer protection laws to enjoin one of the most notorious "patent trolls" from doing business in Minnesota.

enforce their patents in good faith. Also, demand letters may incentivize avoiding litigation. If sending demand letters becomes too risky, some may file suit rather than send pre-litigation demand letters.

Further consideration also needs to be given to how the FTC would distinguish between regular licensing activity and abusive activity. As previously discussed, demand letters come in many forms and can serve a number of different legitimate purposes. Patent owners need to have the flexibility to use demand letters to make a general inquiry without automatically opening themselves up to a declaratory judgment action because too much information is required in demand letters to avoid FTC enforcement under this provision. A safe-harbor provision for normal business communications could serve this purpose.

In the same vein, the provision needs to be carefully drafted so it will not be considered an unlawful regulation of free speech under the First Amendment. Although commercial speech can be regulated where it is false or misleading, the factors for finding a deceptive trade practice listed in this provision may be overly broad. Also, the provisions should not undermine the ability of litigants to use the litigation privilege in notifying appropriate persons of pending litigation. To ensure that the law is applied consistently across all fifty states, federal pre-emption should also apply to any state law to prescribe standards for demand letters.

For these reasons, AIPLA conditionally supports this provision, so long as the final legislation does not include other more burdensome statutory changes to patent enforcement rules and procedures.

iv. "Scrivener's Error" in PGR (Section 7(a))

Section 7(a) would correct a so-called "scrivener's error" made during the legislative process of the AIA by striking "or reasonably could have raised" from the estoppel provisions of 35 U.S.C. §325. This change is essential to improving patent quality, as intended by the AIA, by encouraging parties to use this new review proceeding to address questionable patents in the

early stages of patent term when reliance, commercialization and related investment are likely at their minimum. AIPLA supports this provision.

v. Standard for Claim Construction in IPR and PGR (Section 7(b))

S. 1720 aligns the claim construction standard in IPR and PGR with the standard used by district courts. AIPLA supports the legislative proposal to change this standard. As an intended alternative to costly and often burdensome litigation, these processes should apply the same claim construction standards as used in the Federal courts, so that consistent claim construction across these post-grant validity challenges will provide greater certainty in final decisions and reduce the need for further litigation. For example, the vast majority of IPR proceedings involve co-pending litigation. The playing field should be level such that the patent owner is not subjected to a narrower claim construction standard in trying to enforce its claims in district court, but a broader standard for the petitioner to attack its patents before the Patent Trial & Appeal Board.

Failure to use this standard raises the very real prospect of an owner having a patent found to be valid by a federal district court, all the way through appellate review, only to have an administrative tribunal later come to the opposite conclusion. Such an environment creates uncertainty in patent rights and encourages gamesmanship.

vi. Protection of Intellectual Property Licenses in Bankruptcy (Section 8)

This section sets forth provisions for the protection of intellectual property licensees and transferees in the event of bankruptcy of the IP licensor or transferor. First, Section 8(a) amends 11 U.S.C. § 1520(a) to protect licensees of U.S. intellectual property rights by making clear that U.S. courts shall not recognize a bankruptcy trustee's unilateral cancellation of licenses to or transfers of intellectual property rights if the licensor goes bankrupt, whether in a U.S. or foreign bankruptcy proceeding. The intent and effect of this provision would be to protect U.S. licensees and transferees of intellectual property rights from trustees' unilateral rejection of their licenses by extending to them the right of election to retain their rights set forth in 11 U.S.C. § 365(n).

The provision would contribute to the protection of licensees and transferees of U.S. intellectual property rights.

Second, Section 8(b) amends 11 U.S.C. § 101(35A) by adding trademarks, service marks, and trade names as defined in 15 U.S.C. § 1127 (the definitional section of the Lanham Act) to the definition of "intellectual property" in Section 101(35A) of the Bankruptcy Code. In addition, Section 8(b) would make clear that, in the event that election is exercised, the bankruptcy trustee must discharge any quality control obligation of the licensor in order to protect the licensed marks from claims of abandonment or the like. AIPLA supports the changes under this section.

vii. Inventor's Oath or Declaration (Section 10(a)(1))

The proposed amendment to 35 U.S.C. § 115(g)(1) addresses the use of an oath or declaration from a prior application in continuation or divisional applications. This would change the current law which allows use of the prior oath or declaration in a continuation-in-part (CIP) application even when the CIP claims an invention that was not described in the prior application. The proposed amendment also changes the requirements of the submitted oath or declaration from including the required statements set forth in 35 U.S.C. § 115(b), which are applicable to AIA applications, to allow the use of an oath or declaration that was properly filed by or on behalf of the inventor in either a pre-AIA or an AIA application. The change to exclude CIP applications covering new inventions is consistent with the law for pre-AIA applications, and will greatly reduce costs of further patent prosecution by rights holders. We support this provision.

viii. Double Patenting (Section 9)

This provision seeks to codify the judicial doctrine against double patenting for post-AIA patents. AIPLA agrees that there are issues to be worked through for adjusting and simplifying double patenting, but we are concerned that the proposed legislation is overly and perhaps unnecessarily dense and its subtleties difficult to appreciate even by seasoned practitioners. Incidents where this would be applicable are extremely limited and may be disproportionate to

the inevitable unintended consequences. We suggest additional consideration be given, and we are confident that stakeholders can work together resolve any issues.

ix. Time Limit for Commencing Misconduct Proceedings (Section 10(a)(7))

This provision is reportedly being advanced because some apparently believe the USPTO is unable to complete the review of misconduct allegations against registered attorneys and agents in a timely manner, thus apparently necessitating the filing of potentially unwarranted charges to avoid tolling the statute of limitations.

We strongly opposed the original provision in the AIA, which already extended the time limit for bringing disciplinary actions, and we are equally concerned about this amendment. This provision seeks to extend the threat of discipline against individuals within our membership, with the related potential for increases in malpractice insurance rates against all registered members, for unjustified reasons. Many of the provisions of the AIA, more challenging than this, impose one year deadlines on the USPTO, e.g. PGR and CBM. It remains incumbent upon the USPTO to complete their work in this highly sensitive area in the amount of time Congress allocated in the AIA.

Moreover, we are informed by the USPTO that they do not support this proposal and do not in fact need it, as in those few cases where the deadline has loomed, they have entered into tolling agreements with the specific individual under investigation, which was the solution we proposed during the debate on the AIA.

b. Other Legislative Proposals

Several additional legislative proposals have been introduced in the 113th Congress with a stated goal of targeting litigation abuses. Some of the most concerning proposals would introduce statutorily mandated requirements into the patent litigation process or make premature substantive changes to the reforms implemented by the AIA. AIPLA would ask that this Committee use caution before integrating them into S. 1720.

i. Mandating Judicial Rules and Procedures

AIPLA fears that congressionally created litigation rules, as proposed, would intrude on the established role of the Judicial Conference, be overly difficult to amend once fixed in a statute, and would overly restrict the traditional discretion of district court judges to manage their cases. While proposed with good intentions, mandating inflexible rules may have unintended consequences, including increasing costs of compliance and impeding access to the courts particularly for small businesses and independent inventors. In addition, patent litigation cases vary in complexity, including technology, number of patents and products involved, type and amount of prior art, and number of defenses. Rules for managing one case may not be appropriate for other cases, i.e., one size does not fit all. AIPLA believes that the Judicial Conference in its own discretion is in a better position to work with the district courts to institute appropriate case management rules.

Specifically, AIPLA is concerned about proposals that would remove judicial discretion and mandate specific patent litigation rules, including:

- Imposing significantly heightened pleading requirements for patent lawsuits;
- Statutorily limiting discovery in patent litigation;
- Singling out patent litigation or a particular category of litigation with amendments to the rules of joinder; and
- Directing the Judicial Conference to adopt rules and procedures detailed by Congress.

As previously noted, the Judicial Conference Advisory Committee on Civil Rules has begun the process for amending the Federal Rules of Civil Procedure to reduce costs and delays in litigation through active case management and proportionality in discovery. Given these developments, legislative action in this area may be premature or even unnecessary. As we learned through the process which led to the AIA, the courts have an effective ability to recalibrate patent law to properly address legitimate concerns, without the challenges of crafting statutorily acceptable language.

ii. Fee Shifting

Some of the current proposals would make a fee shifting determination mandatory in every case. Having such a provision would add to the cost of litigation, potentially discourage settlement because of the fee shifting incentive, and have the potential to invade the attorney-client privilege in making the determination whether to award fees.

While AIPLA supports giving the judiciary more discretion to award fees in exceptional cases, that is far different than advocating for a presumption that fee shifting is warranted. In addition, in some pending proposals, the burden would be on the losing party to show why fees are *not* warranted rather than on the prevailing party to show why fees are warranted. Moreover, in any proposal that may address fee shifting, the issue of maintaining access to the courts for smaller businesses and innovators, who need to rely on contingent fee arrangements to assert their rights, should be considered. The unintended effect of impeding legitimate rights holders' access to the courts, disincentivizing patent procurement in the first place, or possibly encouraging further lawsuits down the road (such as malpractice claims where fees are awarded) is something to avoid, if possible.

Again, the U.S. Supreme Court and Federal Circuit are currently reviewing the standard for fee shifting in patent cases under the current 35 U.S.C. § 285. As noted above, AIPLA has filed amicus briefs in those cases.

iii. Bonding

Another proposal being considered to address litigation abuse is bonding – requiring a plaintiff to post a bond sufficient to ensure payment of the accused infringer's reasonable fees and expenses, including attorney fees. As proposed, such a bond requirement would only apply to the patent owner and has the potential to tie up necessary resources of a business, a particular crucial consideration for small businesses, which might then hesitate to initiate a valid suit. Additionally, the requirement has the potential to be applied to almost any plaintiff, regardless of

the merits or strength of the particular case. Lastly, the requirement will likely increase costs and prolong litigation, as the court wades through arguments over the many listed factors to be considered. AIPLA opposes this proposal.

iv. Expansion of the Transitional Program for Covered Business Method Patents

Other proposals would expand the scope and duration of the Transitional Program for Covered Business Method Patents (CBM), which AIPLA opposes. CBM was specifically enacted in Section 18 of the AIA to allow for a specialized provisional post-grant review of validity of certain business-method patents (those related to financial services). The PGR proceeding was developed to permit for a limited time after issuance a wide-ranging challenge to patent validity, balancing the challenger's need for plenary review against the patentee's need for repose and quiet title. However, the CBM provision inserted into the AIA legislation created an exception to this premise of the PGR procedure, ostensibly because many questionable business method patents were beyond the reach of this new procedure. Nonetheless, the CBM provision was accepted as part of a compromise that allowed the legislation to go forward. It was adopted for a limited period of time, 8 years, to quickly "clean out" that small set of patents that were issued when the law and regulations in this area were in doubt. But the law of business method patents, as well as the procedures for examining applications claiming that subject matter, has substantially evolved.

The CBM provision has been proposed to be revised and extended before there has been time to determine if it is serving its purpose as originally enacted. There are numerous issues that remain to be addressed in the transitional program. For example, cases are only now beginning to make their way through the program and there has been little analysis of those cases and whether the processes are working as envisioned. Given the limited number of cases brought thus far, it is premature to extend the transitional program before it has been truly tested and evaluated, and it is unclear if it will be needed in light of, e.g., AIA's other *inter partes* review and post-grant review programs. To expand the procedure now as proposed is to put at significant risk over half of all U.S. patents, representing the most important U.S. technologies, without even having one CBM case yet tested on appeal.

v. USPTO Funding

One additional legislative proposal that AIPLA has a long history of support for, and one which I as a former Director would be remiss in not singling out again in this debate, is providing full and sustainable funding to the USPTO. AIPLA strongly believes that the single most important reform for improving the quality of patents is securing permanent full funding for the USPTO. Congress understood the importance of giving the USPTO access to all of its user fees at the time of the AIA, but 2 years after its passage USPTO funds are again being made unavailable to the Office due to sequestration.

As discussed above, some of the abuse in patent litigation is thought by some to stem from lower quality patents with unclear terms, overly broad claims, or both. In their view, these patents may be problematic because of the difficulty for entities, even those that regularly interact with the patent system, to determine what the patent actually covers, and therefore whether the product they are developing may be infringing, without the intervention of the courts. Full funding of the USPTO will give it the ability to issue the highest quality patents possible.

Regarding the specific issue of previous efforts at reform, sequestration has unfortunately delayed the efforts and improvements mandated by the AIA, and undoubtedly risks undercutting major initiatives designed to continue improving the patent system. Until full funding is restored to the USPTO, AIPLA has reservations about further burdening the patent system with another round of reforms. To that end, AIPLA would strongly support making permanent USPTO funding central to any legislative initiative.

III. Conclusion

The patent system continues to be a key economic force in the U.S., and AIPLA believes the goal of any legislative effort should be to find the right balance of all interests. It should protect the innovators that drive virtually every U.S. industry, and encourage innovation by individual businesses, both large and small. The patent system should also facilitate the enforcement of

patent rights while making any corrections to stop the abusive behavior of bad actors who take unfair advantage of the litigation system.

AIPLA appreciates the Committee's careful attention to this important but very complex issue, and we look forward to working with you to find a solution that strikes the proper balance.

QUESTIONS

QUESTIONS SUBMITTED BY SENATOR PATRICK LEAHY FOR JOHN DWYER

Questions Of Senator Patrick Leahy (D-Vt.),
Chairman, Senate Judiciary Committee
Hearing on "Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse"
December 17, 2013

Questions for John Dwyer, CEO of New England Credit Union

In your testimony, you gave several examples of demand letters that appear to have been sent with minimal diligence and provide only vague assertions of how the recipient is alleged to infringe. What is the impact of receiving these letters on a small business? What resources are currently available to help small businesses that are targeted, and would it be beneficial to have further information resources and support available at the Patent and Trademark Office?

QUESTIONS SUBMITTED BY SENATOR PATRICK LEAHY FOR MICHAEL MAKIN

Questions Of Senator Patrick Leahy (D-Vt.),
Chairman, Senate Judiciary Committee
Hearing on "Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse"
December 17, 2013

Questions for Michael Makin, CEO of Printing Industries of America

An increasing number of small businesses are being targeted for patent infringement based on products they simply use or sell, but did not manufacture. What obstacles confront a small business trying to defend a patent claim when they simply purchased the product that is at issue in the suit? Do you agree that a product's manufacturer is often best situated to address the issues of validity and infringement in a patent suit, and if so, why?

QUESTIONS SUBMITTED BY SENATOR PATRICK LEAHY FOR DANA RAO

Questions Of Senator Patrick Leahy (D-Vt.),
Chairman, Senate Judiciary Committee
Hearing on "Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse"
December 17, 2013

Questions for Dana Rao, VP of Intellectual Property & Litigation for Adobe

1) As a manufacturer, Adobe has challenged some patent assertion entities that have sued Adobe's customers for their use of Adobe products. In your testimony, you reference the difficulties Adobe has sometimes faced trying to "stay" lawsuits against its customers while it litigates the merits of the infringement suit.

What are the advantages of obtaining a stay in these cases, and what are some of the potential effects for Adobe or its customers when a stay is denied? Would the customer stay provision in S.1720 help Adobe to take action when its customers are being targeted in infringement suits?

2) A number of commentators have raised concerns about the quality of patents in the software industry. The Leahy-Smith America Invents Act created several important mechanisms to improve patent quality, and the Patent & Trademark Office (PTO) is also undertaking efforts to improve its process for granting patents.

What are your views on how these processes are working? What more can or should be done by Congress, the courts, or the PTO to improve the quality of patents that are issued?

QUESTIONS SUBMITTED BY SENATOR PATRICK LEAHY FOR PHILIP JOHNSON

Questions Of Senator Patrick Leahy (D-Vt.),
Chairman, Senate Judiciary Committee
Hearing on "Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse"
December 17, 2013

Questions for Phil Johnson, VP of Intellectual Property at Johnson & Johnson and member of the Coalition for 21st Century Patent Reform

1) You have expressed concern that some efforts to address the problem of patent trolls may have unintended consequences for legitimate patent holders seeking to protect their rights. What do you think are the most promising strategies for addressing abusive conduct by certain actors, without unduly burdening legitimate patent holders?

2) The Supreme Court has agreed to hear several important patent cases this term, including a case focusing on the patentability of computer-implemented inventions. In your testimony, you state that next year "the landscape of patent litigation may look significantly different than it does today" as a result of those cases. Please elaborate on that statement. Do the cases before the Court have the potential to address some of the concerns that have been raised by businesses that are being targeted in patent suits?

QUESTIONS SUBMITTED BY SENATOR PATRICK LEAHY FOR DR. STEVE BOSSONE

Questions Of Senator Patrick Leahy (D-Vt.),
Chairman, Senate Judiciary Committee
Hearing on "Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse"
December 17, 2013

Question for Dr. Steve Bossone, VP of Intellectual Property, Alnylam

You have expressed concern that some efforts to address the problem of patent trolls may have unintended consequences for legitimate patent holders seeking to protect their rights. What do you think are the best strategies for addressing abuses in the system in a meaningful way, without unduly burdening the rights of legitimate patent holders?

QUESTIONS SUBMITTED BY SENATOR PATRICK LEAHY FOR HARRY WOLIN

Questions Of Senator Patrick Leahy (D-Vt.),
Chairman, Senate Judiciary Committee
Hearing on "Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse"
December 17, 2013

Questions for Harry Wolin, Advanced Micro Devices

Numerous groups have raised concerns about transparency in the patent system, and the ability of trolls to target companies through "shell companies." The legislation I have introduced includes two transparency provisions to help address those issues. One requires plaintiffs who file a lawsuit to disclose the certain ownership information under the standard that has long been used in the Northern District of California. The other requires ongoing disclosure to the Patent and Trademark Office when a patent is transferred so that the PTO has a record of current ownership.

Do you agree that improving transparency will help address abuses in the patent system, and if so, why? As someone who has worked in companies that possess a significant patent portfolio, do you view these requirements as manageable for patent holders to comply with?

QUESTIONS SUBMITTED BY SENATOR PATRICK LEAHY FOR HON. Q. TODD DICKINSON

Questions Of Senator Patrick Leahy (D-Vt.),
Chairman, Senate Judiciary Committee
Hearing on "Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse"
December 17, 2013

Questions for Q. Todd Dickinson, former Director of PTO and current Executive Director of the American Intellectual Property Law Association

1) The America Invents Act implemented several important measures to improve patent quality. What are your views on how those processes are working? What more can or should be done by Congress, the courts, or the Patent & Trademark Office to improve the quality of patents that are issued?

2) You have expressed concern that Congress should give appropriate deference to the Judicial Branch. However, some proponents of reform feel strongly that individual courts are not responding to litigants' needs. Within the judicial branch, what further steps could be taken by the Judicial Conference, the Supreme Court, or the Federal Circuit to ensure that courts process patent cases fairly and efficiently?

3) You have expressed concern that some efforts to address the problem of patent trolls may have inadvertent consequences for legitimate patent holders seeking to protect their rights. What do you think are the best strategies for addressing abuses in the system in a meaningful way, without unduly burdening the rights of legitimate patent holders?

QUESTIONS SUBMITTED BY SENATOR SHELDON WHITEHOUSE FOR ALL WITNESSES

Hearing: "Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse"
Question for the Record of Sen. Sheldon Whitehouse

Question for All Witnesses

Proactive Action by Corporate Defendants

Many Rhode Island businesses have been the victims of patent troll abuse, receiving bad-faith demand letters and being forced to settle lawsuits or engage in costly litigation based on dubious patent claims. Small and medium-sized companies, many of whom do not have an attorney on staff, often do not have the resources to effectively fight patent troll abuse, which is why reforms such as prohibiting bad-faith demand letters and allowing manufacturers to stay suits against customers are necessary and appropriate.

Large corporate defendants, on the other hand, may have additional resources at their disposal that could allow them to take proactive steps to combat abuses by patent trolls. Consideration of such steps should be included in the discussion of how to address patent troll abuses.

Independent of legislation to reform the patent litigation system, what are some proactive steps that large corporations that are frequently defendants in patent suits could take to better defend themselves against patent troll abuses? In particular, please address the positive and negative aspects of the following potential actions:

- Referring patent trolls and their attorneys who initiate frivolous lawsuits and fraudulent and harassing conduct to the appropriate law enforcement authorities and disciplinary bodies, including, in the case of attorneys, state bar disciplinary boards;
- Pursuing equitable remedies, such as injunctions against future suits by trolls with a demonstrated record of frivolous litigation, fraud, and harassment;
- Pursuing Rule 11 sanctions against attorneys bringing frivolous suits;
- Increased use of joint defense agreements;
- Purchase of patent litigation insurance;
- Increased licensing and purchase of relevant patents; and
- Simply refusing to pay unjustified claims.

QUESTIONS SUBMITTED BY SENATOR CHUCK GRASSLEY FOR JOHN DWYER

Senator Grassley's Written Questions for Senate Judiciary Committee Hearing, "Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse," December 17, 2013

Questions for Mr. Dwyer

1. What do you believe are the most promising proposals currently being considered by Congress that would help deter abusive activity in the patent system?

2. What are some examples of the costs to business and industry from abusive patent litigation and how would legislation help?

QUESTIONS SUBMITTED BY SENATOR CHUCK GRASSLEY FOR MICHAEL MAKIN

Senator Grassley's Written Questions for Senate Judiciary Committee Hearing, "Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse," December 17, 2013

Questions for Mr. Makin

1. Over the past two years, there have been a number of studies seeking to approximate the economic impact of abusive patent suits. I know that you can't disclose numbers, but could you share with the Committee an approximation of how much patent litigation makes up of your total litigation budget and whether that is primarily devoted to initiating or defending suits?

2. What do you believe are the most promising proposals currently being considered by Congress that would help deter abusive activity in the patent system?

3. What are some examples of the costs to business and industry from abusive patent litigation and how would legislation help?

QUESTIONS SUBMITTED BY SENATOR CHUCK GRASSLEY FOR DANA RAO

Senator Grassley's Written Questions for Senate Judiciary Committee Hearing, "Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse," December 17, 2013

Questions for Mr. Rao

1. What do you believe are the most promising proposals currently being considered by Congress that would help deter abusive activity in the patent system?

2. As noted by some of the witnesses, the Supreme Court is poised to address some of your patent abuse concerns, such as the correct threshold for fee-shifting. In your opinion, should Congress wait to see what the Court does first? How would fee shifting change the incentives and dynamics in patent litigation?

3. Isn't fee shifting in the Patent Act already? What is wrong with the current statute that provides for fee shifting?

4. How much does Adobe spend each year on patent troll litigation, and what is the impact of such spending on consumers and Adobe investment in the United States?

5. What are some examples of the costs to business and industry from abusive patent litigation and how would legislation help?

6. How much of a difference would increasing funding to the Patent and Trademark Office make in addressing the patent troll problem? Would Adobe be willing to pay more for its own patent applications, to help fund the Patent Office better?

7. In his prepared statement, Mr. Dickinson suggested that it might not be necessary for Congress to focus on the rules and procedures in patent litigation to curb the abusive practices of patent trolls. He testified, "*In point of fact . . . many of these practices—sending a multiplicity of demand letters containing vague allegations and minimal information, with persistent but relatively modest settlement terms, and apparently with little preparation for actually bringing a lawsuit—may have less to do with abusing the rules and*

procedures in patent litigation per se than they have to do with consumer fraud and deceptive trade practices arising from the demand letter . . . Law enforcement has developed measures to deal with such wrongdoers." Do you agree? Please explain why (or why not) Congress, rather than another enforcement body, should address the patent troll issue.

8. In his prepared statement, Mr. Bossone said regarding the deferral of discovery provisions in S. 1013 and H.R. 3309, *"[T]hese provisions would routinely defer merits discovery in virtually all patent cases until after the court issues a claim construction order. While there undoubtedly are cases in which such discovery deferrals are appropriate, doing so as a general rule would effectively bifurcate discovery on the merits in most cases and tend to prolong patent litigation by 9-12 months, if not longer, across the board. Such delays would accrue even in routine patent litigation that does not involve meritless claims, small businesses defendants, or "patent trolls" ... In my opinion, these proposals are too rigid and interfere unduly with the responsibility and authority of district courts to manage patent litigation in a case-specific manner."* Do you agree? Do you believe these provisions would result in added delays or otherwise would unduly interfere with the court's ability to manage patent litigation?

9. In your opinion, does the recent rise in patent litigation encourage innovation?

QUESTIONS SUBMITTED BY SENATOR CHUCK GRASSLEY FOR HARRY WOLIN

Senator Grassley's Written Questions for Senate Judiciary Committee Hearing, "Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse," December 17, 2013

Questions Mr. Wolin

1. In your view, are the reforms in Senator Leahy's bill adequate to address the threat from patent trolls that you confront? Why or why not?

2. AMD is a holder of numerous patents. Do you believe that the reforms dealing with strengthening pleading requirements, improving transparency requirements and limiting discovery will hurt AMD's ability to enforce its patents against infringers?

3. In your opinion, which types of abusive patent litigation are best addressed by the courts, PTO or legislation?

4. How would fee shifting change the incentives and dynamics in patent litigation?

5. What do you believe are the most promising proposals currently being considered by Congress that would help deter abusive activity in the patent system?

6. Some of the witnesses have expressed concerns that the heightened pleading requirements would complicate and delay litigation because of disputes over whether the pleading requirements have been met. Do you believe that these concerns are justified?

7. Some have claimed that proposals contained in the bills will disadvantage legitimate companies, vendors and universities. Do you believe that these concerns are justified? Others have claimed that the proposals will weaken the ability of patent holders and inventors to protect their patents against infringers. Do you agree? How do you respond to those concerns?

8. In his prepared statement, Mr. Dickinson suggested that it might not be necessary for Congress to focus on the rules and procedures in patent litigation to curb the abusive practices of patent trolls. He testified, "*In point of fact . . . many of these practices—sending a multiplicity of demand letters containing vague allegations and minimal information, with persistent but*

relatively modest settlement terms, and apparently with little preparation for actually bringing a lawsuit—may have less to do with abusing the rules and procedures in patent litigation per se than they have to do with consumer fraud and deceptive trade practices arising from the demand letter . . . Law enforcement has developed measures to deal with such wrongdoers." Do you agree? Please explain why (or why not) Congress, rather than another enforcement body, should address the patent troll issue.

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10. In your opinion, does the recent rise in patent litigation encourage innovation?

ANSWERS

RESPONSES OF JOHN DWYER TO QUESTIONS SUBMITTED BY SENATORS LEAHY, GRASSLEY, AND WHITEHOUSE

Responses of John Dwyer
President and CEO, New England Federal Credit Union
to Questions Submitted for the Record
Hearing on "Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse"
December 17, 2013

Question of Senator Leahy:
In your testimony, you gave several examples of demand letters that appear to have been sent with minimal diligence and provide only vague assertions of how the recipient is alleged to infringe. What is the impact of receiving these letters on a small business? What resources are currently available to help small businesses that are targeted, and would it be beneficial to have further information resources and support available at the Patent and Trademark Office?

Answer of John Dwyer:
For a small business, receiving a demand letter can be an expensive, distracting, scary proposition. The first problem is finding someone to evaluate the demand. Because of the highly specialized nature of patent law, a small business's normal attorney may not be competent to evaluate the demand—and for some small businesses and financial institutions, including mine, there may not be an attorney on-staff at all. Cost is another problem. Once the business secures counsel, those attorneys will likely spend thousands of dollars or more simply to give a preliminary answer as to the validity of the patents and infringement theory. This is why demand letters with relatively low "nuisance" value settlements often are successful; an early settlement is often much cheaper for a defendant than fighting.

For a small business, the fear of getting sued is also palpable. Many small businesses will assume they are guilty of infringement simply because they received the

letter, not realizing that many patent trolls send essentially identical generalized demands to many businesses. Litigation is an expensive and uncertain process, and businesses will want to do what they can to manage their risks, even if that means entering into a settlement that may not be necessary.

Resources do exist to help small businesses that are targeted, but they are unfortunately insufficient. For example, many trade associations, including the Credit Union National Association, track patent infringement cases and demand letters as they learn about them. Trade associations can help put those that receive demand letters in touch with one another, and can spot trends as they develop. However, especially at the demand letter stage, the information possessed by trade associations may not scratch the surface of the problem. Many small businesses that receive demand letters are afraid of sharing them, even to a trade association that is "on their side," because they are fearful of identifying themselves as targets.

It would be extremely helpful to have additional resources available to small businesses. A registry of demand letters from entities that send more than 10 or 20 demand letters in a single calendar year would be one beneficial addition. This database could be maintained by the PTO or FTC and would be publicly available. This is important for a variety of reasons. By providing businesses that receive a demand letter with the ability to communicate with one another, a demand letter registry would assist small businesses in the formation of joint defense groups, which could help reduce defense costs, and would help businesses quickly identify competent counsel familiar with the specific troll at issue. In addition, one of the biggest ways businesses are intimidated is the lack of knowledge of who else has been targeted. As a recipient of a

demand letter, you have no idea if you are the only one, or one of many, who has attracted the patent troll's attention. A registry would immediately tell a recipient others have received letters from the same entity, which might make it more likely a business would fight.

Existing PTO programs should also be strengthened and improved. We share the views of many other members of the financial services industry in encouraging the Committee to make the Transitional Program for the Review of Covered Business Method Patents (CBM), which was created in Section 18 of the America Invents Act of 2011, permanent. We strongly commend Senator Schumer's efforts to do this. Moreover, as implemented by the PTO, the CBM program is unfortunately out of reach to many small financial institutions because the filing and post-institution fees charged by PTO together are more than $30,000. This is more than the total settlement amount involved in many of the cases confronting small financial institutions, and comes before the substantial legal fees involved in bringing the case to the PTO. We urge the Senate to follow the lead of the House and grant the Director of the PTO the authority to waive the program fees to accommodate community banks and credit unions.

Question of Senator Grassley:

1. What do you believe are the most promising proposals currently being considered by Congress that would help deter abusive activity in the patent system?

Answer of John Dwyer:

There are a number of proposals that could help deter abusive activity in the patent system.

S. 1720 (Sens. Leahy and Lee). The Leahy-Lee "Patent Transparency and Improvements Act of 2013" is not a silver bullet, but would go a long way toward solving the problem small businesses face with patent trolls. In particular, we are strongly supportive of Section 5 of the bill, which clarifies that the Federal Trade Commission has enforcement authority over patent trolls that operate in unfair or deceptive ways. This provision could be strengthened by providing the FTC with limited, targeted rulemaking authority so that the Commission has the ability to evolve in its enforcement powers as trolls evolve.

We also are supportive of the efforts to address the concerns of end-users in Section 4 of S. 1720, which provides for the ability to stay an infringement case against a customer if the manufacturer consents in writing. This is an important step for small businesses and would provide needed protection. However, the provision may not go far enough for small financial institutions. Many of our technology service providers, including the ATM manufacturer in my own patent infringement case, refuse to join litigation when an infringement case is brought. We thus encourage adding a right of contribution and/or mandatory joinder to the patent law to enable a more equitable distribution of liability between end-users and suppliers.

S. 866 (Sen. Schumer). The "Patent Quality Improvement Act of 2013" would provide needed improvements to the Transitional Program for the Review of Covered Business Method Patents (CBM), an important and powerful tool created in Section 18 of the America Invents Act of 2011. In a short time, the program has already demonstrated its importance. Not only has the PTO been able to examine prior art and issues of subject

matter eligibility to invalidate some low-quality patents, but the courts have better managed their own resources by staying cases pending PTO re-examination.

Unfortunately, Congress artificially constrained the program by including a sunset provision. S. 866 makes the program permanent, ensuring that the full spectrum of low-quality business method patents will be subject to review. We strongly support S. 866 and efforts to strengthen Section 18's potent tools, and commend Senator Schumer's efforts to improve on this important program.

H.R. 3540 (Rep. Polis). The "Demand Letter Transparency Act of 2013," a House bill that does not yet have a Senate companion, would go a long way to helping small businesses faced with unfair and deceptive demand letters. H.R. 3540 requires any entity that sends 20 or more demand letters during any 365-day period disclose certain information to the PTO, and directs the PTO to create a database to make that information publically available. It also requires any demand letter sent to another entity to include certain specified minimum information that would provide demand letter recipients with the ability to quickly evaluate the claims being asserted. We encourage the Judiciary Committee to use H.R. 3540 as a model to strengthen the demand letter provisions in S. 1720.

S. 1013 (Sens. Cornyn and Grassley). The "Patent Abuse Reduction Act of 2013" enhances pleading standards, limits discovery to core documents and would require some fee shifting depending on the outcome of litigation. Enhanced pleading standards will provide much-needed transparency related to the merits or weaknesses of a lawsuit. If plaintiffs are required to specifically identify the accused product as well as asserted claims and factual basis for infringement, would-be defendants will be better

able to make determinations regarding licensing or litigation. The limitations on discovery help balance the costs of litigation. In addition, the focus around core documents could save would-be defendants from exorbitant costs related to document production. Discovery should not require defendants to provide patent trolls with an unlimited window into a company's business operations. S. 1013 would help ensure that the discovery process is no longer abused. S. 1013 would also deter abusive patent litigation by helping to reverse the economic incentives that fuel frivolous patent infringement lawsuits through fee shifting provisions.

S. 1612 (Sen. Hatch). S. 1612 builds on the fee shifting provisions of S. 1013 by empowering the court, on a motion from the defendant, to order the party alleging infringement to post bond to cover the other party's expenses. For cases in which bonds are required, defendants will know fee shifting provisions will be effective by ensuring that patent assertion entities have the money to pay legal expenses at the end of an unsuccessful case.

Question of Senator Grassley:

2. What are some examples of the costs to business and industry from abusive patent litigation and how would legislation help?

Answer of John Dwyer:

The costs of legal fees, settlements, and time are the most direct costs of abusive patent litigation. Patent cases are very expensive and an enormous distraction for companies in many sectors of our economy, and the recent dollar value of settlements is eye-popping. A 2012 study found that defendants and licensees paid non-practicing

entities (NPEs) $29 billion in 2011; this is a 400% increase from 2005.[1] This follows a 2011 study that details fourteen NPEs earned approximately $7.6 billion from 2000 to 2010, while the public companies targeted experienced a decline of $87.6 billion in shareholder value during the same period.[2]

By empowering NPEs to hold companies hostage, the system forces excess costs onto consumers, and ultimately deters companies from providing products and services. Consumers lose because they cannot access innovative products and pay more for what is available. For credit unions and other not-for-profit entities, the result is even more acute: any money spent on a patent claim is money that is taken out of the products and services for the members and communities these organizations serve.

Legislation is necessary because, under existing law, incentives are misaligned. Companies face the choice of defending themselves through a costly and uncertain litigation process, or settle the claim by paying the NPE licensing fees. Meanwhile, the NPE has nothing to lose: since NPEs do not make anything, they are subject to little or no discovery costs, are often protected from counterclaims, can create shell companies to obscure details that may inform effective defense strategies, and can extract licenses through vaguely worded demand letters with postage the only substantial cost. The imbalance favors NPEs by incentivizing settlement even for meritless claims. Legislation is required to ensure innovation throughout all sectors of the productive economy can continue undeterred.

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[1] Bessen, James E., and Michael J. Meurer. "The Direct Costs from NPE Disputes." Boston University School of Law, Law and Economics Research Paper No. 12-34, June 28, 2012.
[2] Bessen, James E., Michael J. Meurer, and Jennifer Laurissa Ford. "The Private and Social Costs of Patent Trolls." Boston University School of Law, Law and Economics Research Paper No. 11-45, September 19, 2011.

Question of Senator Whitehouse:

Many Rhode Island businesses have been the victims of patent troll abuse, receiving bad-faith demand letters and being forced to settle lawsuits or engage in costly litigation based on dubious patent claims. Small and medium-sized companies, many of whom do not have an attorney on staff, often do not have the resources to effectively fight patent troll abuse, which is why reforms such as prohibiting bad-faith demand letters and allowing manufacturers to stay suits against customers are necessary and appropriate.

Large corporate defendants, on the other hand, may have additional resources at their disposal that could allow them to take proactive steps to combat abuses by patent trolls. Consideration of such steps should be included in the discussion of how to address patent troll abuses.

Independent of legislation to reform the patent litigation system, what are some proactive steps that large corporations that are frequently defendants in patent suits could take to better defend themselves against patent troll abuses? In particular, please address the positive and negative aspects of the following potential actions:

- Referring patent trolls and their attorneys who initiate frivolous lawsuits and fraudulent and harassing conduct to the appropriate law enforcement authorities and disciplinary bodies, including, in the case of attorneys, state bar disciplinary boards;
- Pursuing equitable remedies, such as injunctions against future suits by trolls with a demonstrated record of frivolous litigation, fraud, and harassment;

- Pursuing Rule 11 sanctions against attorneys bringing frivolous suits;
- Increased use of joint defense agreements;
- Purchase of patent litigation insurance;
- Increased licensing and purchase of relevant patents; and
- Simply refusing to pay unjustified claims.

Answer of John Dwyer:

Credit unions, as member owned not-for-profit financial cooperatives that are among the smallest financial institutions in America, support prohibitions on bad-faith demand letters and provisions to allow manufacturers to stay suits against their customers. As is true for many small and medium-sized entities, my credit union does not have an attorney on staff, and the money and time spent on outside attorneys to evaluate and fight the patent claim brought against my credit union could be better spent doing almost anything else.

We are not in a position to know how large companies can respond to patent litigation and demand letters, but we do note the following. We believe that the worst patent trolls should be referred to law enforcement and disciplinary authorities, and believe that Rule 11 should be used aggressively by defendants faced with frivolous litigation. We also believe that increased use of joint defense groups would reduce defense costs.

However, especially at the demand letter stage, it is difficult for individual entities to know which trolls are the worst offenders, or determine who else has received a similar letter to make forming a joint defense group possible. It is the repeat actions of trolls that

often make it obvious which entities are engaged in abusive behavior, but an individual defendant generally has no way of knowing what the troll is doing to others. In theory, trade associations should provide some of the detail to bridge this gap. However, trade associations are often only aware of a fraction of the total assertions at the demand letter stage, as many entities that receive demand letters are reluctant to tell others they have been made targets of the troll. Trade associations, often many levels removed from the entities that receive demand letters, also necessarily lag months behind what a troll is doing day-to-day.

This is why a demand letter registry would be a beneficial addition to the patent system. We believe that an entity that sends more than 10 to 20 demand letters in a single calendar year should be required to enter all letters into a registry that would be publicly available and maintained by a federal agency, perhaps the PTO or FTC. This would provide businesses that receive a demand letter with the ability to communicate with one another, which would allow the efficient formation of joint defense groups, would assist small entities in the identification of counsel, and could reduce defense costs. A registry would also provide the FTC with the information it needs to conduct enforcement proceedings against abusive trolls, and would also remove one of the biggest factors of intimidation – the fear that you, alone, are being targeted.

RESPONSES OF MICHAEL MAKIN TO QUESTIONS SUBMITTED BY SENATORS LEAHY, GRASSLEY, AND WHITEHOUSE

Questions Of Senator Patrick Leahy (D-Vt.),
Chairman, Senate Judiciary Committee
Hearing on "Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse"
December 17, 2013

Questions for Michael Makin, CEO of Printing Industries of America

An increasing number of small businesses are being targeted for patent infringement based on products they simply use or sell, but did not manufacture. What obstacles confront a small business trying to defend a patent claim when they simply purchased the product that is at issue in the suit? Do you agree that a product's manufacturer is often best situated to address the issues of validity and infringement in a patent suit, and if so, why?

When a small business faces a demand letter or lawsuit claiming infringement based on their use of a product they have purchased, there are a number of problems that they encounter when seeking to defend themselves. At the highest level, the most significant problem that we face centers around the lack of information, both about the patent being infringed and the allegedly infringing product. In the case of the patent being infringed, most demand letters contain little to no information about what the patent covers. Should we find ourselves in litigation, the initial pleading is no more helpful in determining the scope and breadth of the patent in question. In fact, most patent pleadings that we have experienced in the printing industry do little more than provide us notice of the suit. To that end, we believe that any reforms that the Senate Judiciary Committee considers should include provisions requiring the disclosure of additional information both demand letters and in patent legal filings. We believe that requiring this sort of information is consistent with both the spirit and intent of patent system. Namely, a patent holder is granted a limited exclusive right to invention on the condition of disclosing the metes and bounds of their invention so that the public is put on notice as to the nature of their invention. The obligation, though, to define the parameters of an invention should not end at the Patent and Trademark Office's door, but should carry on throughout the life of the patent, including the submission of demand letters and in legal pleadings. This information is vital to a party facing potential litigation to allow them to make an informed decision as to whether to defend or settle.

Additionally, it is imperative for a business facing a suit of this sort to know of any licensing agreements. Some of the most egregious cases currently pending in the judicial system are based on patents that have already been properly licensed by the manufacturer or distributor of a product. It is imperative for any business, but in particular small businesses with limited legal resources, to know this information at the outset so that we know to whom to turn and ascertain whether we are liable for any wrongdoing.

With regard to questions of validity and infringement, we do believe that a manufacturer is best situated to handle these matters. The manufacturer has the greatest familiarity with any given product's supply chain, including component parts of partners incorporated into the final product, and should have the relevant information necessary to address the legal and factual questions that arise as to the nature of infringement in many of these cases. That said, we do think that it is important for any proposed reforms that the Committee considers to account for

established bodies of law, including the value of contractual agreements and implications with collateral estoppel.

Hearing: "Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse"
Question for the Record of Sen. Sheldon Whitehouse

Question for All Witnesses

Proactive Action by Corporate Defendants

Many Rhode Island businesses have been the victims of patent troll abuse, receiving bad-faith demand letters and being forced to settle lawsuits or engage in costly litigation based on dubious patent claims. Small and medium-sized companies, many of whom do not have an attorney on staff, often do not have the resources to effectively fight patent troll abuse, which is why reforms such as prohibiting bad-faith demand letters and allowing manufacturers to stay suits against customers are necessary and appropriate.

Large corporate defendants, on the other hand, may have additional resources at their disposal that could allow them to take proactive steps to combat abuses by patent trolls. Consideration of such steps should be included in the discussion of how to address patent troll abuses.

Independent of legislation to reform the patent litigation system, what are some proactive steps that large corporations that are frequently defendants in patent suits could take to better defend themselves against patent troll abuses? In particular, please address the positive and negative aspects of the following potential actions:

- Referring patent trolls and their attorneys who initiate frivolous lawsuits and fraudulent and harassing conduct to the appropriate law enforcement authorities and disciplinary bodies, including, in the case of attorneys, state bar disciplinary boards;
- Pursuing equitable remedies, such as injunctions against future suits by trolls with a demonstrated record of frivolous litigation, fraud, and harassment;
- Pursuing Rule 11 sanctions against attorneys bringing frivolous suits;
- Increased use of joint defense agreements;
- Purchase of patent litigation insurance;
- Increased licensing and purchase of relevant patents; and
- Simply refusing to pay unjustified claims.

The printing industry is primarily composed of small and medium sized businesses. On average, each printing plant employs 27 workers and ships $5 million worth of product annually. Rhode Island is a good example of this. There are just over 170 printing facilities in your state that employ a total of 3,300 workers.

As such, I cannot speak to how multinational corporations are handling patent litigation, but I can tell you how we as a trade association have focused to better arm and educate our members as to the resources available to them to combat these sorts of cases. In so doing, we have had to adapt as an association and provide services to our members that until now they haven't needed, including challenging the validity of one patent infringement case regarding Computer-to-Plate (CTP) technology. To challenge this validity at the US Patent Trademark Office (PTO), we first

had to allocate reserve resources as the association does not maintain a legal defense fund. From these reserves, the association spent approximately $100,000 to conduct all activities needed to petition the US Patent Trademark Office (PTO) as well as to provide guidance to affected printing companies. If a trial had been ordered, our legal bill would have skyrocketed. We also expended approximately 250 hours of in-house staff work. For an association our size, this caused a serious disruption, as some projects were left largely unattended while we worked on it. For example, we took a three-month hiatus from publishing our "Tech Alert" newsletter, an important method of communicating technology and research information to the industry.

I am disappointed to report that on December 31, 2013, the Patent Trial and Appeal Board (PTAB) denied our petitions to review the validity of the two patents owned by CTP Innovations. There is no appeal available to us. CTP will undoubtedly request that the court lift the stays on the court cases. Companies could still seek a summary judgment against CTP based on patent invalidity using the prior art we uncovered supplemented with additional prior art. The Patent Office interprets patents broadly whereas courts are more likely to interpret them narrowly, thus the PTAB rulings don't preclude success in court. Any company that can prove they were using a computer-to-plate workflow prior to the 1999 patent filing dates should have a strong case. We are making all of the prior art we collected (including art not referenced in the petitions) will be made available, but we are back to square one: small businesses being forced to divert resources away from job creation, facility improvements, new equipment and other activities that contribute positively to the manufacturing economy. And, in the end, patent trolls have not been deterred from sending demand letters to even more of our member companies.

In the limited time that we have been exposed to the inner workings of the patent litigation system, I have connected with a number of large companies who frequently partner with our industry or otherwise have decades of experience with the patent litigation system. It is my understanding that the call for patent litigation reform legislation was a last resort for many of these large corporations. They were facing mounting legal costs and limited to little success with the potential alternative defenses, including those listed. I understand that it was well over a decade ago in 2003, when the National Academy of Sciences issued a report on the state of the patent system and series of legislative and administrative recommendations, that many of these large corporations thought that reform was even a possibility. Despite this and a series of other studies and reports that have followed since then reiterating the need for reform to the patent litigation system, these large companies often engaged in intellectual property issues, and now small businesses – like commercial printers, have sought any creative and alternative avenue possible to fight these suits. Most recently, this has included filing RICO actions, which is a path Cisco attempted within the past year, to expose the true nature of these businesses and keep them from going after end-users. All of these efforts, though, have seen limited success, primarily because the current laws do not provide the courts with sufficient flexibility to find against trolls. This may seem obvious to say but to disincentivize abusive patent litigation, you have to remove the current systematic incentives to abuse. These are ingrained in the very words of the current patent law, which ironically now run counter to the patent system's spirit. Taking into consideration that all previous efforts to use existing mechanisms has seen limited success, we believe that legislative action directed at the systematic abuses is the only way that we can effectively address this problem.

Senator Grassley's Written Questions for Senate Judiciary Committee Hearing, "Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse," December 17, 2013

Questions for Mr. Makin

1. Over the past two years, there have been a number of studies seeking to approximate the economic impact of abusive patent suits. I know that you can't disclose numbers, but could you share with the Committee an approximation of how much patent litigation makes up of your total litigation budget and whether that is primarily devoted to initiating or defending suits?

Printing Industries of America does not have a standing legal defense fund for patent litigation. In fact, our association has been in the same boat as many of our member companies essentially as we have spent time and money learning about the abusive patent litigation process over the past year. As I stated in my testimony there are at several known patent infringement actions targeting our industry. As a national association, we believed it was important to lead the battle in defense our members – but we were only able to afford to target one of these cases (Computer-to-Plate or CTP technology). In taking action against patent trolls in just one instance, we as an association we spent approximately $100,000 to conduct all activities needed to petition the US Patent Trademark Office (PTO) as well as to provide guidance to affected printing companies. If a trial had been ordered, our legal bill would have skyrocketed.

We also expended approximately 250 hours of in-house staff work. For an association our size, this caused a serious disruption, as some projects were left largely unattended while we worked on it. For example, we took a three-month hiatus from publishing our "Tech Alert" newsletter, an important method of communicating technology and research information to the industry.

Understanding the process of petitioning the PTO to review the patent for validity was daunting, but ultimately we figured out the process and went through the proper steps. Unfortunately, both of our petitions were denied. It is not out of the question that our lack of expertise in filing petitions contributed to the denial. To that end, we are currently paying yet another law

firm specializing in patent issues to review our process and make recommendations on how we might be more successful in the future.

2. What do you believe are the most promising proposals currently being considered by Congress that would help deter abusive activity in the patent system?

The printing industry is in a unique position when answering this question given the nature of the suits we face. First, we think that is it important that any proposed reforms that the Senate Judiciary Committee and the Senate consider should address the growth of so-called "end user suits." These provisions would include requiring more disclosure in demand letters and providing for a robust customer-stay provision to enable an original manufacturer to more easily intervene in a suit. We appreciate the work that the Chairman and Senator Lee have done thus far on these matters. That said, we do think that only considering the "end user" provisions would be like treating the flu with a tissue. We believe that any legislative package that the Committee takes up that purports to address the rise of abusive patent litigation must include reforms to the patent litigation system such as those included in S. 1013, the Patent Abuse Reduction Act. Specifically, we think it is imperative that legislation include strong pleading requirements to ensure that a party facing a suit knows who is bringing a suit and what is actually being infringed. Further, we think it is important to reduce the overall cost of abusive litigation by rebalancing the economic burden of discovery demands. Under the current system, there is nothing to disincentivize making exorbitant demands for information that serve no other purpose but to drive up the cost of litigation in an effort to compel settlement.

Finally, we think end users should have a robust defense against abusive patent claims through an expanded, permanent Covered Business Method (CBM) review, as Senator Schumer has called for in his legislation.

3. What are some examples of the costs to business and industry from abusive patent litigation and how would legislation help?
As I outlined in my testimony, there are numerous economic impact studies on how predatory and damaging patent trolling is to the economy at large. Data gleaned by a study commissioned by the US Government Accountability Office found trolls now account for almost 60 percent of patent infringement

lawsuits in America. In 2011, patent troll activity cost the US economy $80 billion dollars and productive companies made $29 billion in direct payouts. For our industry, the dollars add up fast. As you know, the average printing company employs just 27 workers – none of which I can virtually guarantee are in-house attorneys. So, the first reaction most of our members report is contacting a local attorney. Keep in mind, these are printers in small towns in Iowa and across the country – a local attorney is rarely a patent litigation expert. A common theme we heard when talking to our member companies is frustration with the outlay of upfront legal fees they were forced to spend just to understand a threatening demand letter. As a printer in Texas told us, "We paid our own attorney to review the letter. We then paid into a joint legal fund created by Printing Industries of America. We also joined a group defense through a law firm in Dallas." It really exemplifies the protection small printers – or small business owners – feel they must pay for just to determine the validity of the claim against their companies.

There are also operational costs specific to the printing industry. For example, direct mailing is a bread-and-butter service offered by printing companies. One patent infringement currently pursued by patent trolls relates to technology that produces "Intelligent Mail Barcodes" (IMB) on mail. This is the barcode on an envelope below the recipient address on postal mail. It contains the mail recipient's address, zip code and the mailer ID; this information allows for more efficient processing and quality mail delivery by the United States Postal Service (USPS). It enhances the overall value of mail and mail volume, which is critical to a cash-strapped USPS. Beginning in January 2013 and through January 2015, printers/direct mailers have been able to earn automation price discounts through IMB compliance. Printers have invested in software necessary to produce this "intelligent mail" and to qualify for automation pricing. Should patent trolls successfully chill the move to IMB compliance, it will hurt our member companies seeking to innovate, their customers, and, ultimately, the nation's postal system.

We believe that Section 5 of S. 1720 that is directed at fraudulent or misleading patent demand letters would be a huge help in eliminating much of these legal costs for our member companies. We also believe that legislative proposals addressing the issues of heightened pleading requirements, patent quality and more transparency of patent ownership would also help reduce these costs. Overall, deterring the patent troll behavior up front would protect small printers from having to divert resources that would be better spent on hiring workers, reinvesting in company facilities and equipment, and other behaviors that actually contribute positively to the manufacturing economy.

RESPONSES OF DANA RAO TO QUESTIONS SUBMITTED BY SENATORS LEAHY, GRASSLEY, AND WHITEHOUSE

Questions Of Senator Patrick Leahy (D-Vt.),
Chairman, Senate Judiciary Committee
Hearing on "Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse"
December 17, 2013

Questions for Dana Rao, VP of Intellectual Property & Litigation for Adobe

1) As a manufacturer, Adobe has challenged some patent assertion entities that have sued Adobe's customers for their use of Adobe products. In your testimony, you reference the difficulties Adobe has sometimes faced trying to "stay" lawsuits against its customers while it litigates the merits of the infringement suit.

What are the advantages of obtaining a stay in these cases, and what are some of the potential effects for Adobe or its customers when a stay is denied? Would the customer stay provision in S.1720 help Adobe to take action when its customers are being targeted in infringement suits?

Due to patent trolls' increased focus on customers as their preferred choice of target, a manufacturer is now faced with defending its product in several jurisdictions instead of one. Defending in multiple jurisdictions on the same patent for the same product is expensive and unnecessary. Instead, manufacturers like Adobe would prefer to address the common issues in a single forum. This minimizes costs on the customer and the manufacturer. In addition, the patent holder is able to litigate its common issues in one forum, minimizing its costs as well. When stays are denied, the same action now proceeds in multiple jurisdictions. This significantly increases the burden on the defendant. Businesspeople and engineers have to appear as witnesses in multiple courts, impacting the ability of the defendant to conduct its ordinary business. Discovery proceeds redundantly and expensively for all of the cases. Different rulings of the courts will cause uncertainty about the scope of the patent and its applicability, leaving the resolution unsettled for both parties. All of these factors increase the pressure on the defendant to settle these meritless lawsuits. This pressure is a tactical advantage for the plaintiff, and is being purposefully leveraged today by the patent troll. S. 1720 provides a procedure to accomplish these goals by requiring a court to grant the stay under certain conditions. If the conditions are met, the stay must be granted. The stay can be lifted if the patent holder can make the appropriate showing in the new forum. This common sense process will help defendants manage the costs of their litigation docket. In addition, consolidating similar cases into one case will also maximize the use of our limited judicial resources. While this is an excellent provision to help minimize costs where manufacturer suits are involved, Adobe notes that a strong fee shifting provision is necessary to establish the deterrent required for all troll cases. The same pressure faced by end user defendants in the manufacturer cases are faced by the end users when sued directly by the patent trolls.

2) A number of commentators have raised concerns about the quality of patents in the software industry. The Leahy-Smith America Invents Act created several important mechanisms to improve patent quality, and the Patent & Trademark Office (PTO) is also undertaking efforts to improve its process for granting patents.

What are your views on how these processes are working? What more can or should be done by Congress, the courts, or the PTO to improve the quality of patents that are issued?

Adobe believes that the PTO's efforts with the Software Roundtable and the AIA's post-grant procedures are important components to improving the quality of patents. More important than any of those measures, however, is full funding of the PTO. Ensuring we have adequate resources to search, reject, and approve patents is the most important factor in strengthening patent quality. In addition to full funding, proposals on improving software patent quality through use of specific common technical dictionaries, requiring claim charts in prosecution to show support for claim elements, and expanding the sources of prior art available to examiners are all valuable components of patent quality improvement. However, we believe that the current patent troll problem that we are trying to solve is not driven merely by poor quality patents. Rather, these problems are being driven by the asymmetric costs of litigation. Knowing that it will cost a defendant millions of dollars to defend itself in patent litigation, a plaintiff can choose any patent with which to bring a lawsuit. Any patent will do, since the goal is to avoid reaching the merits. As long as this imbalance exists, the problem of patent trolls, opportunists seizing on the disproportionate costs created by the patent litigation process, will continue. To combat the patent troll, we need to couple improvements in patent quality with reform to our patent litigation process. Fee shifting and reducing the costs of patent discovery are the two most important components of that solution.

Hearing: "Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse"
Question for the Record of Sen. Sheldon Whitehouse

Question for All Witnesses

Proactive Action by Corporate Defendants

Many Rhode Island businesses have been the victims of patent troll abuse, receiving bad-faith demand letters and being forced to settle lawsuits or engage in costly litigation based on dubious patent claims. Small and medium-sized companies, many of whom do not have an attorney on staff, often do not have the resources to effectively fight patent troll abuse, which is why reforms such as prohibiting bad-faith demand letters and allowing manufacturers to stay suits against customers are necessary and appropriate.

Large corporate defendants, on the other hand, may have additional resources at their disposal that could allow them to take proactive steps to combat abuses by patent trolls. Consideration of such steps should be included in the discussion of how to address patent troll abuses.

Independent of legislation to reform the patent litigation system, what are some proactive steps that large corporations that are frequently defendants in patent suits could take to better defend themselves against patent troll abuses? In particular, please address the positive and negative aspects of the following potential actions:

- Referring patent trolls and their attorneys who initiate frivolous lawsuits and fraudulent and harassing conduct to the appropriate law enforcement authorities and disciplinary bodies, including, in the case of attorneys, state bar disciplinary boards;
- Pursuing equitable remedies, such as injunctions against future suits by trolls with a demonstrated record of frivolous litigation, fraud, and harassment;
- Pursuing Rule 11 sanctions against attorneys bringing frivolous suits;
- Increased use of joint defense agreements;
- Purchase of patent litigation insurance;
- Increased licensing and purchase of relevant patents; and
- Simply refusing to pay unjustified claims.

Thank you for the opportunity to respond to these important questions. Initially, we would remark that we believe that the problems affecting Rhode Island are faced by businesses throughout the country, and faced by many of Adobe's customers.

We also have provided comments on your specific bullet points below:

- Referring patent trolls and their attorneys who initiate frivolous lawsuits and fraudulent and harassing conduct to the appropriate law enforcement authorities and disciplinary bodies, including, in the case of attorneys, state bar disciplinary boards;
    - While demand letters themselves may qualify for prosecution as a deceptive practice, behind the threat of a letter is a lawsuit, and there is little that either the state Attorney Generals' offices or the state bars can do to prevent a lawsuit. Notifying the appropriate state agencies and state bars is certainly a tool that could be used by large company defendants who have the resources to build multi-prong defenses. In a situation where a patent troll never sues and only engages in a deceptive letter writing campaign, it is possible that referral to a state Attorney General's office would be effective. However, it is unlikely that a Federal patent court action will be stayed by referring the letter writing conduct to a state attorney general's office. In addition, the burden of proof required to show the type of conduct necessary to initiate discipline from a bar is quite high and would require significant additional resources from the small business defendant. Given those limitations, we believe it is essential that we address the unique problems of the patent litigation process by removing the incentive to bring meritless suits. This would provide a longer lasting, more effective, and more efficient solution. It is important to note that Congress did already recognize this problem when it enacted a fee shifting provision into the patent law. However, given the crisis we are seeing today, it is time to strengthen that law to further discourage meritless lawsuits, with a balanced provision that still ensures legitimate patent holders have access to the courts.
- Pursuing equitable remedies, such as injunctions against future suits by trolls with a demonstrated record of frivolous litigation, fraud, and harassment;
    - It is not clear that this is a viable cause of action under current law. It may be possible to obtain an agreement from pursuing future litigation as a settlement for avoiding a fine or sanction, but it isn't clear that an equitable remedy is available for this behavior. If possible, we would welcome a bill introduced that creates this cause of action. However, there may be constitutional issues barring a troll from filing a lawsuit based in past behavior. Given those issues, it is imperative that we implement the current proposals in Senators Leahy's, Lee's, Cornyn's, and Hatch's bills. It is time to act and provide real solutions to this unique but vital area of our economy.
- Pursuing Rule 11 sanctions against attorneys bringing frivolous suits;
    - This is a current remedy available to us. However, it is our experience that Rule 11 sanctions are rarely granted from this type of behavior. Typically

the reasons for denial are similar to the reasons for denial of fees shifting: it is difficult for a court under the standard to determine, in a patent case, that the plaintiff's position was frivolous. This difficulty is exactly why we need to change the patent law to have the presumption of fees being shifted to the prevailing party. Only in that instance will fee shifting be an effective deterrent against the abuses of the patent litigation system. Forcing the patent holder to have a reasonable position before bringing a patent lawsuit will enable legitimate patent holders to seek redress and minimize the number of meritless suits. In addition, providing fees that would be awarded for poor defendant conduct will also help the plaintiffs and would increase the likelihood that plaintiffs will be able to find representation, given the value of those shifted fees. Unfortunately, relying on Rule 11 sanctions to solve the patent troll problem would, in our opinion, merely see the continued growth of the patent troll problem plaguing our businesses.

- Increased use of joint defense agreements;
  - In our opinion, joint defense agreements are used in every possible instance that they can today, to help minimize costs. The value of this tool is currently being maximized, and, unfortunately, the problems of patent troll abuse continue to grow.
- Purchase of patent litigation insurance;
  - It is not clear insurance solves this problem. Insurance is a cost-shifting exercise, and by providing patent trolls a large, well-funded, source of settlement may actually encourage their current behavior. Instead, we need to address the root of the problem. We must restore balance to the patent litigation process by removing the incentives that exist today that are attracting these opportunists into the patent area. Once we remove those bad actors, legitimate patent holders will find it easier to file their cases, and there will be more judicial resources to hear those legitimate cases.
- Increased licensing and purchase of relevant patents; and
  - Currently many companies are parts of consortia to license and acquire patents. Adobe certainly believes in licensing and acquiring valuable intellectual property rights that will benefit its business. We license and acquire relevant patents regularly. However, we do not believe it is an appropriate solution to require companies like Adobe to pay for meritless claims. The patent suits brought by the patent trolls are based on patents that have little value. Leveraging the high costs of defense, they are forcing companies to settle for patents that they do not need. This practice must stop.
- Simply refusing to pay unjustified claims.
  - Currently Adobe does litigate troll cases. This is a strategic decision by Adobe because we do not believe giving into extortion is an effective response. The extortionist will simply come back for more. However, the vast majority of small businesses being affected by this behavior do not have the resources to defend themselves against this type of behavior.

That is why we need to change the incentives of the patent litigation system and also reduce the overall cost of the patent litigation system so patents can be tried and heard on their merits, and are not being used as a tool to take advantage of the high cost of defense.

Senator Grassley's Written Questions for Senate Judiciary Committee Hearing, "Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse," December 17, 2013

Questions for Mr. Rao

1. What do you believe are the most promising proposals currently being considered by Congress that would help deter abusive activity in the patent system?
    a. The problem we are facing is largely a result of opportunists taking advantage of a particular asymmetry in patent litigation, and to the harm of real world businesses. The high cost of patent litigation, and its complex nature , allows patent trolls to acquire meritless patents, initiate a suit, and extort settlements from defendants who don't have the expertise or resources with which to defend themselves. This is an outcome of the nature of our current patent litigation process, and is best, and most effectively, addressed with targeted reforms designed to restore balance to that system. Strengthening the current fee shifting standard in patent litigation as described in Senators Cornyn's and Hatch's bills would help fulfill the promise of the existing fee shifting provision. We can also craft this language to ensure that legitimate small inventors are still able to use the patent system to gain their day in court. Providing the courts the ability to ask for a bond unless a bond will burden a small inventor's non-patent activity, or would burden a university or named inventor, will help deter the patent troll threat from the beginning. In addition, we should implement targeted reforms that will lower the cost of patent litigation, which is good for both sides. As specified in Senator Cornyn's bill, requiring that initial pleadings have a minimal amount of information (e.g. a theory of infringement, naming the accused products, identifying particular infringing claims) will help make patent infringement more cost-effective. Delaying discovery on all issues except claim construction helps patent holders and patent defendants limit costs until it appears necessary to go forward. Finally, as discussed in Senator Leahy's bill, ensuring that customer suits are stayed in favor of

manufacturer actions proceeding on the same patent and products helps both the customer and judicial economy.

2. As noted by some of the witnesses, the Supreme Court is poised to address some of your patent abuse concerns, such as the correct threshold for fee-shifting. In your opinion, should Congress wait to see what the Court does first? How would fee shifting change the incentives and dynamics in patent litigation?

a. Adobe believes it is entirely appropriate for Congress to strengthen the existing fee shifting standard in 35 U.S.C. 285. It is for the courts to "say what the law is." It is up Congress to answer policy questions and set the appropriate standards to achieve those goals. In this case, Congress has identified a problem with patent troll abuse of the patent litigation process, and therefore should act to restore balance to that process. As noted above, opportunists are taking advantage of the high cost of patent litigation to seek meritless settlements from businesses big and small across the country. If a patent troll knew there was a likelihood it might have to pay the fees of a defendant, if the patent troll's position lacked merit, the patent troll would have to think twice before bringing a meritless lawsuit.

Patent holders, like Adobe, typically review their patent claims for quality and relevance before bringing suits against their competitors. They know that a patent litigation is a serious matter, and should be commenced with integrity and respect for the process. In addition, they know that a competitor may file a counter-claim against the plaintiff. Therefore, the plaintiff has an incentive to make sure that their complaint is based on reasonable, verified positions. A patent troll plaintiff has no such disincentive, since it faces no threat of counter-claim. Therefore, Congress must place a disincentive in the statute.

The current fee shifting standard requires that fees be shifted in "exceptional" cases. This is a very high standard, rarely met. While we hope the Supreme Court will lower the standard for "exceptionality", they cannot read the word out of the statute. More importantly, we need to change the presumption of fee shifting. Today, a patent troll collects hundreds of settlements

from defendants, and then walks away from cases pushed to the merits. Under current law, fees cannot be shifted against the troll because, since the merits were not reached, a court has no basis to find that the troll's position was not exceptional. If we use the standard in Senator Cornyn's bill, the presumption shifts such that fees are awarded to the prevailing party, and a patent troll settling before reaching the merits could not prove that it has a substantially justified position. Adopting this new standard will end the practice of bringing meritless lawsuits seeking hundreds of settlements and walking away before reaching the merits. The Supreme Court cannot change this presumption by reviewing existing law. Therefore, Congress should enact the language in Senators Cornyn's and Hatch's bills to address this problem.

3. Isn't fee shifting in the Patent Act already? What is wrong with the current statute that provides for fee shifting?

a. The Patent Act already has its own specialized fee shifting provision, in Section 285. As described previously, we believe the current standard is insufficient to act as the deterrent for which it was intended. Patent trolls can file a suit and walk away before reaching the merits without ever facing the threat of fee shifting, in today's law. We must change the presumption such that fees are shifted to the prevailing party unless the non-prevailing party has a reasonable position in law or fact. That allows the court to shift fees against meritless troll lawsuits without question, and enables courts to withhold fee shifting when the plaintiffs are bringing legitimate patent claims.

4. How much does Adobe spend each year on patent troll litigation, and what is the impact of such spending on consumers and Adobe investment in the United States?

a. While we prefer not to disclose the exact amount, as a trade secret of Adobe, we will say we spend millions of dollars and the highest percentage of our overall legal budget on defending ourselves against patent troll litigation.

b. Adobe is a business, and costs and profits factor into the pricing of the products we sell, as well as in our hiring and investment decisions. Over my career I have had conversations with business owners where the question was regarding paying a patent troll a

license fee or hiring (or letting go) an employee. Patent troll litigation has real world consequences, for real people. In addition, when we pay those license fees, or defense costs, as a business, those costs are incorporated into our overall cost structure, and thus become part of our product pricing strategy. Every dollar we are spending on defense costs and inappropriate license fees are dollars we are not investing in jobs, product development, or employee benefits. This is not good for Adobe, consumers, or our economy.

5. What are some examples of the costs to business and industry from abusive patent litigation and how would legislation help?
   a. As discussed above, Adobe is a business, and costs and profits factor into the pricing of the products we sell, and in our hiring and investment decisions. This is not good for Adobe, consumers, or our economy. The patent bills introduced by Senators Hatch and Cornyn would provide an effective deterrent to patent troll litigation. If we can eliminate the meritless patent troll litigation, businesses can repurpose those dollars back into investments. In addition, if we can reduce the number of these meritless patent suits, it also frees up sorely needed judicial resources to focus on the substantive patent lawsuits that are seeking to redress legitimate patent rights.

6. How much of a difference would increasing funding to the Patent and Trademark Office make in addressing the patent troll problem? Would Adobe be willing to pay more for its own patent applications, to help fund the Patent Office better?

We believe that the PTO serves a vital role in helping address the patent troll problem by providing rigorous examination at the front end of the patent process. We believe that if the PTO were able to receive all of the user fees paid into it, those funds would be adequate to support the objective of issuing high quality patents. However, the patent troll litigation we are facing is the outcome of a problem in the patent litigation process. In our experience, for a patent troll that is not looking to have its patent reviewed on the merits, any patent will do. The nature of the patent almost does not matter. Therefore, funding the PTO alone will not solve the patent troll problems we are facing today. The

problems we are facing are patent litigation problem, and require a patent litigation solution.

7. In his prepared statement, Mr. Dickinson suggested that it might not be necessary for Congress to focus on the rules and procedures in patent litigation to curb the abusive practices of patent trolls. He testified, "*In point of fact . . . many of these practices—sending a multiplicity of demand letters containing vague allegations and minimal information, with persistent but relatively modest settlement terms, and apparently with little preparation for actually bringing a lawsuit—may have less to do with abusing the rules and procedures in patent litigation per se than they have to do with consumer fraud and deceptive trade practices arising from the demand letter . . . Law enforcement has developed measures to deal with such wrongdoers.*" Do you agree? Please explain why (or why not) Congress, rather than another enforcement body, should address the patent troll issue.

Behind every demand letter is a threat. The threat is that the letter writer will bring a lawsuit. The lawsuit is built on the premise that it will cost far more to defend your valid position of non-infringement or invalidity than it would be to merely pay the settlement requested. While we believe that state attorney generals can improve the quality of these letters, and force better disclosure, we do not believe the underlying threat of patent trolls will dissipate by fixing this one aspect of the problem.

8. In his prepared statement, Mr. Bossone said regarding the deferral of discovery provisions in S. 1013 and H.R. 3309, "*[T]hese provisions would routinely defer merits discovery in virtually all patent cases until after the court issues a claim construction order. While there undoubtedly are cases in which such discovery deferrals are appropriate, doing so as a general rule would effectively bifurcate discovery on the merits in most cases and tend to prolong patent litigation by 9-12 months, if not longer, across the board. Such delays would accrue even in routine patent litigation that does not involve meritless claims, small businesses defendants, or "patent trolls" ... In my opinion, these proposals are too rigid and interfere unduly with the responsibility and authority of district courts to manage patent litigation in a case-specific manner.*" Do you agree? Do you believe these provisions would result in added delays or otherwise would unduly interfere with the court's ability to manage patent litigation?

We believe it is appropriate for Congress to review patent litigation practices and determine a "default" position that will minimize the costs of litigation for both sides. In this case, every patent case must have its claims construed, according to the Federal Circuit jurisprudence. Given that requirement, and the fact that noninfringement and invalidity defenses cannot be built until such claim construction orders are received, we believe that early Markman hearings are appropriate, as the default rule, in patent cases. Staying discovery on other aspects of the case until that hearing will save both sides expense. It is our experience that cases can settle, be disposed of with summary judgment motions, or stipulated for appeal, once both parties understand the scope of the patent. Until claim construction occurs, plaintiff patent trolls can abuse the process by asking for broad discovery on all the defendant's products and all of their finances because the plaintiff patent troll has not been forced to say what their patent means. If discovery was stayed until after Markman, not only would a good percentage of patent cases go away without ever needing any more discovery (because of settlement, and the vast majority of patent cases settle), the ones that go forward will go forward with narrow and more targeted discovery, reducing the cost of prosecuting the case for both sides. It is important to realize that lowering the costs of reaching the merits is a significant benefit to small inventors, who do not have the resources of their large company targets to withstand a protracted litigation. In addition, Adobe would support any discovery sequencing provision to have sufficient discretion given to the courts to take discovery out of sequence as appropriate, on motion by the parties. It is important not to important a too rigid process, as we agree that one size does not always fit all. However, it does make sense to set forth a default standard that will minimize expenses for the vast majority of the cases, and allow for diversions from that practice as it makes sense.

9. In your opinion, does the recent rise in patent litigation encourage innovation?

This is no evidence that patent troll litigation encourages innovation. And there is certainly good reason to believe it is discouraging innovation. Over half of the patent troll litigations are targeted at small businesses and entrepreneurs who cannot fund their business and pay these trolls. This is having a real impact on those businesses and they are often the most innovative section of our economy. Imposing this high cost on some of our brightest innovators is a poor way for a country to position itself for long term success. We must act now to reduce the cost of these meritless patent suits,

and free up those dollars spent in defending against those suits to be reinvested in jobs, innovation, and our economy.

RESPONSES OF PHILIP JOHNSON TO QUESTIONS SUBMITTED BY SENATORS LEAHY AND WHITEHOUSE

Questions Of Senator Patrick Leahy (D-Vt.),
Chairman, Senate Judiciary Committee
Hearing on "Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse"
December 17, 2013

Questions for Phil Johnson, VP of Intellectual Property at Johnson & Johnson and member of the Coalition for 21st Century Patent Reform

Senator Leahy's Question #1:

You have expressed concern that some efforts to address the problem of patent trolls may have unintended consequences for legitimate patent holders seeking to protect their rights. What do you think are the most promising strategies for addressing abusive conduct by certain actors, without unduly burdening legitimate patent holders?

Mr. Johnson's Answer to Question #1:

The most promising legislative strategies now under consideration for addressing abusive patent litigation behavior are: (a) providing for stays of suits brought against off-the-shelf retailers and customers who are using the purchase products as intended by the manufacturer; (b) providing for the FTC to treat false and deceptive assertions of patents as an unfair trade practice; (c) providing for disclosures in infringement proceedings of information relating to those with a financial interest in the patent(s) being asserted, and to the USPTO relating to assignments that result in changes in the ultimate parent entity; (d) making corrections to the America Invents Act so that the post-grant PGR and IPR proceedings established to allow for public challenges of patents will work as originally intended, and (e) if not mooted by the Supreme Court in the meantime, relaxing the applicable standard for awarding attorney fees to prevailing parties in patent cases. The Coalition for 21st Century Patent Reform ("21C") believes that through careful, targeted drafting, each of these strategies may be crafted into provisions that deter or punish abusive behavior while avoiding undue burden on patent holders seeking to protect their rights.

An example of such successful drafting is found in the transparency provisions of Section 3 of the Leahy-Lee bill, S.1720. Section 3 ensures that appropriate information concerning the ownership of patents is disclosed in court proceedings and to the United States Patent and Trademark Office. In court proceedings, the provision requires that every party asserting a patent disclose to the court and the other parties certain information relating to all persons holding a financial interest in the asserted patent, while allowing confidential information related to those disclosures to be governed by an appropriate protective order. Section 3 of the Leahy-Lee Bill further assures that assignments of all substantial rights that result in a change to the ultimate parent entity of any patent issued on or after the date of the act "shall be recorded in the Patent and Trademark Office within 3 months of the assignment." This provision further contains measured penalties for non-compliance that are limited to the loss of the patent owner's

right to collect enhanced damages or attorney fees in a subsequent litigation "with respect to infringing activities taking place during any period of noncompliance" and to an award "to the prevailing accused infringer [of] reasonable attorney fees and expenses incurred in discovering any previously undisclosed ultimate parent entities in the chain of title." Together, these transparency provisions will ensure that appropriate information concerning patent ownership is made available, while not unreasonably burdening the inventor community.

Other proposed changes in the Leahy-Lee bill similarly make corrections to the estoppel, claims construction and double patenting aspects of the America Invents Act that will allow this Act to work as intended, and should be passed as drafted.

The 21C also supports the concept of a customer stay provision that would allow a manufacturer or supplier to intervene in patent infringement actions brought against certain resellers and/or end users. Discussions with affected stakeholders have revealed that the fewest unintended consequences will result if such a provision is limited to stays of suits against "off-the-shelf" resellers who do not alter or modify the product in any way, and to end users who do nothing more than use the accused products as instructed or clearly intended by their manufacturers. Proposals that would reach further up the supply chain have proven to be problematic, risking the disruption of previously negotiated bargains that determine where the risk of defending against allegations of patent infringement lies.

Appropriate provisions to allow the FTC to address abusive demand letter behavior are also achievable, but run the risk of serious disruption to the business of innovation if not (a) cabined to apply only to statements that are clearly false or deceptive at the time made, (b) limited to situations where the demands are widespread, where hundreds or thousands of unrelated entities are blanketed with such demands, (c) a preemption of potentially burdensome and conflicting state legislation on the same subject, and (d) accompanied by safe harbor provisions that will ensure that legitimate patent notice, licensing, marketing and assertion activities will not be affected.

As I have explained in my written and oral testimony, other suggested approaches to the problem of abusive patent litigation behavior would bring with them unintended consequences which outweigh any benefit they might achieve. Proposed heightened pleading requirements, for example, will do little or nothing to deter the abusive filing of patent cases, but will bog down many meritorious claims in motion practice relating to the sufficiency of the pleadings and/or the need to amend them, thereby delaying the merits phase of the litigation while driving up litigation costs. This additional delay and expense will only add to the leverage that abusive plaintiffs will then use to coerce higher settlements in view of the anticipated higher costs of a successful defense.

Proposals to require courts to delay merits-based discovery pending claim construction will similarly lengthen patent litigation and drive up its cost, also strengthening the hands of abusive patent plaintiffs, especially in cases where other issues exist which could have led to an early case disposition. The proposed discovery stays will be especially

injurious to patent owners who have been manufacturing and/or marketing products, the sales of which are being hurt by infringing competition. With merits-based discovery being stayed for a year or more while the court and parties wrangle over the meanings of patent claim terms, patent owners will suffer substantial continued losses of sales and market shares, and of the jobs that depend on them. Recognizing that the vast majority of patent cases do not involve assertions by non-practicing entities, the nature and timings of initial disclosures, discovery, dispositive motions, exchanges of contentions, filings of expert reports, Markman hearings and other pre-trial procedures should all be left to the sound discretion of the courts, which are best positioned and experienced to tailor each proceeding to achieve a just and expeditious result.

While several reasonable proposals have been introduced for allowing attorney fees to be shifted to non-prevailing parties, issues remain concerning how to deal with the circumstance where the non-prevailing party is unable to satisfy such an award. Of the three suggested approaches to this problem – joinder, bonding, or imposing contingent liability upon related persons – only the third has the potential of achieving its intended purpose of deterring abusive conduct without unduly burdening patent owners seeking to press meritorious claims.

Mandatory joinder of parties with tangential financial interests in the asserted patents would equally impose burden and expense on interested affiliates of the vast majority of patent owners who are seeking to press meritorious claims, while being easily avoided by persons whose design is to pursue abusive assertions. As a result, such joinder provisions will do little or nothing to solve the problem sought to be addressed, and will impose undue burdens on many innocent persons.

The imposition of bonding requirements on certain classes of plaintiffs without regard to the merits of the cases they have brought unfairly discriminates against these plaintiffs, and imposes financial burdens on these assertions that may foreclose their access to the courts in many instances.

The burdens created by the bonding and joinder proposals mentioned above are particularly harsh in view of the availability of a more straightforward proposal that, in the event of an attorney fees award, would impose contingent liability upon persons controlling the non-prevailing party's litigation conduct and/or with a substantial financial stake in the proceeds of the case, but only where such award is not otherwise collectable from the non-prevailing party. By definition, such an approach would impact only those persons who control or who have a financial interest in the fruits of an abuse, and would come into play only if the original fee award against the non-prevailing party remained unsatisfied.

Senator Leahy's Question #2:

The Supreme Court has agreed to hear several important patent cases this term, including a case focusing on the patentability of computer-implemented inventions. In your testimony, you state that next year "the landscape of patent litigation may look significantly different than it does

today" as a result of those cases. Please elaborate on that statement. Do the cases before the Court have the potential to address some of the concerns that have been raised by businesses that are being targeted in patent suits?

Mr. Johnson's Answer to Question #2:

The Supreme Court has been very active in in addressing issues that are pertinent to patent litigation reform, granting *certiorari* in five significant patent cases to be decided this year. Depending on their outcomes, all five of these cases could have significant impacts on the on the concerns raised by businesses that are defending patent infringement suits.

Attorney Fees Cases:

On October 1, 2013, the Supreme Court granted petitions for writs of *certiorari* in two patent infringement cases raising the issue of when an award of attorney fees to a prevailing party is appropriate under 35 U.S.C. § 285. In *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, Docket No. 12-1184, the Court will consider the test used to determine whether a case is "exceptional" under Section 285, which is a requisite finding for the award of fees to the prevailing party. The petitioner challenged the "rigid and exclusive" test that the Federal Circuit uses to determine whether a case is "exceptional," presenting the following question that the Court accepted for review:

> Whether the Federal Circuit's promulgation of a rigid and exclusive two-part test for determining whether a case is "exceptional" under 35 U.S.C. § 285 improperly appropriates a district court's discretionary authority to award attorney fees to prevailing accused infringers in contravention of statutory intent and this Court's precedent, thereby raising the standard for accused infringers (but not patentees) to recoup fees and encouraging patent plaintiffs to bring spurious patent cases to cause competitive harm or coerce unwarranted settlements from defendants.

In *Highmark Inc. v. Allcare Health Management Sys.*, Docket No. 121163, the Court will consider the deference to be given, if any, to a district court's determination that a case is "exceptional" within the meaning of Section 285. The question presented to the Court is:

> Whether a district court's exceptional-case finding under 35 U.S.C. § 285, based on its judgment that a suit is objectively baseless, is entitled to deference.

The Solicitor General, as well as many *amicus curiae*, has argued that the Court should lower the standard needed to find a case to be "exceptional" under Section 285, thus permitting fee shifting in favor of prevailing parties more frequently in patent infringement cases.[1] In an *amicus* brief filed in the *Octane Fitness* case by Johnson & Johnson and other 21C Steering Committee member companies, we have urged the Court to realign the interpretation of Section 285 with traditional principles of equity, as applied in the context of the claims, defenses, and issues arising in patent litigation, and with acceptable norms of litigation conduct. The district courts should be empowered to determine which cases are "exceptional," and whether and in what amount fees should be shifted upon such a finding, through exercise of their sound equitable discretion based on the totality of the record. By doing so, fee shifting in patent cases will

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[1] *See* http://www.americanbar.org/publications/preview_home/12-1184.html (collecting *amicus* briefs in *Octane Fitness*); http://www.americanbar.org/publications/preview_home/12-1163.html (collecting *amicus* briefs in *Highmark*).

serve the same purposes this Court has indicated it serves in other areas of litigation: a case management tool for courts to discourage certain types of claims or defenses and to sanction misconduct.

The Court will hear arguments in both *Octane Fitness* and *Highmark* on February 26, 2014. Decisions are expected by the end of the Court's current term in June.

Should the Supreme Court reverse the Federal Circuit's holding, the result may be that attorney fees will be more readily awarded against non-prevailing parties who have been found to have brought specious cases. Such a change in the dynamics of the litigation playing field may well discourage parties from bringing specious claims to court, and/or may penalize them by imposing awards of attorney fees for doing so.

Under the circumstances, Congress may decide that prudence dictates waiting for the outcome of this case before enacting changes involving attorney fees shifting in patent cases.

Computer Implemented Inventions:

On December 6, 2013, the Supreme Court granted a petition for a writ of *certiorari* in *Alice Corp. Pty. Ltd v. CLS Bank Int'l*, Docket No. 13-298, to consider the patent eligibility of computer-implemented inventions. The question presented to the Court is:

> Whether claims to computer-implemented inventions – including claims to systems and machines, processes, and items of manufacture – are directed to patent-eligible subject matter within the meaning of 35 U.S.C. § 101 as interpreted by this Court?

In this case, the Supreme Court will revisit the issue of how to determine whether a software-related claim is directed to a patent-eligible invention or an ineligible abstract idea. The Alice Corp. patent is directed to software-implemented business methods for mitigating settlement risk in certain financial transactions.

The Supreme Court decision is likely to have a profound impact on many of the issues underlying calls for legislative action to combat patent infringement litigation abuse. The GAO report, for example, concluded that the recent increases in patent infringement litigation were not caused by non-practicing entity cases, but rather by the growth in litigation involving software patents:

Public discussion surrounding patent infringement litigation often focuses on the increasing role of NPEs. However, our analysis indicates that regardless of the type of litigant, lawsuits involving software-related patents accounted for about 89 percent of the increase in defendants between 2007 and 2011, and most of the suits brought by PMEs involved software-related patents. This suggests that the focus on the identity of the litigant—rather than the type of patent—may be misplaced.

Likewise, calls for expansion of the transitional review program for covered business method patents have focused on the perceived need for additional review of software patents. Thus, the Supreme Court's opinion, expected by the end of the term in June 2014, may go a long way toward addressing some of the fundamental questions regarding the patent eligibility of the types of patents that have spurred calls for the changes reflected in several of the pending legislative proposals in both chambers of Congress.

Given the importance of this case, Congress would be well advised not to make substantive changes in the scope or duration of the transitional program for covered business method patents pending the Supreme Court's forthcoming decision.

Claim Indefiniteness:

On January 10, 2014, the Supreme Court granted a petition for a writ of *certiorari* in *Nautilus v. Biosig Instrument,* Docket number 13-369, to address the issue of claim indefiniteness. The questions presented to the Court are:

> (1) Whether the Federal Circuit's acceptance of ambiguous patent claims with multiple reasonable interpretations – so long as the ambiguity is not "insoluble" by a court – defeats the statutory requirement of particular and distinct patent claiming; and
>
> (2) whether the presumption of validity dilutes the requirement of particular and distinct patent claiming.

The decision in this case will be of great interest to patent litigants because determinations of validity and infringement often turn on the court's understanding of the degree of definiteness required to satisfy the requirement of 35 U.S.C. 112(c), that the "specification ... conclude with one or more claims particularly pointing out and distinctly claiming the subject matter which the inventor or a joint inventor regards as the invention."

This issue assumes greater importance because cases of alleged patent litigation abuse are often characterized by accused defendants as involving patents having claims that are so ambiguous as to not have fairly placed the public on notice of the subject matter claimed. Indeed, much of the (misplaced) impetus for mandating that discovery be stayed pending the district court's interpretation of the asserted claims comes from just this perception. For example, at pages 8-9 of its brief in support of *certiorari,* the Electronic Frontier Foundation ("EFF") argued that the current test for ambiguity authorized by the Federal Circuit "has fostered business practices that abuse the patent system by exploiting...sanctioned vagueness in patent claims" and that:

> [A]mbiguous patents—mostly relating to software—have fed the recent explosion in litigation by non-practicing entities (also known as patent trolls). By revitalizing the law of indefiniteness, this Court could improve patent quality and reduce opportunistic patent litigation.

Accordingly, should the Supreme Court hand down a definitive ruling on the issues presented, the guidance provided thereby may make it easier for the courts to distinguish between specious and meritorious assertions, may obviate the need perceived by some to bring patent litigation to a virtual standstill pending the court's claim construction ruling, and, if EFF is correct, reduce opportunistic patent litigation.

The imminence of the Supreme Court's decision on this issue provides yet another reason why Congress should decline to require that courts delay merits discovery in patent cases pending the district court's ruling on the meaning of claim terms.

Whether Direct Infringement May Result From the Combination of Multiple Actors

On January 10, 2014, the Supreme Court granted *certiorari* in *Limelight Networks v. Akamai Technologies,* Docket Number 12-786, to address the issue of whether patent infringement liability under 35 USC 271(b) (for inducement) requires the existence of an underlying direct patent infringement. 35 USC 271(c) simply states "[W]hoever actively induces infringement of a patent shall be liable as an infringer." In *Akamai* it is undisputed that all of the steps of a claimed method were performed by Akamai except one, which was performed, as intended by Akamai, by its customer. Accordingly, while

no single person or entity involved in the activity had performed all of the steps needed to constitute a direct infringement, under these circumstances, Akamai was nonetheless found liable for infringement as an inducer. The question presented to the Court for decision is:

> Whether the Federal Circuit erred in holding that a defendant may be held liable for inducing patent infringement under 35 U.S.C. § 271(b) even though no one has committed direct infringement under Section 271(a).

An *amicus* brief seeking grant of this review filed on behalf of several advocates[2] for legislative action argues that the liability standard established under *Akamai* "exacerbates the exorbitant cost and potential for abuse in patent litigation,"[3] stating:

> The manner in which Akamai expands liability also exacerbates the problem of abusive patent lawsuits. Armed with an expansive rule that can impose liability on a company for supplying otherwise noninfringing products and services, opportunistic plaintiffs are likely to pursue even more companies to seek extortionate settlements largely divorced from consideration of the merits of the claims. And companies that decline to settle meritless cases will be forced to invest even more money in investigating and litigating divided infringement claims before they can effectively evaluate the merits and settlement value.[4]

These amici further argue that the complexity of the current rule injects additional uncertainty into patent litigation, and that if certainty were brought to these issues, settlements of all cases, including meritorious claims of infringement, would be encouraged.[5]

Depending on how the Supreme Court decides this issue, it could provide yet another reason not to stay merits discovery pending Markman rulings in patent cases (if the volume of needed discovery is reduced), and could affect the frequency of suits being brought against resellers and end users who are using the accused products or processes as intended and/or instructed by manufacturers or suppliers. In the event the Court decides that suits must be brought against resellers and/or end users to establish liability, there is a potential that current legislative proposals to automatically stay such cases may not be as effective as hoped in reducing patent litigation.

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[2] See the Amicus in support of the petitioner filed by Google, Inc.; Cisco Systems, Inc.; Oracle Corp.; Red Hat, Inc.; SAP America, Inc.; Symantec Corp.' Xilinx, Inc. *(12-786.)*
[3] *Id.*, heading on page 14.
[4] *Id.* at 16.
[5] *Id.* at 17.

Hearing: "Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse"
Question for the Record of Sen. Sheldon Whitehouse

Question for All Witnesses

Proactive Action by Corporate Defendants

Many Rhode Island businesses have been the victims of patent troll abuse, receiving bad-faith demand letters and being forced to settle lawsuits or engage in costly litigation based on dubious patent claims. Small and medium-sized companies, many of whom do not have an attorney on staff, often do not have the resources to effectively fight patent troll abuse, which is why reforms such as prohibiting bad-faith demand letters and allowing manufacturers to stay suits against customers are necessary and appropriate.

Large corporate defendants, on the other hand, may have additional resources at their disposal that could allow them to take proactive steps to combat abuses by patent trolls. Consideration of such steps should be included in the discussion of how to address patent troll abuses.

Independent of legislation to reform the patent litigation system, what are some proactive steps that large corporations that are frequently defendants in patent suits could take to better defend themselves against patent troll abuses? In particular, please address the positive and negative aspects of the following potential actions:

- Referring patent trolls and their attorneys who initiate frivolous lawsuits and fraudulent and harassing conduct to the appropriate law enforcement authorities and disciplinary bodies, including, in the case of attorneys, state bar disciplinary boards;
- Pursuing equitable remedies, such as injunctions against future suits by trolls with a demonstrated record of frivolous litigation, fraud, and harassment;
- Pursuing Rule 11 sanctions against attorneys bringing frivolous suits;
- Increased use of joint defense agreements;
- Purchase of patent litigation insurance;
- Increased licensing and purchase of relevant patents; and
- Simply refusing to pay unjustified claims.

Mr. Johnson's Answer:

The following are my comments, by topic, on the suggested potential actions to respond to patent litigation abuses:

- *Referring patent trolls and their attorneys who initiate frivolous lawsuits and fraudulent and harassing conduct to the appropriate law enforcement authorities and disciplinary bodies, including, in the case of attorneys, state bar disciplinary boards*

The first order of business when responding to the institution of a frivolous charge of infringement or frivolous patent infringement lawsuit is to place the person asserting the

patent on notice that the charge of infringement is unfounded, and to provide such non-confidential evidence as may be available to demonstrate that fact to the party pressing the infringement issue. In our experience, when faced with such evidence, most legitimate entities will immediately give up their claim, or, if they are not convinced, respond in an effort to resolve any lingering doubts they may have. Sometimes it is necessary to enter into a confidentiality agreement allowing for the exchange of more information between counsel who are permitted to share their conclusions, but not the disclosed evidence, with their clients. Almost invariably, if the evidence shows that the case is or would be baseless, the claim is dropped.

Very occasionally, the person asserting the claim insists on pressing the claim further. In some of these instances, the patent owner is an independent inventor or an unsophisticated business person who has a good faith, but mistaken, belief concerning the existence of an infringement. Such a mistaken belief may be founded, for example, only on the similarities between the patented product or process and the ones accused, without taking into account the effects of the prior art, claim limitations or limiting arguments that will preclude the patentee from prevailing.

In other instances, there is no good faith belief that there has been an infringement of a valid patent, and the matter is pressed simply for the purpose of extorting a settlement that will cost the defendant considerably less than the cost of a successful defense. At this point, the only reasonable course of action for the accused infringer is to seek to establish the frivolous nature of the action in court, as this is a practical prerequisite to seeking any further redress from the court, or other sources. Law enforcement authorities and disciplinary bodies, including, in the case of attorneys, state bar disciplinary boards, are not equipped to distinguish between frivolous and meritorious patent claims, and thus they are not, and probably should not be, interested in such controversies before a federal court has assessed the claim and declared it to have been specious.

But fortunately, unlike other areas of litigation, 35 U.S.C. 285 does allow for the collection of attorney fees and expenses in connection with exceptional patent cases, so that an accused infringer who elects to defend against a frivolous claim to the point of victory has some possibility of recovering fees and expenses. *MarcTec, LLC v. Johnson & Johnson and Cordis Corporation*, 664 F.3d 907 (Fed. Cir. 2012) is one such case in which the defendants were awarded $4 million in fees and expenses after it was found that the plaintiff continued to press its case in bad faith.

Once a case has been established to have been frivolous, or to have been pressed in bad faith, in practice further referrals of the matter become the responsibility of the federal district court judge handling the matter. Depending upon the nature and source of the abuse, the judge may take action against the lawyers, experts or witnesses involved by rebuking them in his/her opinion, or through more formal channels, such as by referrals to the appropriate law enforcement authorities and disciplinary bodies, including, in the case of attorneys, state bar disciplinary boards. Since most of these referrals are confidential, the prevailing party may not even be aware that they have occurred. Where the rebuke has come in the court's

opinion, the opinion itself normally comes to the direct attention of state and USPTO disciplinary authorities, who may institute disciplinary investigations or other proceedings.

Even if the only punishment is a written rebuke contained in the court's opinion, the consequences may be significant. Attorneys so sanctioned usually suffer losses in their reputations, present and future representations, and many of the benefits of their existing professional affiliations. Indeed, it is quite common for firms to expel such attorneys, and for existing representations to be withdrawn by clients who do not want to be further associated with such counsel.

- *Pursuing equitable remedies, such as injunctions against future suits by trolls with a demonstrated record of frivolous litigation, fraud, and harassment*

Pursuit of equitable remedies against future conduct is neither common, nor would it likely be effective. The nature of any future claim to be brought by a real party in interest is unlikely to be the same as any previous unsuccessful claims. A real party in interest whose objective is to press frivolous claims will always be able to find a new patent, or to find or create a new plaintiff, or both, for that purpose. Just as in the criminal context, the fact that a party has acted badly in the past will not generally be deemed by the courts to be sufficient justification to presume they are acting badly in the present case. Accordingly, the better policy approach would be to ensure that persons who abuse the court system by pressing frivolous claims in bad faith are punished accordingly.

- *Pursuing Rule 11 sanctions against attorneys bringing frivolous suits*

Rule 11 allows a party in a pending suit to seek sanctions for failing to comply with the requirements of Rule 11(b) relating to the certifications that are made to the court when a party presents a pleading, written motion or other paper for the court's consideration. These certifications include that "to the best of the person's knowledge, information, and belief, formed after an inquiry reasonable under the circumstances," the paper is not being presented for any improper purpose, that the positions taken therein are warranted by existing law or a reasonable extension thereof, that factual contentions have or are likely to have evidentiary support, and that denials are warranted by evidence, or if so identified, by reasonable belief or lack of information.

Rule 11 sanctions are most often sought with respect to specific violations of this rule, rather than the entirety of the case, where collections of fees and expenses under 35 U.S.C 285 are preferred. Rule 11 does not apply to disclosure and discovery requests, responses, objections, and motions under Rules 26 through 37, sanctions for which are provided under Rule 37. Seeking Rule 11 sanctions may be preferred in some circumstances because they are available to "deter repetition of the conduct or comparable conduct by others similarly situated," and may include "nonmonetary directives."

When appropriate, the availability of Rule 11 sanctions can be quite effective, and represent a meaningful tool for use in deterring abusive litigation conduct.

- *Increased use of joint defense agreements*

The use of joint defense agreements is most common when a single cause of action is brought against two or more parties who may share joint and several liability. It is less common when actions are brought by third parties that allege separate causes of action for patent infringement based upon the manufacture, use or sale of different allegedly infringing products or processes. In these cases, the defendants are often competitors of each other, and are unwilling to share, or are even prohibited from sharing, competitively sensitive information. Fortunately, joint defense agreements are often not needed as there is little or no need to share the specifics of the different accused instrumentalities: the basis of each defendant's invalidity positions (including any allegedly invalidating prior art) is usually made public and discovery under appropriate protective orders will normally allow defendants to learn all that may appropriately be learned with respect to the relevant testimony and documents adduced in other proceedings.

- *Purchase of patent litigation insurance*

Most companies see patent litigation as a routine business risk, and don't insure against it. Many companies work to minimize the likelihood that meritorious claims can be brought against their products through established patent clearance processes. Sophisticated competitors routinely assess the scopes of patents held by others, and, if they are determined to be likely valid, seek either to design their products to be free of claims under those patents, or obtain licenses to them.

While claims based on other forms of insurance relating to patent assertions sometimes arise, successful collections on them are relatively rare.

- *Increased licensing and purchase of relevant patents*

As mentioned above, most companies work to avoid infringing the valid patents of others, and, as appropriate, license or cross license patents of interest with others in their fields. Such licensing and cross licensing activities are highly beneficial, allowing companies to aggregate all of the rights they need to develop and introduce products incorporating cutting edge technologies. In today's technologically complex economy, it is vital that routine patent assertion and licensing activities not be adversely affected, as few if any technologically sophisticated companies own all of the patent rights that they will need to develop tomorrow's breakthrough products.

Some companies whose business model involves aggregating many different technologies appear to have elected not to deal with patent infringement issues during the product development stage, leaving them for later resolution when third parties bring claims against them. These companies more often find themselves subject to patent demands from others, and more often involved in patent litigations as accused infringers. For these companies, an upstream, proactive in-licensing strategy would likely help them avoid future patent litigation.

- *Simply refusing to pay unjustified claims*

Most companies prefer to refuse to pay unjustified claims, and often do so. Nonetheless, there is a fair amount of uncertainty in the outcomes of court cases, especially when juries are involved, as they routinely are in patent trials. Moreover, under existing precedent in this country, awards of attorney fees in cases where the claims were unjustified remain relative rare, meaning that even a win in court will most often result in a loss on the balance sheet.

In other countries, the award of attorney fees and expenses to prevailing parties is authorized as a matter of course. In our experience, under these rules, frivolous cases are deterred and meritorious ones are encouraged. Companies who see themselves as winning more than losing are normally comfortable with such systems, as on balance they see themselves facing less litigation, and coming out ahead on attorney fees when they do litigate.

RESPONSES OF STEVE BOSSONE TO QUESTIONS SUBMITTED BY SENATORS LEAHY AND WHITEHOUSE

Hearing: "Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse"
Question for the Record of Sen. Patrick Leahy

Question for Dr. Steve Bossone, VP of Intellectual Property, Alnylam

You have expressed concern that some efforts to address the problem of patent trolls may have unintended consequences for legitimate patent holders seeking to protect their rights. What do you think are the best strategies for addressing abuses in the system in a meaningful way, without unduly burdening the rights of legitimate patent holders?

Answer

In my opinion, the bad faith-assertion of patents against small businesses is a discrete, and relatively recent, development that requires a relatively discrete solution. Seen this way, the implementation of generalized patent litigation reforms that would operate on all litigants in patent cases, that would - on balance - work to the benefit of defendants and against patentees, and that would make the enforcement of patents more costly and difficult for legitimate and illegitimate patent enforcers alike would seem to go too far.

Thus, in the first instance Congress should ask which of the many proposed provisions in the multitude of pending bills would most benefit small-business recipients of abusive demand letters? I believe that small businesses would be best served by:

1. Ensuring that demand letters be clearer and carry less of an "in terrorem" effect, so that unsophisticated small businesses would not be prematurely and unfairly "goaded" into paying unjustified and inflated claims;
2. Empowering willing manufacturers of allegedly infringing products to step in and test the validity of the claims on behalf of their customers, and thereby take enforcement pressure off end-users and retailers, including through a properly-crafted "customer stay" provision;
3. Ensure transparency and disclosure in the sending of widespread patent demand letters, which will facilitate the creation of registries where small-business recipients of demand letters can access information about the enforcement activity, get in contact with each other, learn about steps the manufacturer may have taken to resolve the issues, and explore joint action such as joint defense agreements or jointly approaching the manufacturer;
4. Exploring the role of public authorities such as the FTC in policing bad-faith demand letters as a matter of consumer fraud, unfair trade practices, and small-business protection.

I believe that S. 1720 would lay the basis for many of these concepts. In contrast, I do not believe that small businesses would greatly benefit from the generalized litigation reform provisions of other bills – certainly not to a degree that would justify the systemic burden on the vast majority of legitimate patentees who must defend their businesses against patent infringement. Litigation reform most benefits those who have the money and the will to litigate. The prototypical small

business that receives, for example, an out-of-the-blue demand for $1,000 per employee because it uses scan-to-fax technology in its office simply will not benefit from the ability to engage in preliminary motion practice because a patent complaint did not comply with new enhanced pleading requirements. Such a business would not benefit from the ability to implead third party plaintiffs, from discovery stays pending claim construction, from "requester pays" provisions for electronic discovery, and other patent litigation reform concepts. Leveraging each of these provisions is costly and requires expensive lawyer time. Abusive patent enforcers will be acutely aware of that cost, and will always be ready to propose a settlement over an amount that is commercially more rational than litigating the claim. In other words, the proposed litigation reforms might "move the needle" on the amount needed to pay off a frivolous claim, but in the long run abusers of the system would simply demand "less money from more people." The result would be that legitimate patent owners would be burdened with more cost and complication in enforcing their patents, while nothing meaningful is accomplished against the practices of abusers of the system. As sure as the sun rises tomorrow, Congress would be faced with more calls for more patent litigation reform in two years.

I would also note that many calls for generalized patent litigation reform are accompanied in public discourse by expressions of frustration over judicial inertia. It has been said that courts, or at least certain courts, are supposedly too slow in reacting to fast-developing abusive practices, unwilling to rein in out-of-control discovery practices, taking a laissez-faire approach to patent case management, and the like. On the other hand, most stakeholders seem to agree that courts already have the authority to implement much of what is now being called for in the form of hard-wired litigation reform legislation. I believe the judiciary should be given a chance to run its process. I also believe that at least some complaints are grounded in resource problems that should be addressed in the first instance. Just like there is broad support among the patent stakeholder community for adequately funding patent examination and patent review in the USPTO, there ought to be broad support for adequately funding the adjudication of patent disputes in the federal courts. I am perplexed that our nation would be willing to dedicate enhanced resources to administrative patent examination (or to the policing of demand letters by the FTC), but to not authorize the hiring of even a few additional law clerks in the federal district courts under the 2011 Patent Cases Pilot Program. For example, I am not aware of any inquiry as to whether perhaps 10 or 15 U.S. magistrate judges, strategically placed in the patent-busiest districts, might not have an enormous impact on patent case management, discovery management, and the like. Providing adequate judicial resources, in whatever form, seems to me an entirely overlooked aspect that really ought to be explored before turning to heavy-handed legislation that, on balance, is likely to carry a much greater societal price tag.

Thank you for the opportunity to comment.

Hearing: "Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse"
Question for the Record of Sen. Sheldon Whitehouse

Proactive Action by Corporate Defendants

Many Rhode Island businesses have been the victims of patent troll abuse, receiving bad-faith demand letters and being forced to settle lawsuits or engage in costly litigation based on dubious patent claims. Small and medium-sized companies, many of whom do not have an attorney on staff, often do not have the resources to effectively fight patent troll abuse, which is why reforms such as prohibiting bad-faith demand letters and allowing manufacturers to stay suits against customers are necessary and appropriate.

Large corporate defendants, on the other hand, may have additional resources at their disposal that could allow them to take proactive steps to combat abuses by patent trolls. Consideration of such steps should be included in the discussion of how to address patent troll abuses.

Independent of legislation to reform the patent litigation system, what are some proactive steps that large corporations that are frequently defendants in patent suits could take to better defend themselves against patent troll abuses? In particular, please address the positive and negative aspects of the following potential actions:

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- Pursuing Rule 11 sanctions against attorneys bringing frivolous suits;
- Increased use of joint defense agreements;
- Purchase of patent litigation insurance;
- Increased licensing and purchase of relevant patents; and
- Simply refusing to pay unjustified claims.

Answer

Thank you for the opportunity to comment. As a development-stage business with fewer than 200 employees, Alnylam does not have a developed position on the strategies and proactive steps that may be taken by large corporations to protect themselves from meritless infringement allegations by patent assertion entities. Accordingly, any attempt of mine to address in detail the above-described options would involve a great amount of speculation. I do believe, however, that several of the described options are already being employed. For example, I believe that non-payment of unjustified claims is not uncommon among large corporations. Likewise, referral of abusive demand letters to state authorities is occurring with some frequency and seems to be bearing fruit, if the recent settlement of the New York State Attorney General with the sender of the "scan-to-fax" mass demand letters is any indication. See: http://www.ag.ny.gov/press-release/ag-schneiderman-announces-groundbreaking-settlement-abusive-%E2%80%9Cpatent-troll%E2%80%9D

RESPONSES OF HARRY WOLIN TO QUESTIONS SUBMITTED BY SENATORS LEAHY, GRASSLEY, AND WHITEHOUSE

January 17, 2014

The Honorable Patrick Leahy
Chairman
The Honorable Charles Grassley
Ranking Member
U.S. Senate Committee on the Judiciary
224 Dirksen Senate Office Building
Washington, DC 20510

RE: Response to Written Questions from Members of the Committee for the Hearing Titled, Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse – December 17, 2013

Dear Chairman Leahy and Ranking Member Grassley:

Thank you again for the opportunity to testify before the Judiciary Committee regarding The Patent Transparency and Improvements Act and the need to curb the patent litigation abuses that are plaguing the U.S patent system. We appreciate the opportunity to share our views on the pressing need for effective legislative reforms to address this growing problem.

Below are responses to the Questions for the Record requested by Chairman Leahy, Ranking Member Grassley, and Senator Whitehouse.

Question from Chairman Leahy

Q: Numerous groups have raised concerns about transparency in the patent system, and the ability of trolls to target companies through "shell companies." The legislation I have introduced includes two transparency provisions to help address those issues. One requires plaintiffs who file a lawsuit to disclose the certain ownership information under the standard that has long been used in the Northern District of California. The other requires ongoing disclosure to the Patent and Trademark Office when a patent is transferred so that the PTO has a record of current ownership.

Do you agree that improving transparency will help address abuses in the patent system, and if so, why? As someone who has worked in companies that possess a significant patent portfolio, do you view these requirements as manageable for patent holders to comply with?

R: Yes, improving transparency can help address abuses in the patent system, and we believe that the requirements you propose would be manageable for any patent holder. As a general matter, improved transparency will shed light on the operation of the patent system, which creates important disincentives for bad behavior. The ownership disclosure provisions could be particularly useful by clearly identifying ownership information, as well as providing information related to any entity with a

right to sublicense or enforce a patent, as well as any entity with a financial interest in a patent. The provision requiring ongoing disclosure of transferred patents to the USPTO would also be helpful in that there would be an official record maintained by USPTO to demonstrate patent ownership and provenance. Together, these common-sense provisions would provide basic, highly relevant information that is important for all parties, and the courts, to understand at the beginning of a case, potentially saving considerable time and resources should the case progress.

Questions from Senator Grassley

Q: In your view, are the reforms in Senator Leahy's bill adequate to address the threat from patent trolls that you confront? Why or why not?

R: We are greatly encouraged by the interest from this Committee and the House to curb patent litigation abuses. Our view is that there is no single solution to patent litigation abuses and that multiple reforms are necessary to provide effective relief. Certain provisions of the Patent Transparency and Improvements Act, introduced by Senators Leahy and Lee, can be very helpful. The transparency provisions in Section 3, for example, help to shed light on the patent marketplace and thereby discourage bad behavior. Section 5, regarding bad faith demand letters, will help curb the abusive practice of mass-mailing frivolous demand letters in the hopes of securing a settlement from victims.

These provisions alone, however, are insufficient to curb the abuse plaguing our patent system. Although helpful to solve some problems, this legislation would not, for example, discourage the filing of frivolous lawsuits, decrease the cost of patent litigation generally, or reduce the resultant ability of abusive companies to extract expensive settlements from innocent defendants merely because it's cheaper to settle than to fight. American businesses are counting on Congress to address these harms, and to that end, we respectfully urge the Committee to include the provisions co-sponsored by Senators Cornyn and Grassley, such as heightened-pleading, discovery reforms, and fee shifting, in any bill. These measures, more than any others in our view, are essential to any meaningful and impactful reform. We note that versions of these provisions are key parts of the Innovation Act (HR 3309), introduced by Chairman Goodlatte and recently passed with strong bipartisan support by the House of Representatives.

Q: AMD is a holder of numerous patents. Do you believe that the reforms dealing with strengthening pleading requirements, improving transparency requirements and limiting discovery will hurt AMD's ability to enforce its patents against infringers?

R: No, just the opposite. We strongly support these specific areas of reform because they would set reasonable standards that will protect any patent owner from frivolous and abusive claims, while providing those same owners full and open access to the courts. From AMD's perspective, these provisions would not impede our ability to enforce patents against infringers because we see them as best practices that we would willingly apply in any case.

Q: In your opinion, which types of abusive patent litigation are best addressed by the courts, PTO or legislation?

R: While the courts have considerable authority to help address frivolous cases, as well as certain abusive tactics, the considerable growth of abusive litigation over the past several years demonstrates that the courts alone are unable to uniformly address this expanding problem. Legislation is needed to provide clear guidance to the courts to help address abuses such as mass-mailings of demand letters, broad, or poorly defined claims, dilatory, ill-defined, and excessive discovery tactics, and other abuses that have become commonplace in the U.S. patent system. Specifically, the types of reforms described in The Innovation Act, as well as the transparency provisions in Senator Leahy's legislation, will have the greatest impact if passed into law.

Q: How would fee shifting change the incentives and dynamics in patent litigation?

R: Unlike most American businesses, some patent holders have little to no litigation risk and, therefore, have an incentive to litigate meritless claims in the hopes of getting a lottery-like return. A defendant, on the other hand, is always assured of high litigation costs and the risk of crippling liability. This risk-reward imbalance results in uneven bargaining power, which is often used to unfairly extract licenses or settlements that substantially exceed the value of the asserted patents. In fact, several notorious patent trolls are known for pursuing frivolous claims against a larger number of defendants with the expectation of receiving only a settlement from each. Each settlement funds additional lawsuits filed against additional parties, creating a domino effect. Entities who exploit the system know that a defendant is far more likely to pay to settle a lawsuit rather than pay the same or more in attorney fees and expenses to prove that the allegations are frivolous. Changing the risk-reward equation through fee shifting provisions creates a new dynamic, in which plaintiffs are no longer incentivized to file and litigate meritless claims, or seek to extract settlements by threating expensive litigation.

Q: What do you believe are the most promising proposals currently being considered by Congress that would help deter abusive activity in the patent system?

R: We believe the most promising proposals currently being considered are the heightened pleading requirements, discovery reforms, and attorney fee shifting provisions that were originally proposed in Senator Cornyn's proposed legislation, and were ultimately passed in The Innovation Act authored by Chairman Goodlatte. We also note that the White House has expressed strong support for these measures. Other provisions, such as the transparency and demand letter reforms proposed by Chairman Leahy would also be useful in addressing specific types of abuses.

Q: Some of the witnesses have expressed concerns that the heightened pleading requirements would complicate and delay litigation because of disputes over whether the pleading requirements have been met. Do you believe that these concerns are justified?

R: No – we strongly believe that, on balance, heightened-pleading requirements would simplify and expedite litigation. Under current law, a plaintiff can file a patent infringement lawsuit by merely

identifying the patent-in-suit and providing a general allegation that the defendants' products infringe. As a result, it can be months or even years before a defendant knows what is actually at issue. A plaintiff needn't explain what claims are being infringed, what product infringes or how the product infringes. That's like being able to sue for trespassing real property without explaining where the property is located. The result is an unnecessary waste of the parties' and the court's limited resources. But, heightened pleading requirements would add clarity to a patent infringement lawsuit from its inception. As proposed in the Innovation Act and as proposed by Senators Cornyn and Grassley, a plaintiff would be required to allege patent infringement with specificity, identifying not only the specific products at issue, but also the plaintiff's reason for believing that these products infringe.

We agree that there may be a temporary increase in the number of disputes regarding whether the pleading requirements have been satisfied, but I also know that the number and frequency of these disputes will decrease as law develops to more clearly define the requirements of these provisions. (Indeed, any new legislation runs the risk of this initial, and temporary, increase in disputes regarding the statute's requirements.) It is also clear that, on balance, the proposed heightened-pleading requirements will simplify and expedite litigation. First, the provision would deter purely frivolous lawsuits, thereby reducing the number of cases filed in district court, which will allow courts the opportunity to address legitimate lawsuits more quickly. (As a patent owner, this factor is particularly important to AMD.) Second, the provision will force both parties to focus on the issues that are actually in dispute, rather than wasting time and money to identify the issues in dispute. Third, by clearly identifying the parties' dispute from the inception of the lawsuit, the heightened-pleading proposal will reduce the number of motions filed on issues that are ultimately not relevant to the resolution of the parties' dispute.

Finally, it is important to also note that heightened-pleading requirements present no downside to a legitimate plaintiff. We don't take lightly any legislation that would place an additional burden on a plaintiff, as AMD actively enforces its patent rights against infringers, and we occasionally have needed to resort to filing a patent infringement lawsuit. However, a party seeking to enforce its patent rights, rather than seeking to extort a settlement, will investigate to determine which products are infringing and the basis upon which it finds infringement. In short, a legitimate plaintiff will have already done the homework required by the provisions of the Innovation Act and proposed by Senators Cornyn and Grassley.

Q: Some have claimed that proposals contained in the bills will disadvantage legitimate companies, vendors and universities. Do you believe that these concerns are justified? Others have claimed that the proposals will weaken the ability of patent holders and inventors to protect their patents against infringers. Do you agree? How do you respond to those concerns?

R: No, we believe that the proposals related to heightened pleading requirements, discovery reforms, and attorney fee-shifting, would not disadvantage legitimate companies, vendors or universities. We believe that these provisions provide benefits to all patent holders, by reducing the costs of and inefficiencies in patent litigation. In addition, the fee shifting provision will discourage infringers from blatantly violating the patent rights of legitimate companies, vendors and universities. Finally, should

these provisions become law, small businesses and small inventors will have stronger protections against frivolous claims, as well as expensive and abusive litigation tactics that are all too often levied against them. All patent holders will still have full access to the courts to protect against infringers using the same standards as all other patent holders. This is a fair and reasonable approach that improves the patent system for all parties, as well as the courts.

Q: In his prepared statement, Mr. Dickinson suggested that it might not be necessary for Congress to focus on the rules and procedures in patent litigation to curb the abusive practices of patent trolls. He testified, "In point of fact . . . many of these practices—sending a multiplicity of demand letters containing vague allegations and minimal information, with persistent but relatively modest settlement terms, and apparently with little preparation for actually bringing a lawsuit—may have less to do with abusing the rules and procedures in patent litigation per se than they have to do with consumer fraud and deceptive trade practices arising from the demand letter . . . Law enforcement has developed measures to deal with such wrongdoers." Do you agree? Please explain why (or why not) Congress, rather than another enforcement body, should address the patent troll issue.

R: We agree in part with Mr. Dickinson's statement regarding law enforcement agencies, but disagree with his conclusion. Some of the demand letter mass-mailings are consumer fraud and/or a deceptive trade practice, and we are encouraged that the appropriate law enforcement agencies are beginning to investigate and respond to these issues. Along these lines, we support Senator Leahy's proposed legislation to clarify that the Federal Trade Commission has jurisdiction to deal with some of these bad-faith demand letters.

However, and crucially, not all abusive tactics fall into the "consumer fraud" or "deceptive trade practice" buckets. These other tactics include, for example, requesting unnecessary discovery for the mere purpose of increasing an opponents' expenses, pursuing meritless litigation even after a defendant has demonstrated that it does not infringe the patent, and filing a lawsuit with the singular goal of extracting a settlement less than the cost of litigation. Congress needs to act to fix these harms.

Q: In his prepared statement, Mr. Bossone said regarding the deferral of discovery provisions in S. 1013 and H.R. 3309, "[T]hese provisions would routinely defer merits discovery in virtually all patent cases until after the court issues a claim construction order. While there undoubtedly are cases in which such discovery deferrals are appropriate, doing so as a general rule would effectively bifurcate discovery on the merits in most cases and tend to prolong patent litigation by 9-12 months, if not longer, across the board. Such delays would accrue even in routine patent litigation that does not involve meritless claims, small businesses defendants, or "patent trolls" ... In my opinion, these proposals are too rigid and interfere unduly with the responsibility and authority of district courts to manage patent litigation in a case-specific manner." Do you agree? Do you believe these provisions would result in added delays or otherwise would unduly interfere with the court's ability to manage patent litigation?

R: No, we disagree. This argument understates the benefits of deferral and overlooks the economic inefficiencies of the current system. Substantial discovery is generally unnecessary for claim construction. Under the proposed discovery provisions, significant resource and cost expenditures shift

until after the threshold questions surrounding claim construction are understood. Once claim construction is determined as a matter of law, it is generally self-evident whether additional discovery is necessary or whether a case should be dismissed. Further efficiencies are realized because a plaintiff's position on the merits must be defined early on in the litigation in order to reconcile its theory of infringement with its theory of claim construction. This frustrates the so called "fishing expedition" strategy adopted by many of today's patent trolls. Finally, while the discovery provisions of S. 1013 and H.R. 3309 preliminarily shift the emphasis on discovery to understanding claim construction issues, they are not a bar to other discovery. Other provisions allow the court to permit discovery (1) to timely resolve actions, (2) to resolve motions, and (3) as necessary to prevent manifest injustice. The Innovation Act (H.R. 3309) expands the court's discretion to allow additional discovery in some competitor suits and in other "special circumstances."

Q: In your opinion, does the recent rise in patent litigation encourage innovation?

R: Absolutely not. The rise in patent litigation discourages innovation by draining funds that might otherwise be invested in innovation, as well as undermining the protections afforded by the U.S. patent system that is one of the most important cornerstones of U.S. innovation. Curbing patent litigation abuse by passing strong legislative reforms such as those we are advocating is essential to preserve U.S. innovation leadership and the U.S. economy.

Question from Senator Whitehouse

Q: Independent of legislation to reform the patent litigation system, what are some proactive steps that large corporations that are frequently defendants in patent suits could take to better defend themselves against patent troll abuses? In particular, please address the positive and negative aspects of the following potential actions:

- Referring patent trolls and their attorneys who initiate frivolous lawsuits and fraudulent and harassing conduct to the appropriate law enforcement authorities and disciplinary bodies, including, in the case of attorneys, state bar disciplinary boards;

R: While potentially helpful in creating a disincentive for the most egregious ethical abuses of such attorneys, state bar disciplinary boards may be slow to act and are powerless over the patent troll initiating the action.

- Pursuing equitable remedies, such as injunctions against future suits by trolls with a demonstrated record of frivolous litigation, fraud, and harassment;

R: We believe that it would be difficult to articulate a reason why a court can and should enjoin a company (any company) from pursuing future patent litigation suits, merely on the basis of their past conduct. Indeed, to extend such a rule to individuals would close the courthouse to individuals who have been deemed to have this "demonstrated record," and corporate patent trolls would be able to circumvent the rule by transferring the patents to a different shell corporation. For these and other

reasons, we believe that the courts should address each case on its merits, and we believe that any party should be entitled to bring a legitimate patent infringement case. Thus, we recommend implementing legislation that would discourage the bad behavior in the first place.

- Pursuing Rule 11 sanctions against attorneys bringing frivolous suits;

R: Rule 11 is an ethical attack on an individual attorney, rather than an indictment of a party's litigation tactics or its position. Because of the stigma associated with attacking the ethics of a particular individual, parties and attorneys are disinclined to file a Rule 11 motion. Even more to the point, because of the impact such a ruling could have on the career of that individual attorney, courts are loathe to grant a rule 11 motion except in the very most egregious of cases. For example, these sanctions would not be available when an attorney has a plausible (albeit unlikely) excuse for his behavior. For these reasons, Rule 11 sanctions are insufficient to discourage abusive tactics. In our opinion, it makes far more sense to punish a party by requiring it to pay its opponents fees when it proceeded with an unjustified position.

- Increased use of joint defense agreements;

R: Joint defense agreements are routinely used in patent litigation, and they help to maintain the privileged nature of communications and information exchanged between co-defendants. This allows defendants to cooperate and share costs in the areas of prior art searching, retention of experts, and the development of invalidity, non-infringement, and unenforceability defenses. However, these agreements do almost nothing to protect defendants from a plaintiff's abusive litigation tactics.

- Purchase of patent litigation insurance;

R: For very small companies, patent insurance may reduce the likelihood of frivolous litigation because potential opponents can be put on notice of the insured's financial ability to reach a decision on the merits. The patent litigation insurance industry however is relatively new, the practice untested, and the insurance policies can be very expensive. This is not a practical solution for mid- and large-sized companies due to the significant costs involved.

- Increased licensing and purchase of relevant patents; and

R: AMD respects the intellectual property of others. When appropriate, we will negotiate and enter in to patent license agreements. Purchasing patents to circumvent licensing fees is certainly a way to address this, but this is not always an option when being targeted by a patent troll nor is it cost effective for a single company. Organizations that leverage the purchasing power of a collection of companies to purchase patents may provide an effective model that is better suited to help address this issue, although this alone is insufficient to curb the types of abuses that are pervasive in the patent system.

- Simply refusing to pay unjustified claims.

R: AMD takes great pains to understand accusations of patent infringement, and we have legal staff dedicated to this task. When claims are made that are rationally unjustified or frivolous, we vigorously defend our position. However, in some cases, business considerations require us to pursue the less expensive approach, which may involve paying an unjustified claim rather than paying significantly more for outside attorneys and experts to defend a lawsuit. In addition, some companies are smaller or less familiar with patent litigation, and these companies may be forced to incur significant outside attorney expenses just to determine that a claim is unjustified.

Again, thank you for the opportunity to testify and to address your questions regarding the importance of passing legislative reforms to address patent litigation abuses. We remain at your disposal to address any additional questions that may arise, and we respectfully urge you to pass legislation as soon as possible given the substantial negative impact patent litigation abuses are having on US companies and innovation.

Sincerely,

Harry A. Wolin
Senior Vice President, General Counsel and Secretary
AMD

RESPONSES OF HON. Q. TODD DICKINSON TO QUESTIONS SUBMITTED BY SENATORS LEAHY AND WHITEHOUSE

Questions Of Senator Patrick Leahy (D-Vt.),
Chairman, Senate Judiciary Committee

Hearing on "Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse"

December 17, 2013

Questions for Q. Todd Dickinson, former Director of USPTO and current Executive Director of the American Intellectual Property Law Association

1) **The America Invents Act implemented several important measures to improve patent quality. What are your views on how those processes are working? What more can or should be done by Congress, the courts, or the Patent & Trademark Office to improve the quality of patents that are issued?**

As we indicated in our written testimony, one of the primary goals of the Leahy-Smith America Invents Act (AIA) was to improve patent quality. This followed directly from the main recommendations of the National Academies of Sciences (NAS) 2004 Study, "A Patent System for the 21st Century," the principal source document for the recent patent reform debate, which found that patent quality itself was the most critical concern in the patent system as a whole. This was ratified as recently as the 2013 Study conducted by the Government Accountability Office (GAO)[1], also cited in our testimony.

To achieve those goals, the AIA implemented several key measures to improve patent quality. First among them was a core recommendation of the NAS Study:

> "***Institute an Open Review procedure***. Congress should seriously consider legislation creating a procedure for third parties to challenge patents after their issuance in a proceeding before administrative patent judges of the USPTO. The grounds for a challenge could be any of the statutory standards—novelty, utility, non-obviousness, disclosure, or enablement—or even the case law proscription on patenting abstract ideas and natural phenomena. The time, cost, and other characteristics of this proceeding should make it an attractive alternative to litigation to resolve patent validity questions both for private disputants and for federal district courts. The courts could more productively focus their attention on patent infringement issues if they were able to refer validity questions to an Open Review proceeding."

[1] Intellectual Property: Assessing Factors That Affect Patent Infringement Litigation Could Help Improve Patent Quality, GAO-13-465, Aug 22, 2013, available at http://www.gao.gov/products/GAO-13-465 (visited Jan. 23, 2014).

In the AIA, this procedure has come to be known as Post-Grant Review or PGR. It is applicable to all patents which will issue from applications filed under the new "first-inventor-to-file" regime, which just came on-line March, 2013.

In addition to PGR, however, the AIA implemented several other post-issuance processes whose intention was to improve patent quality. These include Inter Partes Review (IPR), Supplemental Examination, and, for a very narrow area of patents, the Transitional Program for Covered Business Methods (CBM). All of these processes vary in terms of the grounds for review, the threshold to enter, the availability of estoppel, the availability of grounds for stay of other proceedings, etc. These variances were the result of carefully crafted compromises that took into account varying stakeholder and technology interests, as well as the evolving importance and investment in the underlying technology during the life of the patent.

While it is too early to draw definitive conclusions about the ultimate success of these post-grant processes, at least one significant early indication may be drawn from the apparently greater-than-expected usage of the post-grant processes in the first stages following their implementation.

Other aspects of the AIA were also enacted to improve patent quality such as the institution of a first-inventor-to-file system that will provide a more objective basis for establishing the priority of rights and allowing third party submission of prior art during the patent examination process. More time is needed to evaluate the effectiveness of these reforms.

It is for these reasons and others that we strongly urge that we give these processes time to demonstrate whether or not they are dealing effectively with some of the problems identified during the debate on the AIA, problems which are being identified yet again in the debate this time around.

We would point out again that the AIA itself requires that USPTO study the reforms implemented by the AIA and report back to Congress by September 16, 2015. Those reports would serve as an important and more empirically-driven body of data which would allow for greater clarity and direction in making any necessary changes.

As far as what else can be done to improve quality, there were several additional proposals for improving the quality of patents in NAS 2004 Study that were not implemented in the AIA[2] and which AIPLA could support. These include eliminating the special exemptions to full publication of pending U.S. patent applications as permitted under the American Inventors Protection Act of 1999 to promote a more transparent patenting process, formally eliminating the requirement that an application for patent include a disclosure of the "best mode" contemplated by the inventor carrying out the invention, and codifying an exemption from infringement under which uses of a claimed invention related to scientific, research, or experimental inquiries are exempted as acts of infringement.

[2] A detailed discussion of these proposals can be found in the appendix to the testimony of Robert A. Armitage before the United States House of Representatives Committee on the Judiciary, hearing on "H.R. 3309, Improving the Patent System to Promote American Innovation and Competitiveness," October 29, 2013, pages A14-A38, available at http://judiciary.house.gov/_files/hearings/113th/10292013/Armitage%20Testimony.pdf.

Additionally, Section 11(C) of S. 1720 and Section 8(C) of H.R. 3309 each call for the GAO to conduct a study on "patent examination at the Office and the technologies available to improve examination and improve patent quality." The completion of such a study may shed more light on USPTO procedures that can be reformed to improve patent quality.

We would reiterate from our testimony that a long-term, sustainable funding mechanism is the single most important thing that would advance the goal of patent quality. To help fund the new programs and initiatives of the AIA, Section 11 included a 15% surcharge on patent fees, and Section 10 granted the USPTO the authority to set the fees for patent and trademark services. A new patent fee schedule, which included increases for numerous patent services, went into effect on March 19, 2013. Support for these fee increases by AIPLA and others in the user community were based on the understanding that the funds would be available solely to the Office to help "implement a sustainable funding model, reduce the current patent application backlog, decrease patent application pendency, improve patent quality, and upgrade the Office's patent business information technology (IT) capability and infrastructure." 78 Fed. Reg. 4212 (January 18, 2013). Sequestration undercut many of the planned quality improvement initiatives of the Kappos Administration at the USPTO and highlighted the severe impact even seemingly modest diversion of fees has on both on-going operations and long-range planning.

While this was clearly an extremely unfortunate result, it also had the effect of highlighting the unsatisfactory solution to the problem enacted in the AIA. We understand from the hearing that there are Senators who may be considering introducing amendments which would provide much stronger assurance that fees paid to the Office remain with the Office, and we would strongly support such an initiative.

2) **You have expressed concern that Congress should give appropriate deference to the Judicial Branch. However, some proponents of reform feel strongly that individual courts are not responding to litigants' needs. Within the judicial branch, what further steps could be taken by the Judicial Conference, the Supreme Court, or the Federal Circuit to ensure that courts process patent cases fairly and efficiently?**

In a system comprising over 94 districts and some 677 authorized district court judges, it may not be surprising that there are individual judges or individual districts where case management of patent litigation varies, and in some cases not be seen as favorable to one side or the other. That said, we believe that the Federal court system is very aware that the ways in which patent litigation is managed by judges may impact the ability of some patent holders to leverage their rights in ways that are contrary to the best overall interests of the system.

However, to reiterate briefly from our testimony, we are concerned that the practices of a few might give rise to a system of statutory case management requirements that are so rigid that they not only improperly constrain federal district court judges from the proper carrying out of their appointed duties, but may in cases yet to be seen, have significant unintended consequences which might actually hinder the efficient proceedings of a trial and the proper administration of

justice or impede access to the courts for those with legitimate claims. The inflexibility of procedural rules that are fixed in statutes severely constrains the ability of the Courts to moderate or fix problems which were unforeseen at the time the rules were enacted or problems that arise as litigation practices develop. The rules could only be adjusted through further legislative action, a notoriously difficult and lengthy process. There are certain advantages to allowing district courts to develop and test rules and procedures at a local level before adopting changes nationwide.

With regard to your specific question regarding other steps, the Supreme Court of the United States has traditionally had the authority to propound the Rules of Civil Procedure, and in doing so has relied on the recommendations of the Judicial Conference of the United States. The Judicial Conference is currently engaging in a review effort that could significantly impact areas of trial management. Judge Jeffrey S. Sutton, Chair of the Committee on Rules of Practice and Procedure of the Judicial Conference, published a request for "Comments on Proposed Rules and Forms Amendments" on August 15, 2013. Among others, this rules package includes proposals to amend Rule 26, Duty to Disclose; General Provisions Governing Discovery; Rules 30 and 31, Depositions by Oral Examination and by Written Questions; Rule 33, Interrogatories to Parties; and Rule 34, Production of Documents, and the repeal of Rule 84, Forms which includes Form 18 for patent pleading. These all relate to areas of concern which have been raised with this Committee. Comments are due February 15, 2014. It is also our understanding that the leadership of some of those district courts which have a reputation for many of the concerns expressed by your question have taken steps to moderate these concerns and that data from at least one of those courts is bearing that out.

That is not to say that the Judicial Conference should not be given more direct encouragement by the Congress to streamline litigation procedures. In our opinion, it would not be misplaced for the Congress to include in legislation a call to the Judicial Conference to continue to study and implement appropriate rules or guidelines to address the legitimate concerns about the various aspects of case management which have been raised. Our concern is that there is a significant difference between directing them to use their authority to do something in their own discretion and directing them in such specificity that judicial discretion is removed.

Secondly, the patent court pilot program (PPP) in the district courts has been operational for only a short period of time, and it is our understanding that it has initially worked well, among other things, to implement local rules governing patent litigation and foster a cross-district interaction which will likely lead at a minimum to an important sharing and implementation of best practices. It is also important for the Congress to continue to study how the PPP has progressed and to understand how it has helped in the fair processing of patent litigation and expanding the expertise of those various courts to conduct patent litigation. In that vein, it might also be a mechanism for Congress to pilot one or more of the changes under consideration before applying them system wide. We would note that the statute creating the PPP, Public Law 111-349, requires the Administrative Office of the courts to study the PPP and provide periodic reports to Congress.

With regard to what the Court of Appeals for the Federal Circuit and the Supreme Court can do themselves, we would reiterate their actions regarding any number of procedural issues during

the pendency of the AIA, which went very far in clarifying the law and introducing targeting "compromises" on some of the most contentious issues being debated legislatively. These include:

- injunctive relief, *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006);
- damages, *Lucent Technologies, Inc. v. Gateway, Inc.*, 580 F.3d 1301 (Fed. Cir. 2009)
- venue, *In re TS Tech USA Corp.*, 551 F.3d 1315 (Fed. Cir. 2008);
- willfulness, *In re Seagate Technology*, 497 F.3d 1360 (Fed. Cir. 2007); and
- inequitable conduct, *Therasense, Inc. v. Becton, Dickinson & Co.*, 649 F. 3d 1276 (Fed. Cir. 2011).

The courts have continued the trend of dealing with these issues, including ones which have been widely debated in this current legislation, such as awarding attorney's fees under Section 285. The Supreme Court has granted certiorari on the standard for finding "exceptional circumstances" meriting the award of attorney's fees in *Octane Fitness v. Icon Health and Fitness*, U.S., No. 12-1184 and the standard of review that appellate courts should apply to a Section 285 determination in *Highmark Inc. v. Allcare Management Systems, Inc,*. U.S., No. 12-1163. Additionally, the Federal Circuit recently held that a trial court should consider all of the circumstances relevant to whether a case was brought in bad faith when determining whether to award attorney's fees. *Kilopass Technology, Inc. v. Sidense Corp.*, No. 2013-1193, (Fed. Cir. Dec. 26, 2013).

We would respectfully suggest that throughout the decade-plus-long debate over legislative remedies to various aspects of patent litigation, the courts contemporaneously worked to respond to concerns of dysfunctionality in the patent litigation system, finding targeted, surgical approaches which have not only improved the system and helped address the concerns in critical ways, but have done so in a timely manner. This will undoubtedly be true as the results of the AIA post-grant processes in the USPTO make their way through the appellate process, as well.

3) You have expressed concern that some efforts to address the problem of patent trolls may have inadvertent consequences for legitimate patent holders seeking to protect their rights. What do you think are the best strategies for addressing abuses in the system in a meaningful way, without unduly burdening the rights of legitimate patent holders?

As an association comprised primarily of lawyers, many of whom engage in litigation on behalf of both owners and users of patents, AIPLA is very sensitive to the practices of some patent rights holders to take advantage of the strength of the patent system merely as a means to extract settlements rather than to protect their patent rights, and we are as concerned as anyone of the need to take appropriate and constructive actions to curb these abuses. They are real and they must be dealt with. However, as the question suggests, all of the proposals for litigation reform are currently structured to apply equally to all patent holders who may want or need to enforce their patent, not just patent assertion entities. As the General Accountability Office study found, patent assertion entity litigation may constitute only 19% of all patent litigation, and that the

other 80% is attributed to more traditional operating companies, independent inventors, and research firms and universities.[3] One of our biggest concerns is that any changes to the litigation system have equitable impacts on all patent holders and patent applicants (including their incentive to file for and obtain patents in the first instance) and that they are addressed in a deliberate and prudent manner to help ensure that result.

First, as the GAO study also suggests, we believe that we need to make sure that the data which underlies the concerns that have been addressed is as empirical and comprehensive as possible. There are recent concerns that earlier data on which there has been reliance may not be as credible or focused as first thought. In order to address any abuses, the types and universe of those abuses needs to defined and understood. The Federal Trade Commission is in the process of undertaking such a study[4].

We agree with Commissioner Ohlhausen[5] who suggested that this study, and others, should be permitted to complete their work to allow for the clearest and best understanding of these complex issues before additional systemic changes are undertaken. We would also note that former Under Secretary of Commerce for Intellectual Property and Director of the USPTO David Kappos recently addressed this same issue, stating the need for greater data clarity.[6]

With regard to specific inadvertent consequences, it is by definition difficult to identify many of the specific unintended results until the changes are in place. However, some specific examples which have been discussed include:

- **Delaying discovery until after claim construction.** One proposal would require judges to stay all discovery until after the Markman claim construction process has been completed, except for discovery related to claim construction itself. While it is argued that claim construction defines issues and is sometimes dispositive of the litigation, the fact is that this does not occur that often and that other early issues which other discovery might resolve, such as summary judgment, are precluded by this proposal. Moreover, delaying routine discovery that might otherwise have occurred in parallel would likely have the unintended consequence of extending the trial process overall, with its attendant costs and delayed judgment.

- **Requiring bonding or joinder at the beginning of most cases.** The goal of these proposals is to remove incentives for bad actors to file frivolous suits if they have to take costly actions at the front end of litigation, which would be used to fund attorneys' fees and costs if the case is found to be one to which mandatory fee shifting applies. The unintended consequences are that, even with expanding the number of cases in which attorneys' fees and costs might be found, it is highly likely that this is still a limited number of cases. To require an upfront assessment in all or most cases could create an

[3] GAO Study at page 17.
[4] http://www.ftc.gov/sites/default/files/documents/federal_register_notices/2013/09/130926paefrn.pdf
[5] http://www.ftc.gov/sites/default/files/documents/public_statements/pragmatists-approach-navigating-intersection-ip-antitrust/131204ukantitrust.pdf; See pp. 19 et seq.
[6] http://www.law360.com/articles/501142/facts-show-patent-trolls-not-behind-rise-in-suits

inequity that would not only discourage frivolous lawsuits but many legitimate ones, in particular those potentially brought by small entities.

The best way to addressing abuses without burdening legitimate patent holders have basically been addressed in previous questions.

- Let the AIA reforms play out and assess how they have addressed the litigation concerns they were intended to address.
- Let the courts continue to work their targeted case-by-case reforms and the rule reform processes they have already begun.
- Ensure that any reforms which are implemented are based on empirical independently-sourced data and not from commissioned sources or rhetorical arguments.
- Ensure that any reforms will continue to encourage innovation and access to the patent system generally.

Question for the Record of Senator Sheldon Whitehouse

Hearing: "Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse"

December 17, 2013

Question for All Witnesses

Proactive Action by Corporate Defendants

Many Rhode Island businesses have been the victims of patent troll abuse, receiving bad-faith demand letters and being forced to settle lawsuits or engage in costly litigation based on dubious patent claims. Small and medium-sized companies, many of whom do not have an attorney on staff, often do not have the resources to effectively fight patent troll abuse, which is why reforms such as prohibiting bad-faith demand letters and allowing manufacturers to stay suits against customers are necessary and appropriate.

Large corporate defendants, on the other hand, may have additional resources at their disposal that could allow them to take proactive steps to combat abuses by patent trolls. Consideration of such steps should be included in the discussion of how to address patent troll abuses.

Independent of legislation to reform the patent litigation system, what are some proactive steps that large corporations that are frequently defendants in patent suits could take to better defend themselves against patent troll abuses? In particular, please address the positive and negative aspects of the following potential actions:

- **Referring patent trolls and their attorneys who initiate frivolous lawsuits and fraudulent and harassing conduct to the appropriate law enforcement authorities and disciplinary bodies, including, in the case of attorneys, state bar disciplinary boards;**
- **Pursuing equitable remedies, such as injunctions against future suits by trolls with a demonstrated record of frivolous litigation, fraud, and harassment;**
- **Pursuing Rule 11 sanctions against attorneys bringing frivolous suits;**
- **Increased use of joint defense agreements;**
- **Purchase of patent litigation insurance;**
- **Increased licensing and purchase of relevant patents; and**
- **Simply refusing to pay unjustified claims.**

Answer of Q. Todd Dickinson:

Let me begin by acknowledging that AIPLA, is not a corporation but rather a non-profit bar association, and as such we are not in the same position to answer the question posed by Senator Whitehouse with regard to actions large corporations might take is the various circumstances cited.

With that said, we would like to comment on the these potential actions from the viewpoint of a bar association with mostly lawyer members who routinely represent clients as plaintiffs or defendants in patent litigation and have an understanding of the various concerns and abuses, potential and real, that have been raised in this debate.

- **Referral to Appropriate Law Enforcement Authorities and Disciplinary Bodies**

In theory, it would be possible to refer patent owners to law enforcement authorities or their attorneys to state or presumably the USPTO disciplinary authorities for bringing a frivolous action. However, it is important to note that in most instances this question, is in the hands of the trial judge, and the targeted behavior --while potentially abusive in terms of taking advantage of the court system--would not otherwise rise to the need for separate disciplinary conduct. The trial judge has the discretion and the proximity to the action to recognize and deal with the issue in the first instance, if it should arise. Presumably, in exceedingly exceptional cases, either on their own initiative or on motion, the judges may also be in a position to make a referral such as is suggested by this question. To rise to the level of "frivolousness," such that it would constitute either an actionable offense under state law or a state bar's disciplinary rules, and would not be dealt with in the regular course of the trial, strikes us, however, as an exceedingly rare situation and not one for which a general rule might be propounded in legislation that has been discussed in this debate. In addition, to incentivize actionable offenses under state law or encourage invoking disciplinary rules might create additional unwanted and unnecessary proceedings that can be handled through the current court system or administrative agencies. Also, targeting lawyers, as opposed to their clients, often would not be appropriate and would not be directed at the party who is ultimately responsible for the abusive behavior.

It should also be noted that there are other, less onerous prophylactic measures already in place, which are currently the subject of debate and appellate litigation. For example, the granting of attorneys' fees and costs in exceptional cases remains available as a bulwark against all but the most egregious actions. Also, courts already have statutory ways to deal with attorneys who abuse the litigation system. *See, e.g,* 28 U.S.C. § 1927 (permitting courts to have counsel personally satisfy excessive fees and costs in litigation). In addition, the fact that any formal discipline, no matter how minor, may lead to significant professional consequences. Formally sanctioned attorneys may lose clients, their professional affiliations, and even the right to practice, all of which constitute a significant deterrent.

That said, harassing conduct by patent owners in the form of unwarranted demand letters, especially against smaller and less sophisticated end users, is an increasing problem and one which we have addressed in our testimony. We believe in general that this may constitute a form of consumer fraud which may be very capably addressed by agencies such as the Federal Trade Commission and states' attorneys general in the regular course of their jurisdiction. If such behavior does indeed rise to the level of harassment, criminal or otherwise, then it may be appropriate to refer those committing such acts to the appropriate authorities. The same might be true for attorneys behaving in a similar fashion and state bar disciplinary boards. That is not

to say that this should be a routine matter either, however, and care must be taken to balance this with the legitimate rights of patent holders as well as their constitutionally protected rights to free speech.

- **Injunctions Against Future Lawsuits**

Many of the previous broad comments apply in this instance as well. While we understand the appeal of such a possible remedy, we would again suggest that the specific nature of the actions that were sought to be enjoined would have to be of such a strikingly offensive nature that this would likely be a rare circumstance. Given that patents inherently provide a "right to exclude", *see* 35 U.S.C. § 154, enjoying enforcement of patent rights may create unintended consequences that can be dealt with through other means.

- **Rule 11 Sanctions**

Rule 11 sanctions are always available against attorneys and parties in federal litigation. They are carefully circumscribed in most if not all jurisdictions, however, and have a notoriously high burden of proof. We would also note that Rule 11 sanctions are usually sought on a particular aspect of a case and not on the case as a whole. Furthermore, Rule 11 does not apply to disclosure and discovery requests, responses, objections, and motions under Rules 26 through 37, sanctions for which are provided under Rule 37, which may further limit their use for the purposes suggested by the question. That said, it should be acknowledged that, when used appropriately, the availability of Rule 11 sanctions has been shown to serve the deterrent function for which it was intended, especially with regard to abusive litigation behavior.

We would not urge a change in the current statute or jurisprudence of Rule 11, and are concerned in particular with regard to legislation introduced in the House of Representatives which would have required a Rule 11 hearing in every patent litigation. This would be an extraordinary waste of resources for both the litigants and the Court considering in particular the ratio of likely sanctionable instances to overall cases. It would also drive up the cost and complexity of patent litigation still further for very little return, and could suppress the ability of smaller or less well-resourced patent holders to access the judicial system.

- **Joint Defense Agreements**

Joint defense agreements are fairly common, especially in defending against "patent troll" actions in which the same patent is asserted against two or more parties. Joint defense or common interest agreements can be effective for pre-trial proceedings in addressing issues common to the accused infringers. However, sometimes strategies among the members of a joint defense group may differ and oftentimes, should the cases ultimately go to trial, the cases would need to be tried separately. To the extent interests diverge, issues, including whether communications among a joint defense group should be treated as privileged, may develop. Also, in cases in which competitors are involved, other sensitivities may arise that make joint

defense agreements difficult to implement in the first instance. Further, where some parties to a joint defense agreement are not perceived to be sharing equitably in the costs of litigation, additional problems may arise. Of course, there are other cases, however, where the interests of the defendants, their potential liabilities, their trial strategies, their witnesses and discovery, etc., are such as to make their use impractical at best.

- **Increased Use of Patent Litigation Insurance**

Patent litigation insurance is available, but it is our understanding that (for reasons best explained by corporate interests) it has not been widely used. Traditionally, where practical, responsible companies would obtain freedom-to-operate advice and seek to obtain the rights to patented technology through license or cross-license prior to formal commercialization, significantly reducing the need for such insurance. This is the advice our members would ordinarily give such clients. For those entities that choose to commercialize without seeking the risk reduction afforded by such procedures, our members would again suggest that the best protection remains a more aggressive up-stream in-licensing program. However, for certain "troll" type matters, in which hundreds of patents may be at issue, traditional freedom to operate advice may not be practical and patent litigation insurance may be limited in value.

- **Simply Refusing to Pay Unjustified Claims**

While this strategy also has a certain appeal, its use requires knowledge that the premises on which it is based are sound. In particular, our members routinely give their clients advice and guidance on what claims are "justified" and which are not, as well as such traditional questions as the likelihood of prevailing in litigation. Companies and clients should seek the best professional advice they can in this regard before adopting this strategy, but reliance on that advice and refusing to submit to claims or litigation that is unjustified always remains a viable option in such circumstances.

Miscellaneous Submissions for the Record

July 17, 2013

The Honorable John Boehner
Speaker
United States House of Representatives

The Honorable Harry Reid
Majority Leader
United States Senate

The Honorable Nancy Pelosi
Minority Leader
United States House of Representatives

The Honorable Mitch McConnell
Minority Leader
United States Senate

Dear Speaker Boehner, Majority Leader Reid, Minority Leader Pelosi, and Minority Leader McConnell:

The undersigned organizations strongly encourage Congressional efforts to address abuses of the legal system by certain patent assertion entities, commonly referred to as patent trolls. Managing frivolous patent suits unfortunately has become an expensive distraction for a large cross section of American businesses. Instead of focusing on innovation, job creation, and economic growth, we are forced to deal with legal games that have serious consequences.

The growth and reach of patent troll activity in recent years has been astounding. Since 2005, the number of defendants sued by patent trolls has quadrupled. Last year, they sued over 7,000 defendants and sent thousands more threat letters. This activity cost the U.S. economy $80 billion in 2011, and productive companies made $29 billion in direct payouts. Moreover, trolls no longer only sue large tech corporations. Small and medium-sized businesses of all types, including start-ups, are now the most frequent targets. In 2012, trolls sued more non-tech companies than tech, spanning a wide range of American businesses. We seek reforms to the current system that would significantly curb trolls' ability to extort settlement demands from retailers, technology companies, small businesses, financial services institutions, state and local government entities, and many others who are today the targets of their outrageous claims.

There is a growing consensus that now is the time to address this issue. We are pleased to see Chairman Leahy and Chairman Goodlatte are seeking comprehensive legislative solutions in the Judiciary Committees. Likewise, we are encouraged that several other Members have introduced legislation to tackle some of the complex problems we face. President Obama has also weighed in with executive actions and recommended legislation. There is no single solution to this complex question, but meaningful reforms like these would make it more difficult for patent trolls to continue their destructive business model. This broad support and the willingness of Congress to work across the aisle and across chambers on this complex issue is a testament to its importance.

We look forward to working with you and your colleagues to pass strong legislation to address these important issues.

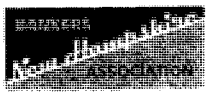
Sincerely:

Alliance of Automobile Manufacturers
American Association of Advertising Agencies
American Bankers Association
American Gaming Association
American Hospital Association
American Hotel & Lodging Association
American Public Power Association
American Public Transit Association
Application Developers Alliance
Association of National Advertisers
Coalition for Patent Fairness
Competitive Carriers Association
COMPTEL
Computer and Communications Industry Association
Consumer Electronics Association
Credit Union National Association
Direct Marketing Association, Inc
Electronic Frontier Foundation
Electronic Retailing Association
Engine Advocacy
Financial Services Roundtable
Food Marketing Institute
Hattery
Independent Community Bankers of America
Independent Insurance Agents and Brokers of America
Information Technology Industry Council
International Franchisers Association
Internet Association
Internet Infrastructure Association
Motion Picture Association of America
MPA – The Association of Magazine Media
National Association of Broadcasters
National Association of Realtors
National Cable & Telecommunications Association
National Council of Chain Restaurants
National Grocers Association
National Restaurant Association
National Retail Federation
Newspaper Association of America
NTCA – The Rural Broadband Association
Online Publishers Association
Printing Industries of America
Public Knowledge
Retail Industry Leaders Association
Securities Industry and Financial Markets Association
Software & Information Industry Association
TechAmerica
TechNet
United States Telecom Association
1776

CC: The Honorable Bob Goodlatte
The Honorable Patrick Leahy
The Honorable John Conyers
The Honorable Chuck Grassley

Connecticut Bankers Association

MAINEBANKERS Association



RHODE ISLAND BANKERS ASSOCIATION

July 25, 2013

RECEIVED JUL 25 2013

The Honorable Patrick J. Leahy
Chairman, United States Senate Committee on the Judiciary
224 Dirksen Senate Office Building
Washington, DC 20510
Via Facsimile: (202) 224-9516

Dear Chairman Leahy:

As state banking trade associations representing more than 350 state and federal savings, commercial, and cooperative banks and savings & loan associations throughout New England, we would urge your support of new legislation to address abusive patent litigation. Such litigation has resulted in the practice of extortive licensing fee demands against innocent business end-users, including banks.

In general, non-practicing entities (NPEs) or "patent trolls," are passive entities that claim ownership to a particular process and threaten lawsuits against third parties claiming infringement of a particular patent. Generally, the targets of these trolls are firms that are end-users of a product using technologies or processes licensed by others, i.e. ATM vendors: not competitors of the NPE nor developers of comparably patentable materials. To avoid litigation the NPE "generously" offers a licensing agreement to the targeted firm for continued use of the alleged patented product/service.

While patent trolls have been around for a while (often funded by various hedge funds), in the last few years community banks have become a particular target. Here in New England, we have witnessed this phenomenon first-hand.

Beginning in 2011 and reaching a crescendo in Q4 2012, more than 150 banks in New England and the Northeast received a claim letter from Automated Transactions LLC (ATL). ATL asserted violations of several patents which connected ATM machines to the Internet to provide retail transactions. The irony is that banks are being asked to pay ATL for rights they assumed had already been paid to their core processors and ATM vendors. Since individual banks cannot risk a protracted legal fight that could cost from $2 – 6 million, most of our affected members agreed to settle with ATL and pay a licensing fee. Collectively we would estimate that this settlement including legal fees may have cost more than $2 million: funds which could have been much better used for small business lending and consumer products and services.

While several of their patents have been invalidated, ATL continues to issue demand letters and sue banks across the country. Other patent trolls have followed ATL's seemingly successful strategy. While not as pervasive in New England, Wolf Run Hollow, Sonic Industry LLC and Gamsta LLC have recently contacted member banks about similar patent violations. These claims respectively deal with alleged violations related to methods/systems for transmitting secure messages across insecure networks, remotely setting withdrawal limits for ATMs, and using scanning equipment to transmit files via the Internet.

In conclusion we would urge you to support legislation to protect end-users of technology products/services from unfounded patent litigation and demand letter campaigns. Without such legislation, a cloud of legal uncertainty will allow banks and other businesses to be held hostage by patent trolls and divert resources to expensive litigation and settlements. We would be pleased to provide additional information and look forward to working with you to mitigate these abusive practices.

Sincerely,

Lindsey R. Pinkham
President
Connecticut Bankers Association

Christopher W. Pinkham
President
Maine Bankers Association

Daniel J. Forte
President
Massachusetts Bankers Association

Christiana L. Thornton
President
New Hampshire Bankers Association

William A. Farrell, Esq.
Administrator & Legal Counsel
Rhode Island Bankers Association

Christopher D'Elia
President
Vermont Bankers Association

July 29, 2013

The Honorable Patrick J. Leahy
United States Senate
Russell Senate Office Building
Room 437
Washington, DC 20510

Dear Chairman Leahy:

The issue of patent trolls is a serious and growing issue for banks of all sizes in Vermont and across the country. Legislation is needed to curtail the risk of abusive patent litigation and the disingenuous license fee demands by non-practicing entities (NPEs), also referred to as "patent trolls". Your role as Chairman of the Judiciary Committee is a critical one, and we hope that you will agree that this issue is a serious one that needs to be addressed by the Committee and Congress as a whole.

Despite much-needed reforms put in place by the America Invents Act, NPEs continue to manipulate the patent law, threatening litigation accompanied by licensing fee demands designed to extract a "tax" on the very innovation created to support and benefit consumers and the economy. Increasingly consumers use technology to complete daily tasks, and needless to say technology is becoming increasingly important to banks as well.

Since banks of all sizes license innovation and technology to support consumer use and remain competitive in the marketplace, they are frequent NPE targets. In fact, banks are now one of the top ten industries targeted by NPEs and like many industries, when faced with threats of expensive patent litigation (estimated to cost between $500K and $3.5M) many banks—especially smaller institutions—find that their only option is to settle rather than face paying even higher litigation costs to defend themselves against frivolous claims of patent infringement. Repeated NPE attacks could result in not only limiting innovation, but also reduced competition in the marketplace.

Well-funded and sophisticated patent trolls are taking advantage of community banks like mine with limited resources and little patent experience, and they have collected significant "licensing" fees literally for the cost of a stamp to mail a demand or threatening letter. Although the problem has grown for community banks in recent years, mid-size and larger banks have faced this problem since 2004 and have had to devote significant resources that could have been better used to support customers, including small businesses, rather than fight overly broad NPE claims of patent infringement.

One example of the scope of the problem involves a company that has targeted more than 150 community banks along the East Coast and in a couple of Southern states in recent months. It claimed that certain automated teller machine (ATM) transactions infringed on one or more of its patents and continued to make these claims knowing that the U.S. Patent and Trademark Office and the courts had invalidated several of its asserted patents and claims. To this day, the company continues to assert patents and sue community banks, including ones that do not even have ATMs. The patent system was

Main Office
221 Main Street
P.O. Box 1010
Brattleboro, VT 05302-1010
Telephone: (802) 254-5333

Springfield Office
85 Main Street
P.O. Box 915
Springfield, VT 05156-0915
Telephone: (802) 885-2183

Website
www.brattbank.com

E-Mail
info@brattbank.com

never intended to be used as a hidden time bomb against innovation and businesses that have a hand in building the economy.

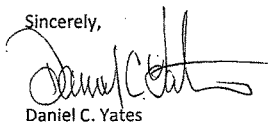
With respect to our bank's experience here in Vermont, in June, 2012, we received a letter from a New York law firm "offering" to grant us a sub-license to continue using our ATMs for a fee, and hoping we would "agree" so as to avoid litigation, which they were prepared to initiate within two weeks from the date of their letter if we did not agree. While all of the information I was able to obtain suggested that we should prevail in litigating the matter, the potential cost of doing so far exceeded the probable cost of this shakedown and so, with the help of counsel, we joined a group of community banks in negotiating a settlement.

While the terms of the settlement are confidential, suffice it to say that I must be very careful in decisions I make about the expansion of our ATM network in the future, lest the cost be more than it should be. In this particular matter, for any bank, let alone our little community bank, to have to pay what is in my opinion extortion to expand our ATM network is an egregious affront to how we should be conducting business in this country.

These examples illustrate how critical it is that legislation be enacted to protect end-users in Vermont that purchase or license products or services in good faith from reputable vendors and technology companies to support their business and customers. Legislation must also make it harder and more costly for trolls to launch unfounded demand letter campaigns.

There are also several bills pending in the Senate that could help; in particular, S. 1013 by Senator John Cornyn (R-TX) and S. 866 by Senator Charles Schumer (D-NY). Mr. Chairman, I understand that you are also drafting a bill on this issue and your support for moving forward with legislation to deal with patent trolls is critical. Please let me know if I can do anything to help you and your colleagues in the Senate pass legislation that will end abusive litigation by patent trolls and have it enacted into law as soon as possible.

Sincerely,



Daniel C. Yates
President & CEO

October 18, 2013

The Honorable Patrick J. Leahy
Chairman, Committee on the Judiciary
United States Senate
224 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Bob Goodlatte
Chairman, Committee on the Judiciary
U.S. House of Representatives
2138 Rayburn House Office Building
Washington, DC 20515

The Honorable Chuck Grassley
Ranking Member, Committee on the Judiciary
United States Senate
224 Dirksen Senate Office Building
Washington, DC 20510

The Honorable John Conyers, Jr.
Ranking Member, Committee on the Judiciary
U.S. House of Representatives
2138 Rayburn House Office Building
Washington, DC 20515

Dear Messrs. Chairmen and Ranking Members:

Thank you for the leadership that you and your committees have shown in recognizing the need to reform the nation's patent system. America's patent system must promote innovation. It must ensure that companies large and small can devote resources to productive, pro-growth innovation in the marketplace instead of burdensome, unjustified patent litigation that stifles innovation.

Yet some entities use patents to tax innovation, not to promote it. Such companies accuse innovators of infringement – not to capture the value of the patent, but to demand settlements based on what their targets would have to spend to fight them in court.[1] The enormous cost of defending against an infringement allegation raises particular concerns when a small business is the defendant. For these businesses, the cost of defense may exceed their revenue, all but compelling settlement regardless of the merits.

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[1] *See, e.g.*, BRIAN T. YEH, CONG. RESEARCH SERV., R42668, AN OVERVIEW OF THE "PATENT TROLLS" DEBATE 1 (2012) (stating that "vast majority" of cases brought by patent assertion entities "end in settlements because litigation is risky, costly, and disruptive for defendants, and PAEs often offer to settle for amounts well below litigation costs to make the business decision to settle an obvious one").

We urge you to enact the following patent litigation reform measures, which will make patent litigation more efficient in order to reduce the incentive to bring such nuisance patent suits:

- *Genuine notice pleading in patent cases.* Under current law, entities that accuse innovators of patent infringement need not tell their targets in the complaint which claims of the patent they allege are infringed or which products or services allegedly infringe. A target that does not know the precise allegations against it can run up high, wasteful legal bills pursuing arguments that turn out to be irrelevant once the accuser finally makes its case clear. Section 2 of S. 1013 and Section 2 of H.R. 2639 both aim to correct this problem.[2]
- *Efficient management of patent cases.* In patent cases, the judge typically issues a so-called *Markman* ruling that construes the terms in the patent claims and lets the parties know the patent's scope. Under current law, expensive discovery often happens before that ruling, even though the ruling can render much of that discovery a waste of time and money. Knowing that, some accusers use early discovery burdens to force a settlement based on the cost of litigation, rather than the merits of the case. We support proposals – such as Section 4(a) of S. 1013 and Section 5 of H.R. 2639 – that stay any unnecessary discovery until the court has told the parties what the patent covers.
- *Curbing discovery abuse in patent cases.* Some patent accusers aim to leverage the cost of excessive discovery to force a settlement that has little to do with the merits of the case. We support proposals that, like Section 4(b) of S. 1013, allow for discovery of core documentary evidence in patent cases in the usual way, but that require the accuser to pay the costs of producing any additional discovery in patent cases.
- *Patent fee shifting.* In addition, we also support appropriate fee-shifting reform. The Patent Act has included a fee-shifting provision since 1952. We encourage Congress to provide more clarity regarding patent fee shifting. Done correctly, fee-shifting reform will deter nuisance patent lawsuits, particularly those based on weak patents, and ensure fairness in the patent system.

Reforms to mitigate the estoppel bar for administrative review of issued patents are also important. In addition, the reforms above are essential because they will make patent litigation less expensive and more efficient. They will help weed out the exploitative cases in which the accuser seeks to extract a settlement based on the cost of litigation, rather than on the merits of the cases. They will have little impact on cases founded on the merits of the patented technology, ensuring that inventors can receive their due reward for their work. We look forward to working with you to ensure that these proposals succeed in freeing the patent system to fulfill its function: encouraging innovation and boosting the American economy.

---

[2] S. 1013 was introduced by Sen. Cornyn on May 22, 2013. H.R. 2639 was introduced by Reps. Farenthold and Jeffries on July 10, 2013.

Sincerely,

ADTRAN, Inc.
Huntsville, Alabama

American Consumer Institute
Washington, DC

Apple Inc.
Cupertino, California

Application Developers Alliance
Washington, DC

Avaya Inc.
Santa Clara, California

BlackBerry Limited
Irving, Texas

BSA | The Software Alliance
Washington, DC

Ciena Corporation
Hanover, Maryland

Cisco Systems, Inc.
San Jose, California

Coalition for Patent Fairness
Washington, DC

Consolidated Communications
Mattoon, Illinois

Consumer Action
Washington, DC

Consumer Electronics Association
Arlington, Virginia

DIRECTV
El Segundo, California

DISH Network
Englewood, Colorado

Dropbox, Inc.
San Francisco, California

eBay Inc.
San Jose, California

Electronic Frontier Foundation
San Francisco, California

Engine
San Francisco, California

Entertainment Software Association
Washington, DC

Facebook
Menlo Park, California

FairPoint Communications, Inc.
Charlotte, North Carolina

Ford Motor Company
Dearborn, Michigan

Frontier Communications Corporation
Stamford, Connecticut

Google Inc.
Mountain View, California

Groupon, Inc.
Chicago, Illinois

GVTC Communications
New Braunfels, Texas

Hawaiian Telcom
Honolulu, Hawaii

Hewlett-Packard Company
Palo Alto, California

HTC America
Bellevue, Washington

IBM Corporation
Armonk, New York

Juniper Networks, Inc.
Sunnyvale, California

Limelight Networks, Inc.
Tempe, Arizona

LinkedIn
Mountain View, California

MediaFire
Houston, Texas

Meetup, Inc.
New York, New York

Microsoft Corporation
Redmond, Washington

National Retail Federation
Washington, DC

NCTA – The National Cable & Telecommunications Association
Washington, DC

Netflix, Inc.
Los Gatos, California

New York Tech Meetup
New York, New York

North State Communications
High Point, North Carolina

NTCA – The Rural Broadband Association
Arlington, Virginia

Oracle
Redwood City, California

Personal Democracy Media
New York, New York

Public Knowledge
Washington, DC

QVC, Inc.
West Chester, Pennsylvania

Rackspace
San Antonio, Texas

Red Hat, Inc.
Raleigh, North Carolina

Safeway Inc.
Pleasanton, California

SAS Institute Inc.
Cary, North Carolina

Shenandoah Telecommunications Company
Edinburg, Virginia

Southwest Texas Telephone Company
Rocksprings, Texas

TechAmerica
Washington, DC

Twitter, Inc.
San Francisco, California

USTelecom Association
Washington, DC

Verizon Communications Inc.
New York, New York

VIZIO, Inc.
Irvine, California

Waterfall Mobile, Inc.
San Francisco, California

Windstream Communications
Little Rock, Arkansas

XO Communications
Herndon, Virginia

cc: Members of Senate and House Committees on the Judiciary

November 5, 2013

The Honorable Patrick J. Leahy
Chairman, Committee on the Judiciary
United States Senate
224 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Robert Goodlatte
Chairman, Committee on the Judiciary
U.S. House of Representatives
2138 Rayburn House Office Building
Washington, DC 20515

The Honorable Charles Grassley
Ranking Member, Committee on the Judiciary
224 Dirksen Senate Office Building
Washington, DC 201510

The Honorable John Conyers
Ranking Member, Committee on the Judiciary
2138 Rayburn House Office Building
Washington, DC 20515

Dear Messrs. Chairmen and Ranking Members:

We, the undersigned trade associations and public interest organizations, applaud bipartisan efforts in Congress to curb abusive patent litigation. As Congress considers this much-needed legislation, we strongly urge you to include provisions to address unfair and deceptive patent infringement demand letters.

Patent trolls are increasingly harassing businesses and not-for-profits of every size, across the wide swath of industries represented here, with demand letters. These letters come out of nowhere, and often allege that the mere use of everyday technology violates the patent holders' rights. Further, these questionable letters typically state vague or hypothetical theories of infringement, often overstate or grossly reinterpret the patent in question, and, in some cases, make allegations of infringement of expired or previously licensed patents.

At their core, demand letters use the threat of litigation as leverage to extract a "licensing fee" from the recipient business. Recipients often simply settle these nuisance claims rather than run the risk of protracted litigation in federal court. Put simply, it is often much more expensive to hire a lawyer to review or defend against a suspect claim than it is to pay the requested "fee." This is the troll's business model.

While many in Congress are appropriately focusing on litigation reform and changes to procedures at the U.S. Patent and Trademark Office ("USPTO") to curb abusive practices, we believe that pre-litigation demand letters must also be addressed. We appreciate that Chairman Leahy and other leaders in Congress, as part of the overall patent reform effort, support legislative proposals to have the Federal Trade Commission ("FTC") look into unfair or deceptive demand letters and, using their current consumer protection enforcement powers, rein in bad actors that target main street businesses.

Demand letters are central to the patent troll problem. Indeed, many claims begin and end with these letters as companies quickly pay undeserved "licensing fees," given the expense and complication of defending on the merits in court. We urge Congress to enact meaningful legislative solutions to protect businesses of all sizes from these "smash and grab" tactics. The fight for patent litigation reform and demand letter relief is truly a main street issue impacting

businesses and not-for-profits in communities across the country. We look forward to working with you on this important issue.

Sincerely,

American Association of Advertising Agencies

National Retail Federation

The Direct Marketing Association, Inc

National Council of Chain Restaurants

National Restaurant Association

The Mobile Marketing Association

Application Developers Alliance

Association of National Advertisers

The Food Marketing Institute

National Association of Convenience Stores - NACS

Public Knowledge

American Hotel & Lodging Association

National Grocers Association

Independent Insurance Agents & Brokers of America

National Association of Realtors – NAR

Competitive Carriers Association

Retail Industry Leaders Association

American Apparel & Footwear Association

Engine Advocacy

American Public Transportation Association

American Public Power Association

CC: All members of the Senate Judiciary Committee
All members of the House Judiciary Committee

Startup Investors Nationwide Support Broad Patent Reform

6 November 2013

Dear Congress:

Each year, we invest hundreds of millions of dollars in software and information technology businesses and emerging mobile technologies. Together with other investors, we commit more than $1 billion annually in angel and venture capital that ensures continuing growth of young, high-tech companies employing 1.4 million people. Collectively, we have invested in companies such as Netflix, Twitter, Facebook, Dropbox, Palantir, Kickstarter, and countless other technologies that power American businesses everywhere. We are the fuel in America's startup economy engine.

We write to urge comprehensive legislation to address the troubling growth and success of the patent troll business model. Young, innovative companies are increasingly threatened and targeted by patent troll lawsuits. In fact, the majority of companies targeted by patent trolls have less than $10 million in revenue. And while big companies paid the lion's share of the $29 billion of direct costs resulting from patent troll activities in 2011, the costs borne by small companies are a proportionately larger share of their revenues.

As a result, Congress and the Administration are considering multiple reform proposals. None alone will fix the problem, but together they will make a substantial dent in what one famous troll recently called "a new industry."

Successful legislation should make it harder to be a patent troll, and easier for targeted businesses to protect and defend themselves. Legislation should:

- Make it easier to efficiently review patents at the Patent Office, as an alternative to litigation.
- Increase transparency by requiring patent trolls to specify, in complaints and demand letters, which patent and what claims are infringed, and specifically how the offending product or technology infringes.
- Limit the scope of expensive litigation discovery.
- Require patent trolls to pay legal fees and other costs incurred by prevailing defendants.
- Protect end users of technology (e.g., wi-fi, printers and scanners, and APIs) from being liable for infringements by technology providers.

Our Founders did not intend to incentivize patent trolling in the Constitution -- nor did Congress intend the Patent Act to promote this industry. Comprehensive legislation to reduce abusive patent litigation will make the patent troll business model less attractive, and will protect software, mobile and information technology entrepreneurs. In turn, our digital economy will continue to grow and so will our national economy.

The undersigned:

Gil Bickel
St. Louis Arch Angels
St. Louis, MO

David Bradbury
Vermont Center for Emerging Technologies
Burlington, VT

Glen Bressner
Originate Ventures
Bethlehem, PA

Brad Burnham
Union Square Ventures
New York, NY

Jeff Bussgang
Flybridge Capital
Boston, MA

Steve Case
Revolution Capital
Washington, DC

Jeff Clavier
SoftTechVC
Palo Alto, CA

Ron Conway
SV Angel
San Francisco, CA

Mark Cuban
Investor in over 70 startups
Dallas, TX

Peter Esperrago
Cultivation Capital
St. Louis, MO

Brad Feld
Foundry Group
Boulder, CO

Nicole Glaros
Techstars
Boulder, CO and New York, NY

David Gold
Access Venture Partners
Westminster, CO

Greg Gottesman
Madrona Venture Group
Seattle, WA

Paul Graham
Y Combinator
Mountain View, CA

Bill Gurley
Benchmark Capital
Menlo Park, CA

Reid Hoffman
Greylock Partners
Menlo Park, CA

Kirk Holland
Access Venture Partners
Westminster, CO

Len Jordan
Madrona Venture Group
Seattle, WA

Scott Levine
iSelect Fund
Clayton, MO

John Lilly
Greylock Partners
Menlo Park, CA

Trevor Loy
Flywheel Ventures
Albuquerque and Sante Fe, NM

Chris Marks
High Country Venture
Boulder, CO

Dan Marriott
Stripes Group
New York, NY

Matt McCall
Pritzker Venture Capital Group
Chicago, IL and Los Angeles, CA

Jim McKelvey
Cultivation Capital
St. Louis, MO

Andrew McLaughlin
BetaWorks
New York, NY

Josh Mendelsohn
Hangar
San Francisco, CA

Jason Mendelsohn
Foundry Group
Boulder, CO

Michael Neril
Webb Investment Network
San Francisco, CA

Charlie O'Donnell
Brooklyn Bridge Ventures
New York, NY

Alexis Ohanian
Angel Investor
New York, NY

Bijan Sabet
Spark Capital
Boston, MA

Devin Talbott
Enlightenment Capital
Washington, DC

Brett Topche
MentorTech Ventures
Philadelphia, PA

Jorge M. Torres
Silas Capital
New York, NY

Hunter Walk
Homebrew
San Francisco, CA

David Weekly
Startup Founder and Angel Investor
Palo Alto, CA

Fred Wilson
Union Square Ventures
New York, NY

Engine

Application Developers Alliance

November 7, 2013

Chairman Patrick Leahy
United States Senate
Judiciary Committee

Ranking Member, Chuck Grassley
United States Senate
Judiciary Committee

Chairman Jay Rockefeller
United States Senate
Commerce Committee

Ranking Member, John Thune
United States Senate
Commerce Committee

Chairmen Leahy and Rockefeller and Ranking Members Grassley and Thune:

On behalf of our nation's restaurant and foodservice industry, the National Restaurant Association strongly supports reforms to provide technology end-users with relief from abusive patent assertion entities' (PAEs or patent trolls) demands. The restaurant and foodservice industry consists of roughly 980,000 locations nationwide with estimated sales of $660 billion accounting for roughly 4% of our nation's GDP. The industry is also the 2nd largest private employer in the United States with over 13.1 million employees. Roughly 90% of the industry consists of small business owners.

This time last year, very few industry members had heard of patent trolls. Unfortunately, since then, our industry has been increasingly barraged with ill-founded patent infringement litigation demand letters challenging the use of basic technologies in our establishments, on our websites, and on individuals' smartphones. Many of the technologies that have come under fire from patent trolls are ones that provide extensive value-added services to our customers, such as in-store Internet WiFi access, online nutrition calculators, and restaurant locators on websites and in store-branded smartphone applications. The restaurant industry is constantly evolving to provide exceptional service to our customers. In the process, we work closely with innovative entrepreneurs in the technology space. Unfortunately, even the threat of litigation deters restaurants from partnering with new and innovative third-party technology providers. We in no way wish to inhibit small inventors and other patent holders' ability to bring legitimate claims, but trolls, with frivolous claims, provide no value to the overall economy and must be tempered from steering valuable resources and time away from job-creating industries.

It is critical to create a more equitable and transparent environment that changes the economic dynamics for patent trolls. Currently, there is very little risk or exposure for patent trolls who send frivolous patent infringement demand letters. In order to shift these economic dynamics, patent litigation reform and increased transparency on demand letters are key reform priorities for our industry, along with any other reasonable solutions that make it more difficult for patent trolls to prey on end-user companies, such as restaurants.

When a business receives a litigation demand letter, it has to weigh the validity of the patent infringement claims and make a decision about how to respond to the letter. Often, it is easier to settle even baseless infringement claims rather than fight the patent trolls because of the extensive time and resources it would take to litigate the claim. For all businesses, and particularly small businesses, the first step in this decision-making process is determining the legitimacy of the patent assertion entity's claims. Demand letters often lack the information and transparency necessary for business owners to research and make a simple assessment about whether the patent infringement claim has merit. Requiring additional information and transparency on the actual demand letters, as well as increased information online at a trusted third-party website about pending patent litigation and patent troll companies, will help provide small business owners with a first line of defense to assess the validity of many of the patent infringement claims they are seeing at an increasingly alarming rate.

We are pleased that Senator Leahy and others have encouraged the Federal Trade Commission to utilize its existing authority and powers to combat abusive patent troll behavior, including egregious demand letter practices. We are hopeful that legislators will make demand letter transparency a top priority for any patent reform legislation as Congress moves forward. The bottom line is that patent trolls and their frivolous litigation demand letter claims are drain on business and the economy, and it is critical that we reform the system to make it more difficult for the patent trolls to prey on industries like ours who add value to the communities we serve.

Sincerely,

National Restaurant Association
Alabama Restaurant Association
Arizona Restaurant Association
Arkansas Hospitality Association
California Restaurant Association
Colorado Restaurant Association
Delaware Restaurant Association
Florida Restaurant & Lodging Association
Georgia Restaurant Association
Iowa Restaurant Association

Idaho Lodging & Restaurant Association
Illinois Restaurant Association
Louisiana Restaurant Association
Restaurant Association of Maryland
Michigan Restaurant Association
Mississippi Hospitality & Restaurant Association
Nebraska Restaurant Association
New Hampshire Lodging & Restaurant Association
New Jersey Restaurant Association
New Mexico Restaurant Association
New York State Restaurant Association
North Carolina Restaurant & Lodging Association
North Dakota Hospitality Association
Ohio Restaurant Association
Oklahoma Restaurant Association
Oregon Restaurant & Lodging Association
Pennsylvania Restaurant & Lodging Association
Rhode Island Hospitality Association
South Carolina Restaurant & Lodging Association
South Dakota Retailers Association
Tennessee Hospitality Association
Texas Restaurant Association
Utah Restaurant Association
Vermont Chamber of Commerce
Virginia Hospitality & Travel Association
West Virginia Hospitality & Travel Association
Wisconsin Restaurant Association

Enhancing the quality of life for all we serve

Restaurant.org | @WeRRestaurants
2055 L Street NW, Washington, DC 20036 | (202) 331-5900 | (800) 424-5156

November 19, 2013

The Honorable Patrick Leahy
United States Senate
437 Russell Senate Office Building
Washington, DC 20510

Dear Senator Leahy:

On behalf of TechVoice, a partnership of CompTIA, the Technology Associations of North America (TECNA) and 26 participating technology councils, I write to express our gratitude for your leadership in addressing abusive patent litigation. As you know, a recent GAO report that focuses on patent infringement litigation states that of a sample of 500 lawsuits from 2007 to 2011, the number of overall defendants in patent infringement lawsuits increased by about 129 percent over this period. Clearly there is need for reform and we feel that your bill is an important starting point.

In particular, we thank you for hearing the concerns of small and medium sized tech innovators by addressing bad faith demand letters. This coupled with provisions that address transparency of patent ownership will go far in aiding innovators in defending themselves against frivolous proceedings. While we also favor an accessible website that would disclose both the PAE and the patent they are attempting to enforce upon a threshold of 15 or more demand letters, the inclusion of this important topic is of great significance to small and medium sized IT firms and opens the debate for additional solutions.

We also appreciate those provisions in the bill that provide protection for end-users from abusive patent claims by allowing for the stay of cases against downstream customers. We believe this will have a very positive impact on curbing abusive tactics.

We look forward to being helpful in advancing this important legislation. We thank you for your leadership in working toward meaningful reform and we hope that we can continue to be a resource to you and your staff in the weeks ahead.

Sincerely yours,

Elizabeth Hyman
Vice President, Public Advocacy
CompTIA

19 November 2013

We, the undersigned, are a group of inventors, technologists and entrepreneurs. Many of us have founded technology businesses; we have invented many of the protocols, systems and devices that make the Internet work, and we are collectively listed as the inventors on over 150 patents.

We write to you today about the U.S. patent system. That system is broken. Based on our experiences building and deploying new digital technologies, we believe that software patents are doing more harm than good. Perhaps it is time to reexamine the idea, dating from the 1980s, that government-issued monopolies on algorithms, protocols and data structures are the best way to promote the advancement of computer science.

But that will be a complex task, and one we don't expect to happen quickly. Unfortunately, aspects of the problem have become so acute they must be addressed immediately.

Broad, vague patents covering software-type inventions—some of which we ourselves are listed as inventors on—are a malfunctioning component of America's inventive machinery. This is particularly the case when those patents end up in the hands of non-practicing patent trolls.

These non-practicing entities do not make or sell anything. Their exploitation of patents as a tool for extortion is undermining America's technological progress; patent trolls are collecting taxes on innovation by extracting billions of dollars in dubious licensing fees, and wasting the time and management resources of creative businesses. Many of us would have achieved much less in our careers if the trolling problem had been as dire in past decades as it is now.

Some legislative proposals under current consideration would fix the trolling problem. These include:

- Requiring that patent lawsuits actually explain which patents are infringed by which aspects of a defendant's technology, and how;
- Making clear who really owns the patent at issue;
- Allowing courts to shift fees to winning parties, making it rational for those threatened with an egregious patent suit to actually fight against the threat rather than paying what amounts to protection money;
- Ensuring that those who purchase common, off-the-shelf technologies are shielded if they are sued for using them; and
- Increasing opportunities for streamlined patent review at the patent office.

While subduing the trolling threat, these proposed changes will not fix the software patent problem completely. Congress should consider ways to stop these patents from interfering with open standards and open source software; from being claimed on problems, rather than solutions; and from being drafted so obscurely that they teach us nothing and cannot be searched. Congress needs to examine the very question of whether their net impact is positive.

But for now, we urge you to implement simple and urgently necessary reforms. We believe in the promise of technology and the power of creation to increase access to information, to create jobs, and to make the world a better place. Please do not let patent trolls continue to frustrate that purpose.

The undersigned:

Ranganathan Krishnan – 30 patents
Former Principle Engineer at Qualcomm; led the software team building the aircraft modems that now power GoGo in-flight Wi-Fi; Data center architect for Zoho Corporation; Startup founder

Paul Sutter – 26 patents, 22 applications
Co-founder of Quantcast

Dr. Neil Hunt – 14 patents
Chief Product Officer at Netflix

Justin Rosenstein – 13 patents, 23 applications
Founder of Asana; Former Engineering Lead at Facebook

Dustin Moskovitz – 2 patents
Co-Founder of Facebook and Asana

Ev Williams
Entrepreneur, CEO of the Obvious Corporation, co-founder of Odeo, Blogger, Twitter, and Medium

David S.H. Rosenthal – 24 patents
Founder of the LOCKSS program, aimed at long-term preservation of web published materials

Frederick Baker – 15 patents, 52 RFCs
Former chair of IETF (the standards body of internet tech); member to FCC TAC, BITAG and other bodies that advise the US government on technology

John H. Howard – 10 patents
Researcher at MIT, University of Texas, IBM, Carnegie Mellon, MERL, and Distinguished Engineer at Sun Microsystems

Jon Callas – 7 patents, 4 RFCs
Cryptographer, technologist, entrepreneur; Co-founder of PGP Corporation, Silent Circle and others

Igor Kofman – 6 patents, 7 applications
Co-founder of Hackpad inc., a company that develops next generation online collaboration tools; Former Engineer at YouTube/Google and Microsoft

Engine

Barbara Simons – 5 patents
Fellow and Former President at Association for Computing Machinery

Joshua Bloch – 4 patents, 4 applications
Former Chief Java Architect at Google and Distinguished Engineer at Sun Microsystems; Led the design and implementation of numerous Java platform features

Rick Adams – 3 patents
Founder of UUNET Technologies, the first commercial Internet provider

Brandon Ballinger – 2 patents, 10 applications
Co-founder of Sift Science, a company that helps fight fraud through machine-learning; Former software engineer at Google

Maryse Thomas – 1 patent, 14 applications
Founder of Pokeware, a technology that naturally infuses video content with contextual advertising using its proprietary Ad Exchange for objects in video.

Andrew Conway – 1 patent, 2 applications
Founder & CEO of Silicon Genetics, a bioinformatics company (now part of Agilent); First to control a helicopter entirely by GPS (and thus win 1995 AUVS contest)

Derek Parham – 1 patent, 2 applications
Creator of Google Apps for Businesses; Entrepreneur, investor, and advisor

James Gettys – 1 patent, 1 application, 2 RFCs
Editor of the HTTP/1.1 specification that underlies the World Wide Web; Co-author of the X Window System

Harry Hochheiser – 1 patent, 1 application
Professor of Biomedical Informatics at UPitt

Ian Lance Taylor – 1 patent, 1 application
Senior Staff Software Engineer at Google, Co-founder of Zembu Labs, and long time open source contributor

Vincent C. Jones, PhD, PE – 1 patent
40 years of designing and building computer networks; published author in the field of computer networking

Jim Fruchterman – 1 patent
CEO of Benetech, a nonprofit tech company; former rocket scientist and co-founder of Calera Recognition Systems and RAF Technology, Inc.

Engine

Todd Huffman – company holds 1 Patent
CEO of 3Scan, utilizes a novel serial sectioning technique, KESM (Knife Edge Scanning Microscope) to create 3D models of large volume tissue samples

Anselm Levskaya – 1 application
Founder of Cambrian Genomics, a company developing a new technology pipeline to produce fully synthetic DNA at a fraction of the cost of current approaches

Lorrie Cranor – 1 application
Professor of Computer Science, Engineering, and Public Policy at Carnegie Mellon; Director of CyLab Usable Privacy and Security Laboratory

Mark Kohler – 3 RFCs
Implemented the IPv6 tunneling protocols RFC 2893, RFC 2473, and RFC 3056 for HP-UX and other Unix operating systems

John Vittal – 3 RFCs
Creator of the first integrated email program (MSG) and the initial "killer application" on the ARPAnet/Internet; Developed email standards still in use today

Dan McDonald – 3 RFCs
IPsec and IPv6 pioneer, former project lead for Solaris/OpenSolaris IPsec. Current Illumos RTI advocate, and Principal Software Engineer for Nexenta Systems; Co-author of RFCs 1751, 2367, 5879

Russell Nelson – 3 RFCs
Ran the Clarkson (later Crynwr) Packet Driver Collection

John Gilmore – 1 RFC
Programmer, entrepreneur (Sun Microsystems, Cygnus Solutions); Free software author, maintainer, and co-creator (GDB, GNU Tar, Binutils, GNU Radio, Gnash, OpenBTS); protocol designer (RFC 951, BOOTP, which you use whenever you connect to Ethernet or WiFi); Angel investor, philanthropist.

Stephen Wolff
Builder of NSFNET as a successor to ARPANET and for its transition to carrying commercial traffic, enabling the Internet as we know it today; Internet Hall of Fame Inductee – 2013

Frode Hernes
VP of TV Product Management and former VP of Product Development at Opera Software; Contributor to ISO/CCITT and IETF standards within email directories and security; Board member of the HbbTV Association; Currently active in the spacifications for the TV Industry

Jaan Tallin
Founding Engineer of Skype; Refused to sign patents while at Skype

Megan Klimen
Co-founder of 3Scan

Matthew Goodman
Co-founder of 3Scan

Kodi Daniel
Co-founder of 3Scan

Mikki Barry
Co-founder of InterCon Systems Corporations, the first commercial Internet applications company on the Mac platform; Intellectual Property and IT Attorney

Jim DeLeskie
Founder and CTO, Heimdall Networks, previously Chief Architect Tata Communications/Teleglobe; Sr. Engineer internetMCI and contributor to IEEE and IETF working groups

Brandon Ross
Designer and builder of operating service provider networks such as MindSpring, NetRail, Internap and Comast; Member of the North American Network Operators Group (NANOG), the Internet Engineering Task Force (IETF); Founder of Network Utility Force

Benjamin C. Pierce
Professor of Computer and Information Science at University of Pennsylvania; Fellow of the ACM; Lead developer of Unison, a widely used open-source file synchronization tool; Author

David Snigler
Led several successful projects as part of the Emerging Technologies group at the University of Massachusetts; Responsible for the design of systems used for research and administration throughout the UMass system

Dylan Morris
Co-founder and VP of Strategy of Integrated Plasmonics, a technology startup in San Francisco operating at the intersection of semiconductors, biotechnology, and digital health

Robb Walters
Founder, CEO, President, Board Director and Integrated Plasmonics

Andrew Binstock
Editor in Chief of Dr. Dobb's; founded iText Software Corp.; previously in charge of Global Technology Forecasts at PricewaterhouseCoopers; programmer

Engine

Mary Shaw
Educator and researcher in software engineering; ACM SIGSOFT Outstanding Research Award for work in software architecture; Fellow of the Institute for Electrical and Electronic Engineers, the Association for Computing Machinery, and the American Association for the Advancement of Science

Ernest E. [Lee] Keet
President of Vanguard Atlantic Ltd.
Former Chair, Intellectual Property Section, Software Industry Association, ADAPSO; Board member and lead investor in high tech startups

The above have collectively contributed to the invention of the following technologies:

PATENTS:

- 4460974 Electronic computer with access to keyboard status information (Jones)
- 4531185 Centralized synchronization of clocks (Simons)
- 4584643 Decentralized synchronization of clocks (Simons)
- 4603380 DASD cache block staging (Howard)
- 4706081 Method and apparatus for bridging local area networks (Baker)
- 4809265 Method and apparatus for interfacing to a local area network (Baker)
- 4916605 Fast write operations (Howard)
- 5073933 X window security system (Rosenthal)
- 5127098 Method and apparatus for the context switching of devices (Rosenthal)
- 5187786 Method for apparatus for implementing a class hierarchy of objects in a hierarchical file system (Rosenthal)
- 5432824 Credit/rate-based system for controlling traffic in a digital communication network (Howard)
- 5442708 Computer network encryption/decryption device (Adams)
- 5444782 Computer network encryption/decryption device (Adams)
- 5470223 Microprocessor controlled fuel and ignition control for a fuel burning device (Fruchterman)
- 5600834 Method and apparatus for reconciling different versions of a file (Howard)
- 5619658 Method and apparatus for trapping unimplemented operations in input/output devices (Rosenthal)
- 5623692 Architecture for providing input/output operations in a computer system (Rosenthal)
- 5638535 Method and apparatus for providing flow control with lying for input/output operations in a computer system (Rosenthal)
- 5640456 Computer network encryption/decryption device (Adams)
- 5640591 Method and apparatus for naming input/output devices in a computer system (Rosenthal)
- 5652793 Method and apparatus for authenticating the use of software (Rosenthal)
- 5659750 Apparatus for context switching of input/output devices in responses to commands from unprivileged application programs (Rosenthal)

Engine

- 5685011 Apparatus for handling failures to provide a safe address translation in an improved input/output architecture for a computer system (Rosenthal)
- 5696990 Method and apparatus for providing improved flow control for input/output operations in a computer system having a FIFO circuit and an overflow storage area (Rosenthal)
- 5721947 Apparatus adapted to be joined between the system I/O bus and I/O devices which translates addresses furnished directly by an application program (Rosenthal)
- 5732087 ATM local area network switch with dual queues (Howard)
- 5740406 Method and apparatus for providing fifo buffer input to an input/output device used in a computer system (Rosenthal)
- 5740464 Architecture for providing input/output operations in a computer system (Rosenthal)
- 5745477 Traffic shaping and ABR flow control (Howard)
- 5751951 Network interface (Howard)
- 5758182 DMA controller translates virtual I/O device address received directly from application program command to physical i/o device address of I/O device on device bus (Rosenthal)
- 5764861 Apparatus and method for controlling context of input/output devices in a computer system (Rosenthal)
- 5805930 System for FIFO informing the availability of stages to store commands which include data and virtual address sent directly from application programs (Rosenthal)
- 5887174 System, method, and program product for instruction scheduling in the presence of hardware lookahead accomplished by the rescheduling of idle slots (Simons)
- 5887190 System for determining from a command storing in a storage circuit an application program which has initiated the command to determine an input/output device address (Rosenthal)
- 5909595 Method of controlling I/O routing by setting connecting context for utilizing I/O processing elements within a computer system to produce multimedia effects (Rosenthal)
- 5918050 Apparatus accessed at a physical I/O address for address and data translation and for context switching of I/O devices in response to commands from application programs (Rosenthal)
- 5924126 Method and apparatus for providing address translations for input/output operations in a computer system (Rosenthal)
- 6023738 Method and apparatus for accelerating the transfer of graphical images (Rosenthal)
- 6044222 System, method, and program product for loop instruction scheduling hardware lookahead (Simons)
- 6065071 Method and apparatus for trapping unimplemented operations in input/output devices (Rosenthal)
- 6081854 System for providing fast transfers to input/output device by assuring commands from only one application program reside in FIFO (Rosenthal)
- 6098079 File version reconciliation using hash codes (Howard)
- 6292938 Retargeting optimized code by matching tree patterns in directed acyclic graphs (Simons)

Engine

- 6336186 Cryptographic system and methodology for creating and managing crypto policy on certificate servers (Callas)
- 6513032 Search and navigation system and method using category intersection pre-computation (Sutter)
- 6584450 Method and apparatus for renting items (Hunt)
- 6594260 Content routing (Baker)
- 6629198 Data storage system and method employing a write-ahead hash log (Howard)
- 6738437 Symbol recovery from an oversampled hard-decision binary stream (Krishnan)
- 6742044 Distributed network traffic load balancing technique implemented without gateway router (Baker)
- 6744572 System and method for imaging an object (3Scan)
- 6775231 Dynamic weighted resource sharing (Baker)
- 6789125 Distributed network traffic load balancing technique implemented without gateway router (Baker)
- 6801811 Software-directed, energy-aware control of display (Gettys)
- 6820261 Inheritable thread-local storage (Bloch)
- 6839895 Method of, system for, and computer program product for providing efficient utilization of memory hiararchy through code restructuring (Simons)
- 6915282 Autonomous data mining (Conway)
- 6928062 Uplink pilot and signaling transmission in wireless communication systems (Krishnan)
- 7013458 Method and apparatus for associating metadata attributes with program elements (Bloch)
- 7024381 Approach for renting items to customers (Hunt)
- 7039001 Channel estimation for OFDM communication systems (Krishnan)
- 7042857 Uplink pilot and signaling transmission in wireless communication systems (Krishnan)
- 7062562 Methods and apparatus for content server selection (Baker)
- 7080138 Methods and apparatus for content server selection (Baker)
- 7095790 Transmission schemes for multi-antenna communication systems utilizing multi-carrier modulation (Krishnan)
- 7098815 Method and apparatus for efficient compression (Rosenthal)
- 7159237 Method and system for dynamic network intrusion monitoring, detection and response (Callas)
- 7171657 Method and apparatus for importing static members of a class (Bloch)
- 7263687 Object-oriented enumerated type facility (Bloch)
- 7292826 System and method for reducing rake finger processing (Krishnan)
- 7359728 Modified power control for reduction of system power consumption (Krishnan)
- 7383439 Apparatus and method for facilitating encryption and decryption operations over an email server using an unsupported protocol (Callas)
- 7401159 Distributed network traffic load balancing technique implemented without gateway router (Baker)
- 7403910 Approach for estimating user ratings of items (Hunt)

Engine

- 7408914 Time-hopping systems and techniques for wireless communications (Krishnan)
- 7437558 Method and system for verifying identification of an electronic mail message (Baker)
- 7447481 System and method for reducing rake finger processing (Krishnan)
- 7450963 Low power dual processor architecture for multi mode devices (Krishnan)
- 7463576 Channel estimation for OFDM communication systems (Krishnan)
- 7493133 Power control in ad-hoc wireless networks (Krishnan)
- 7515595 Network using encoded transmissions and forwarding (Krishnan)
- 7515924 Method and module for operating independently of a remote terminal if an incoming pilot signal is not detected within a time period and enabling a pilot signal transmission (Krishnan)
- 7519371 Multi-hop communications in a wireless network (Krishnan)
- 7529780 Conflict management during data object synchronization between client and server (Rosenstein)
- 7536641 Web page authoring tool for structured documents (Rosenstein)
- 7542471 Method of determining path maximum transmission unit (Sutter)
- 7546252 Approach for managing rental items across a plurality of distribution locations (Hunt)
- 7551620 Protecting data integrity in an enhanced network connection (Sutter)
- 7593943 Method and system for synchronizing multiple user revisions to a shared object (Kofman)
- 7606326 Transmission schemes for multi-antenna communication systems utilizing multi-carrier modulation (Krishnan)
- 7616638 Wavefront detection and disambiguation of acknowledgments (Sutter)
- 7617127 Approach for estimating user ratings of items (Hunt)
- 7630305 TCP selective acknowledgements for communicating delivered and missed data packets (Sutter)
- 7631252 Distributed processing when editing an image in a browser (Rosenstein)
- 7631253 Selective image editing in a browser (Rosenstein)
- 7631323 Method of sharing an item rental account (Hunt)
- 7634715 Effects applied to images in a browser (Rosenstein)
- 7640427 System and method for secure electronic communication in a partially keyless environment (Callas)
- 7650387 Method and system for managing storage on a shared storage space (Baker)
- 7656799 Flow control system architecture (Sutter)
- 7657037 Apparatus and method for identity-based encryption within a conventional public-key infrastructure (Callas)
- 7664140 Early termination of low data rate traffic in a wireless network (Krishnan)
- 7698453 Early generation of acknowledgements for flow control (Sutter)
- 7730213 Object-based storage device with improved reliability and fast crash recovery (Howard)
- 7840648 Web-page authoring tool for automatic enrollment in advertising program (Rosenstein)
- 7843938 QoS optimization with compression (Sutter)

Engine

- 7852799 Network using randomized time division duplexing (Krishnan)
- 7864770 Routing messages in a zero-information nested virtual private network (Baker)
- 7864772 Protecting data integrity in an enhanced network connection (Sutter)
- 7895641 Method and system for dynamic network intrusion monitoring, detection and response (Callas)
- 7907898 Asynchronous inter-piconet routing (Krishnan)
- 7912457 Methods and apparatus for creation and transport of multimedia content flows (Krishnan)
- 7953000 Mechanism to improve preemption behavior of resource reservations (Baker)
- 7953794 Method and system for transitioning between synchronous and asynchronous communication modes (Kofman)
- 7958529 Method of sharing an item rental account (Hunt)
- 7969876 Method of determining path maximum transmission unit (Sutter)
- 7978710 Synchronous inter-piconet routing (Krishnan)
- 8004973 Virtual inline configuration for a network device (Sutter)
- 8015067 Deleted account handling for hosted services (Parham)
- 8019351 Multi-hop communications in a wireless network (Krishnan)
- 8024652 Techniques to associate information between application programs (Kofman)
- 8028024 System and method of instant messaging between wireless devices (Krishnan)
- 8050271 Protecting data integrity in an enhanced network connection (Sutter)
- 8077632 Automatic LAN/WAN port detection (Sutter)
- 8086524 Systems and methods for transaction processing and balance transfer processing (Sutter)
- 8150919 Method and system for transitioning between synchronous and asynchronous communication modes (Kofman)
- 8155444 Image text to character information conversion (Kofman)
- 8156554 Method and system for verifying identification of an electronic mail message (Baker)
- 8161368 Distributed processing when editing an image in a browser (Rosenstein)
- 8176120 Web-page authoring tool for automatic enrollment in advertising program (Rosenstein)
- 8208972 Low power dual processor architecture for multi mode devices (Krishnan)
- 8230318 Selective image editing in a browser (Rosenstein)
- 8233392 Transaction boundary detection for reduction in timeout penalties (Sutter)
- 8238241 Automatic detection and window virtualization for flow control (Sutter)
- 8245123 Effects applied to images in a browser (Rosenstein)
- 8245277 Universally usable human-interaction proof (Hochheiser)
- 8259729 Wavefront detection and disambiguation of acknowledgements (Sutter)
- 8271338 Approach for estimating user ratings of items (Hunt)
- 8310928 Flow control system architecture (Sutter)
- 8311981 Conflict management during data object synchronization between client and server (Rosenstein)
- 8315977 Data synchronization between a data center environment and a cloud computing environment (Hunt)

Engine

- 8320244 Reservation based MAC protocol (Krishnan)
- 8351985 Low power dual processor architecture for multi mode devices (Krishnan)
- 8365235 Trick play of streaming media (Hunt)
- 8369361 Early termination of low data rate traffic in a wireless network (Krishnan)
- 8386601 Detecting and reporting on consumption rate changes (Sutter)
- 8386621 Parallel streaming (Hunt)
- 8411560 TCP selection acknowledgements for communicating delivered and missing data packets (Sutter)
- 8417476 Dynamic randomized controlled testing with consumer electronics devices (Hunt)
- 8433814 Digital content distribution system and method (Hunt)
- 8438280 Detecting and reporting on consumption rate changes (Sutter)
- 8443056 Client-server signaling in content distribution networks (Hunt)
- 8448057 Audience segment selection (Sutter)
- 8462630 Early generation of acknowledgements for flow control (Sutter)
- 8464237 Method and apparatus for optimizing compilation of a computer program (Taylor)
- 8472930 Methods and apparatus for creation and transport of multimedia content flows (Krishnan)
- 8478590 Word-level correction of speech input (Ballinger)
- 8489135 Network topology formation (Krishnan)
- 8489889 Method and apparatus for restricting access to encrypted data (Callas)
- 8493955 Interference mitigation mechanism to enable spatial reuse in UWB networks (Krishnan)
- 8494852 Word-level correction of speech input (Ballinger)
- 8504905 Audience segment selection (Sutter)
- 8553699 Wavefront detection and disambiguation of acknowledgements (Sutter)
- 8554832 Server side user interface simulation (Moskovitz, Rosenstein)
- 8566353 Web-based system for collaborative generation of interactive videos (Kofman)
- 8572477 Web-based incremental computing (Moskovitz, Rosenstein)
- 8468565 Method and apparatus for displaying information in response to motion picture programming (Thomas)

APPLICATIONS:

- 20020065919 Peer-to-peer caching network for user data (Taylor)
- 20040049763 Method and apparatus for importing static members of a class (Bloch)
- 20040049764 Object-oriented enumerated type facility (Bloch)
- 20040049766 Method and apparatus for associating metadata attributes with program elements (Bloch)
- 20050005024 Method of determining path maximum transmission unit (Sutter)
- 20050058131 Wavefront detection and disambiguation of acknowledgments (Sutter)
- 20050060426 Early generation of acknowledgements for flow control (Sutter)
- 20050063302 Automatic detection and window virtualization for flow control (Sutter)
- 20050063303 TCP selective acknowledgements for communicating delivered and missed data packets (Sutter)

Engine

- 20050063307 Flow control system architecture (Sutter)
- 20050074007 Transaction boundary detection for reduction in timeout penalties (Sutter)
- 20050120329 Method and apparatus for supporting typesafe software design (Bloch)
- 20050222779 Detecting recessive diseases in inbred populations (Conway)
- 20060159029 Automatic LAN/WAN port detection (Sutter)
- 20060161516 Method and system for synchronizing multiple user revisions to a shared object (Kofman)
- 20060161585 Method and system for transitioning between synchronous and asynchronous communication modes (Kofman)
- 20060248442 Web page authoring tool for structured documents (Rosenstein)
- 20070031886 Detecting recessive diseases in inbred populations (Conway)
- 20070198662 Deleted account handling for hosted services (Parham)
- 20070198938 Account administration for hosted services (Parham)
- 20070245310 Message catalogs for remote modules (Rosenstein)
- 20070248090 Virtual inline configuration for a network device (Sutter)
- 20070260979 Distributed processing when editing an image in a browser (Rosenstein)
- 20070285428 Self-refreshing display controller for a display device in a computational unit (Gettys)
- 20080086741 Audience commonality and measurement (Sutter)
- 20080170785 Converting Text (Kofman)
- 20080225057 Selective image editing in a browser (Rosenstein)
- 20080225058 Effects applied to images in a browser (Rosenstein)
- 20080256113 Techniques to associate information between application programs (Kofman)
- 20080256114 Techniques to display associated information between application programs (Kofman)
- 20080270761 Techniques to generate event contexts for recurring events (Kofman)
- 20090083442 Tracking Identifier Synchronization (Sutter)
- 20090119167 Social Advertisements and Other Informational Messages on a Social Networking Website, and Advertising Model for Same (Rosenstein)
- 20090182589 Communicating Information in a Social Networking Website About Activities from Another Domain (Rosenstein)
- 20090201828 Method of determining path maximum transmission unit (Sutter)
- 20090216815 Conflict Management During Data Object Synchronization Between Client and Server (Rosenstein)
- 20090235158 Web Page Authoring Tool for Structured Documents (Rosenstein)
- 20100036779 User-controllable learning of policies (Cranor)
- 20100046372 Wavefront Detection and Disambiguation of Acknowledgements (Sutter)
- 20100050040 Tcp selection acknowledgements for communicating delivered and missing data packets (Sutter)
- 20100095350 Universally usable human-interaction proof (Hochheiser)
- 20100103819 Flow control system architecture (Sutter)
- 20100110092 Distributed processing when editing an image in a browser (Rosenstein)
- 20100110104 Effects applied to images in a browser (Rosenstein)

Engine

- 20100111406 Selective image editing in a browser (Rosenstein)
- 20100232294 Early generation of acknowledgements for flow control (Sutter)
- 20100309922 Protecting data integrity in an enhanced network connection (Sutter)
- 20110029388 Social Advertisements and Other Informational Messages on a Social Networking Website, and Advertising Model for Same (Rosenstein)
- 20110055314 Page rendering for dynamic web pages (Rosenstein)
- 20110153324 Language Model Selection for Speech-to-Text Conversion (Ballinger)
- 20110153325 Multi-Modal Input on an Electronic Device (Ballinger)
- 20110161080 Speech to Text Conversion (Ballinger)
- 20110161081 Speech Recognition Language Models (Ballinger)
- 20110161178 Web-Page Authoring Tool for Automatic Enrollment in Advertising Program (Rosenstein)
- 20110166851 Word-Level Correction of Speech Input (Ballinger)
- 20110225242 Method and system for transitioning between synchronous and asynchronous communication modes (Kofman)
- 20120022853 Multi-Modal Input on an Electronic Device (Ballinger)
- 20120022866 Language Model Selection for Speech-to-Text Conversion (Ballinger)
- 20120022867 Speech to Text Conversion (Ballinger)
- 20120022868 Word-Level Correction of Speech Input (Ballinger)
- 20120022873 Speech Recognition Language Models (Ballinger)
- 20120093156 Virtual inline configuration for a network device (Sutter)
- 20120095836 Social Advertisements Based on Actions on an External System (Rosenstein)
- 20120101898 Presenting personalized social content on a web page of an external system (Rosenstein)
- 20120109757 Sponsored stories and news stories within a newsfeed of a social networking system (Rosenstein)
- 20120203847 Sponsored Stories and News Stories within a Newsfeed of a Social Networking System (Rosenstein)
- 20120204096 Presenting Personalized Social Content on a Web Page of an External System (Rosenstein)
- 20120327772 Wavefront detection and disambiguation of acknowledgements (Sutter)
- 20130003553 Automatic detection and window virtualization for flow control (Sutter)
- 20130124612 Conflict Management During Data Object Synchronization Between Client and Server (Rosenstein)
- 20130132222 Method and Apparatus Pertaining to Financial Investment Quantitative Analysis Signal Auctions (Sutter)
- 20130198008 Social Advertisements And Other Informational Messages On A Social Networking Website, And Advertising Model For Same (Rosenstein)
- 20130198024 Method and Apparatus Pertaining to the Aggregation and Parsing of Behavioral-Event Content (Sutter)
- 20130204954 Communicating information in a social networking website about activities from another domain (Rosenstein)

Engine

- 20110207116 Spatio-Temporal Control of Proten Interactions Using Phytochromes (Levskaya)
- 20120240152 Method and apparatus for displaying information in response to motion picture programming (Thomas)
- 20130298168 Method and apparatus for digital shopping (Thomas)
- 20120240139 Method and apparatus for displaying information in response to motion picture programming (Thomas)
- 20080271089 Method and apparatus for displaying information in response to motion picture programming (Thomas)
- 20100035332 Portable detection apparatus for beverage ingredients (Thomas)
- 20110293799 Portable detection apparatus for beverage ingredients (Thomas)
- 20080271084 Method and apparatus for digital shopping (Thomas, filed under Robinson)
- 20080276286 Method and apparatus for displaying information (Thomas, filed under Robinson)
- 20080271087 Method and apparatus for delivering information about an audio element (Thomas, filed under Robinson)
- 20080271088 Method and apparatus for delivering information referred to by content (Thomas, filed under Robinson)
- 20080276285 Method and apparatus for displaying information and collecting viewer information (Thomas, filed under Robinson)
- 20080271086 Method and apparatus for displaying information about a real world setting (Thomas, filed under Robinson)
- 20080271083 Method and apparatus for displaying information about a beauty product element (Thomas, filed under Robinson)
- 20040109087 Method and apparatus for digital shopping (Thomas, filed under Robinson)

Professors' Letter in Support of Patent Reform Legislation

November 25, 2013

To Members of the United States Congress:

We, the undersigned, are 60 professors from 26 states and the District of Columbia who teach and write about intellectual property law and policy. We write to you today to express our support for ongoing efforts to pass patent reform legislation that, we believe, will improve our nation's patent system and accelerate the pace of innovation in our country.

As a group we hold a diversity of views on the ideal structure and scope of our nation's intellectual property laws. Despite our differences, we all share concern that an increasing number of patent owners are taking advantage of weaknesses in the system to exploit their rights in ways that on net deter, rather than encourage, the development of new technology.

Several trends, each unmistakable and well supported by empirical evidence, fuel our concern. First, the cost of defending against patent infringement allegations is high and rising. The American Intellectual Property Law Association estimates that the median cost of litigating a moderately-sized patent suit is now $2.6 million, an amount that has increased over 70% since 2001. These and other surveys suggest that the expense of defending even a low-stakes patent suit will generally exceed $600,000. Moreover, the bulk of these expenses are incurred during the discovery phase of litigation, before the party accused of infringement has an opportunity to test the merits of the claims made against it in front of a judge or jury.

The magnitude and front-loaded nature of patent litigation expenses creates an opportunity for abuse. Patentholders can file suit and quickly impose large discovery costs on their opponents regardless of the validity of their patent rights and the merits of their infringement allegations. Companies accused of infringement, thus, have a strong incentive to fold and settle patent suits early, even when they believe the claims against them are meritless.

Historically, this problem has largely been a self-correcting one. In suits between product-producing technology companies, the party accused of infringement can file a counterclaim and impose a roughly equal amount of discovery costs on the plaintiff. The costs, though high, are symmetrical and, as a result, tend to encourage technology companies to compete in the marketplace with their products and prices, rather than in the courtroom with their patents.

In recent years, however, a second trend – the rise of "patent assertion entities" (PAEs) – has disrupted this delicate balance, making the high cost of patent litigation even more problematic. PAEs are businesses that do not make or sell products, but rather specialize in enforcing patent rights. Because PAEs do not make or sell any products of their own, they cannot be countersued for infringement. As a result, PAEs can use the high cost of patent litigation to their advantage. They can sue, threaten to impose large discovery costs that overwhelmingly fall on the accused infringer, and thereby extract settlements from their targets that primarily reflect a desire to avoid the cost of fighting, rather than the chance and consequences of actually losing the suit.

To be sure, PAEs can in theory play a beneficial role in the market for innovation and some undoubtedly do. However, empirical evidence strongly suggests that many PAEs have a net negative impact on innovation. Technology companies – which, themselves, are innovators – spend tens of billions of dollars every year litigating and settling lawsuits filed by PAEs, funds that these tech companies might otherwise spend on additional research and design. Surveys also reveal that a large percentage of these suits settle for less than the cost of fighting, and multiple empirical studies conclude that PAEs lose about nine out of every ten times when their claims are actually adjudicated on their merits before a judge or jury.

The impact of these suits is made more troubling by the fact that PAE activity appears to be on the rise. Empirical studies suggest that at least 40%, and perhaps as high as 59% or more, of all companies sued for patent infringement in recent years were sued by PAEs. PAE suits were relatively rare more than a decade ago, and they remain relatively rare today elsewhere in the world.

More worrisome than these bare statistics is the fact that PAEs are increasingly targeting not large tech firms, but rather small business well outside the tech sector. Studies suggest that the majority of companies targeted by PAEs in recent years earn less than $10 million in annual revenue.

When PAEs target the numerous small companies downstream in the supply chain, rather than large technology manufacturers upstream, they benefit in two ways. First, for every product manufacturer, there may be dozens or hundreds of retailers who sell the product, and hundreds or thousands of customers who purchase and use the technology. Patent law allows patent owners to sue makers, sellers, or users. Suing sellers or users means more individual targets; some PAEs have sued hundreds of individual companies. And, more targets means more lawyers, more case filings, more discovery, and thus more litigation costs overall to induce a larger total settlement amount.

Second, compared to large manufacturers, small companies like retailers are less familiar with patent law, are less familiar with the accused technology, have smaller litigation budgets, and thus are more likely to settle instead of fight. In fact, many small businesses fear patent litigation to such an extent that they are willing to pay to settle vague infringement allegations made in lawyers' letters sent from unknown companies. Like spammers, some patent owners have indiscriminately sent thousands of demand letters to small businesses, with little or no intent of actually filing suit but instead with hopes that at least a few will pay to avoid the risk.

This egregious practice in particular, but also all abusive patent enforcement to some extent, thrives due to a lack of reliable information about patent rights. Brazen patent owners have been known to assert patents they actually do not own or, conversely, to go to great lengths to hide the fact that they actually do own patents being used in abusive ways. Some patent owners have also sought double recovery by accusing companies selling or using products made by manufacturers that already paid to license the asserted patent. Still others have threatened or initiated litigation

without first disclosing any specific information about how, if at all, their targets arguably infringe the asserted patents.

In short, high litigation costs and a widespread lack of transparency in the patent system together make abusive patent enforcement a common occurrence both in and outside the technology sector. As a result, billions of dollars that might otherwise be used to hire and retain employees, to improve existing products, and to launch new products are, instead, diverted to socially wasteful litigation.

Accordingly, we believe that the U.S. patent system would benefit from at least the following six reforms, which together will help reduce the cost of patent litigation and expose abusive practices without degrading inventors' ability to protect genuine, valuable innovations:

1. To discourage weak claims of patent infringement brought at least in part for nuisance value, we recommend an increase in the frequency of attorneys' fee awards to accused patent infringers who choose to fight, rather than settle, and ultimately defeat the infringement allegations levelled against them.
2. To reduce the size and front-loaded nature of patent litigation costs, we recommend limitations on the scope of discovery in patent cases prior to the issuance of a claim construction order, particularly with respect to the discovery of electronic materials like software source code, emails, and other electronic communications.
3. To further protect innocent retailers and end-users that are particularly vulnerable to litigation cost hold-up, we recommend that courts begin to stay suits filed against parties that simply sell or use allegedly infringing technology until after the conclusion of parallel litigation between the patentee and the technology's manufacturer.
4. To facilitate the early adjudication of patent infringement suits, we recommend that patentees be required to plead their infringement allegations with greater specificity.

And finally, to increase transparency and confidence in the market for patent licensing, we recommend:

5. that patentees be required to disclose and keep up-to-date the identity of parties with an ownership stake or other direct financial interest in their patent rights, and
6. that Congress consider additional legislation designed to deter fraudulent, misleading, or otherwise abusive patent licensing demands made outside of court.

In closing, we also wish to stress that as scholars and researchers we have no direct financial stake in the outcome of legislative efforts to reform our patent laws. We do not write on behalf of any specific industry or trade association. Rather, we are motivated solely by our own convictions informed by years of study and research that the above proposals will on net advance the best interests of our country as a whole. We urge you to enact them.

Sincerely,*

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Penn State University Dickinson School of Law (visiting)

Professor Jonathan Askin
Brooklyn Law School

Professor Gaia Bernstein
Seton Hall University School of Law

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* This letter presents the views of the individual signers. Institutions are listed for identification purposes only.

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December 6, 2013

Honorable Patrick J. Leahy
Chairman
Senate Committee on the Judiciary
224 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman Leahy:

On behalf of the 800 members of the Vermont Society of CPAs, I laud you for your work on patent reform as it pertains to frivolous patent litigation initiated by Patent Assertion Entities (PAEs), more commonly known as patent trolls.

State CPA societies and CPA firms are among the many small- and medium-sized businesses that have been targeted by PAEs. Because of this growing problem, we favor legislative reforms to the patent system that protect off-the-shelf use by consumers and businesses, reduce costs and hurdles to defend against PAEs, increase transparency about PAEs, and shift costs to PAEs for unsuccessful litigation. We are pleased that many of these reforms are embodied in your bill, S. 1720, the Patent Transparency and Improvements Act.

As you prepare for Judiciary Committee hearings on your legislation, we respectfully request that you consider including as a hearing witness a CPA firm that has been contacted by a PAE. We believe that such a CPA firm will bring a unique voice to the issue and can help make the case on why patent reform is needed.

Thank you again for the attention that you have given to this growing problem. The Vermont Society of CPAs stands ready to continue to work with you on this matter that is so crucial to the nation's jobs, innovation, and economy.

Sincerely,

Deborah L. Riley
Executive Director & CEO

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December 9, 2013

The Honorable Patrick Leahy
Chairman, Senate Judiciary Committee
437 Russell Senate Office Building
Washington, DC 20510

The Honorable Mike Lee
316 Hart Senate Office Building
Washington, DC 20510

Dear Chairman Leahy and Senator Lee,

On behalf of the more than one million members of the NATIONAL ASSOCIATION OF REALTORS® (NAR), we wish to thank you for the introduction of S. 1720, the "Patent Transparency and Improvements Act." We view the reforms in this bill as an important step in protecting innovators and main street businesses from broad claims of patent infringement based on patents of questionable validity all brought by non-practicing entities.

NAR, whose members identify themselves as REALTORS®, represents a wide variety of real estate industry professionals. REALTORS® have been early adopters of technology and are industry innovators who understand that consumers today are seeking real estate information and services that are fast, convenient and comprehensive. Increasingly, technology innovations are driving the delivery of real estate services and the future of REALTORS®' businesses.

As technology users, NAR and several of its members recently faced onerous patent infringement litigation over questionable patents dealing with location based search capabilities. These suits were brought by patent holding companies and other non-practicing entities. They were eventually settled in a multi-million dollar settlement. In addition, our broker and agent members are increasingly dealing with demand letters to license commonly used technologies like scanner- copiers and online alert functions. Our members know firsthand that "patent trolls" divert significant time and money from their businesses.

Without needed reforms that assure that asserted patent rights are legitimate and frivolous litigation schemes are curtailed, the ability of businesses owned by REALTORS®, many of which are small businesses, to grow, innovate and better serve modern consumers will be put at risk. NAR supports the reforms in the Patent Transparency and Improvements Act as a way to rebalance a patent system that is increasingly a target of uncertainty and abuse.

We also support legislation introduced by Senators Schumer (S. 866, The Patent Quality Improvement Act), Cornyn (S. 1013, the Patent Abuse Reduction Act) and Hatch (S. 1612, The Patent Litigation Integrity Act) and hope to see these reforms included in a final patent litigation reform package.

We welcome the introduction of the Patent Transparency and Improvements Act and look forward to working with you to create needed reforms to the patent system that will truly promote innovation and expand job creation.

Sincerely,

Steve Brown
2014 President, National Association of REALTORS®

cc: U.S. Senate Committee on the Judiciary

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10 December 2013

The Honorable Patrick J. Leahy
United States Senate
437 Senate Russell Office Building
Washington, D.C. 20510

RE: OVERWHELMING PROOF OF H.R. 3309 FATAL FLAWS

Senator Leahy:

I have attached some 20 detailed and insightful analyses of H.R. 3309 from the likes of the Six Major University Associations, the American Bar Association, the Committee on Rules of Practice and Procedure of the Judicial Conference of the US, the National Venture Capital Association, present and past CAFC Chief Judges Rader and Michel, The Patent Office Professional Association, The American Intellectual Property Law Association --- and the list goes on per the attached list, each providing its own unique perspective and insight on the profound problems which are the fatal flaws embedded in H.R. 3309. Not exactly a bunch of "trolls".

Over the past five sessions of Congress many of the Key Patent-System Players have appeared on various sides of the various issues or not at all for a wide variety of reasons, allowing the Multinational attackers to dominate the narrative, and it was only after the details surrounding H.R. 3309 were revealed and afforded the light of day that the disparate perspectives and interests of these Key Patent-System Players evoked a response of historic proportions in the form of a remarkable barrage of analytical commentaries on the profound problems which are the fatal flaws embodied in H.R. 3309.

These entities constitute the fabric of the American Patent System, the cradle of innovation, jobs, and American exceptionalism and yet not one was consulted by the House with respect to the impact of H.R. 3309.

The practical reality is that the implementation of the AIA has already made sweeping changes to the US Patent System, the effects of which are just now beginning to be recognized and felt. Accordingly, it is absolutely imperative that business and Government both be given time to understand and digest the impact of these changes before any further changes are undertaken.

Said another way, the AIA is now the law of the land, and the fact that the various Stakeholders did not agree on whether it was good or bad doesn't matter now. What matters now is that:

a. Essentially all of the Stakeholders agreed that the AIA would make "sweeping changes" to our Patent System which would take years to play out;

b. Because most of the major changes have just begun to become effective, we have had precious little time to see and understand the impact of their implementation on innovation and jobs; and,

c. That it would be unwise to make further changes until we understand the new status quo of the US Patent System, and can evaluate the need for and the cumulative effect of additional change.

We are therefore urging Members on both sides of the issues and both sides of the aisle to put a hold on all further Legislation which impacts the Patent System until at least the next session of Congress when we will all have a better understanding of the impact and consequences of the AIA --- both intended and unintended --- and that in the interim you conduct a series of real Hearings in which the views of all the Stakeholders are heard, not just the multinational attackers, so that you can then decide what if any further action is appropriate.

Sincerely,

Daniel E. Leckrone
Chairman & CEO

THE OVERWHELMING PROOF

Key Patent-System Players
Reveal and Oppose
Fatal Flaws
H.R. 3309 The Innovation Act

The Six Major University Organizations – 2 Dec 2013

The Six Major University Organizations – 8 & 19 Nov 2013

University of California Analysis of Concerns

The American Bar Association – 14 Nov 2013

Committee on Rules of Practice and Procedure of the Judicial Conference of the US – 6 Nov 2013

National Venture Capital Association – 20 Nov13

Law360 Article CAFC Chief Judge Randall Rader comments – 4 Nov 2013

CAFC (retired) Chief Judge Paul Michel speech excerpts

Patent Office Professional Association – 18 Nov 2013

Institute of Electrical and Electronics Engineers ("IEEE") – 19 Nov 2013

American Intellectual Property Law Association ("AIPLA") – 19 Nov 2013

The National Association of Patent Practitioners ("NAPP")

The Coalition for 21st Century Patent Reform – 18 Nov 2013

Intellectual Property Owners Association ("IPO") – 18 Nov 2013

Biotechnology Industry Organizations – 14 Nov 2013

Pharmaceutical Research and Manufacturers of America ("PhRMA")- 13 Nov 2013

Connect - 19 Nov 2013

Eagle Forum – 29 Oct 2013

Louis J. Foreman letter – 19 Nov 2013

International Aspects Committee – 12 Nov 2013

AAU *Association of American Universities*
ACE *American Council on Education*
AAMC *Association of American Medical Colleges*
APLU *Association of Public and Land-grant Universities*
AUTM *Association of University Technology Managers*
COGR *Council on Governmental Relations*

December 2, 2013

Higher Education Community Statement on H.R. 3309, the Innovation Act

As six national higher education associations collectively representing over 2,000 colleges and universities, we write to express our opposition to H.R. 3309, the Innovation Act, in its current form. Although we support the goals of this legislation to reduce abusive patent litigation practices, the cumulative impact of a number of the provisions of this bill would seriously undermine the ability of legitimate patent holders to enforce their patent rights, crippling the capacity of the U.S. patent system to continue to serve as an engine of invention and innovation that has strengthened the nation's economic competitiveness and enriched the lives of its citizens in countless ways.

The impact of H.R. 3309 would run exactly counter to the collaborative efforts of universities, industry, and government to increase the breadth and pace of the commercialization of university research. More than half of U.S. economic growth since World War II is a result of technological innovation, much of which has resulted from federally funded scientific research. The ability of universities to transfer inventions resulting from such research into the commercial sector for development relies heavily on the ability of these institutions and their licensees to defend their patents. But the sweeping provisions of H.R. 3309 would undermine that ability, chilling innovation by discouraging the legitimate enforcement of patent rights.

The most problematic provisions of H.R. 3309 for universities are the extremely broad fee-shifting provisions. Coupled with an uncertain court waiver of fees for nonprevailing parties and joinder provisions that could draw universities into litigation they have not initiated, these provisions present a massive financial risk to universities and their licensees, including the undercapitalized startups that hold the promise of productive new innovations if allowed to develop and flourish. The excessive breadth of additional provisions calling for heightened pleading requirements, increased transparency, limitations on discovery, open-ended customer stays, and the weakening of post-grant review estoppel present additional obstacles to the legitimate defense of patents.

The problem of abusive patent litigation is real, but H.R. 3309 in its current form is so sweeping and poorly targeted in its provisions that it will cause significantly more harm than good to the U.S. patent system so recently reformed by the America Invents Act (AIA). Our associations supported passage of that landmark legislation, but we cannot support H.R. 3309, which we believe will move U.S. patent law in the opposite direction from the AIA. We urge that H.R. 3309 be returned to the Judiciary Committee for further work. If it is brought to the House floor for a vote, we ask you to vote no.

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Association of American Medical Colleges • 2450 N Street, NW, Washington, DC 20037-1126 • (202)-828-0400
Association of Public and Land-grant Universities • 1307 New York Ave., NW, Washington, DC 20005 • (202) 478-6040
Association of University Technology Managers • 111 Deer Lake Road, Suite 100, Deerfield, IL 60015 • (847) 480-9282
Council on Governmental Relations • 1200 New York Ave., NW, Suite 750, Washington, DC 20036 • (202) 289-6655

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AUTM *Association of University Technology Managers*
COGR *Council on Governmental Relations*

November 8, 2013

Statement from the Higher Education Community on H.R. 3309, The Innovation Act

We write to communicate the views of the higher education community on H.R. 3309, The Innovation Act. We commend the Chairman for the open, thoughtful process undertaken in the development of H.R. 3309, and we strongly support the goal of H.R. 3309 to reduce abusive patent litigation and the corrosive impact it has on the U.S. patent system and the capacity of that system to foster innovation and economic competitiveness. The bill includes several provisions intended to reduce abusive practices, including fee shifting, heightened pleading standards, increased transparency of patent ownership, and limitations on discovery. Although each of these provisions, if appropriately balanced and circumscribed, could help achieve the goal of reducing abusive litigation practices, their overbroad scope as written raises the specter of unintended problems and thereby raises particular concerns for universities.

- The fee-shifting provisions of amended Sec. 285 are extremely broad, applying to any civil action in which any party asserts a claim for relief arising under any Act of Congress relating to patents. That scope sweeps in over 25 statutes containing patent law clauses, including the Space Act, the Atomic Energy Act, the Non-Nuclear R&D Act as well as all titles of the omnibus bills in which the Bayh-Dole Act and amendments became law. The breadth of the proposed amendment will impair parties' ordinary enforcement procedures and litigation activities outside the scope of abusive patent litigation. Moreover, the burden of proof and substantive standards for the nonprevailing party to avoid fee shifting weight these provisions heavily in favor of fee-shifting as the default outcome. The amplitude of these impacts will interfere with ordinary enforcement of patent exclusive rights and defenses available in patent proceedings, including proceedings wherein the central issue is not patent infringement at all but may entail contract disputes. The chilling effect of the uncertainty about whether such an expense would be due and who ultimately would pay it is disproportionately adverse for parties of limited means such as universities, their nonprofit technology transfer organizations, and their small business licensees. Most of these problems can be averted while targeting patent abusers if the fee shifting is limited to the prevailing defendant in a claim of patent infringement in which the plaintiff is not the named inventor of or an original assignee to an asserted patent and does not make or sell a product related to the subject matter described in the asserted patent.

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- The new Sec. 299(d) joinder provisions would mandate that a court under certain circumstances grant a motion by a defendant in an infringement suit to join an interested party of the plaintiff who has no substantial interest in the patent(s) at issue other than asserting the infringement claim in litigation. The definition of "interested party" in Sec. 299(d)(3) is extremely broad. Taken together, the all-encompassing fee-shifting and joinder language would bring higher education institutions and their inventors, non-profit technology transfer organizations associated with those institutions, federal laboratories, and federal agencies within the fee-shifting purview. The combination of fee-shifting provisions and mandatory joinder would likely constitute an unfunded mandate on universities, both public and private. These effects constitute a substantial disincentive for universities and startups to enforce patents on new technologies and innovations, which undermines the goal of the patent system.

- The pleading requirements of new Sec. 281A call for information that may not be known until after discovery (which itself is limited; see below), and it is not clear whether a patentee can amend a complaint to include new patent claims or infringing products based on what is learned in discovery.

- The increased transparency of patent ownership called for in Sec. 4 requires a plaintiff to provide the Court and USPTO the identity of (1) assignee of the patent, (2) entity with right to sublicense or enforce the patent, (3) entity with any financial interest in the patent or in the plaintiff, and (4) ultimate parent entity of assignee. The patentee must keep that information updated for the life of the patent, and must to submit to the USPTO any changes in this information within 90 days. The breadth of the information required may well exceed the capacity of even the best-intentioned plaintiff to acquire and provide.

- The discovery limitations of new Sec. 299A, notwithstanding the discretion to expand the scope of discovery provided in Sec. 299A(b), could make it more difficult to provide information called for in other sections of the bill and could militate against cases where allowing broader discovery would be more efficient. Judges already have discretion to limit discovery, and the federal judicial branch is taking steps to address the issue of unreasonable and abusive discovery demands. It would seem best, therefore, to leave limitations on discovery to the discretion of courts.

In addition to the litigation reform provisions of H.R. 3309, the bill includes a number of provisions in Sec. 9 intended as improvements or technical corrections to the Leahy–Smith America Invents Act (AIA).

- We believe that the expansion in new Sec. 9(e) of the kinds of patents that can be challenged under that AIA's post-grant review procedures for covered business method (CBM) patents is extremely problematic. Changes in the definition or interpretation of the definition of covered business method patents and the authority for the USPTO to waive the $12,000 filing fee for a CBM petition threaten to expand the scope of patents that can be challenged under what was intended as a transitional program that just recently went into effect. Similar to the over-breadth of the fee-shifting and joinder provisions, the increase in the breadth of the definition of business method patent threatens to sweep into the current definition patentable subject matter that was neither intended to be covered under the rubric of business method patent nor is asserted by abusive patent acquisition entities. Again, the amplitude of the expansion will negatively impact patent owners

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including, among others, institutions of higher education and their non-profit technology transfer organizations, which do not engage in abusive patent enforcement behavior.

- The narrowing in Sec. 9(b) of the AIA's new post-grant review's estoppel provision by eliminating "or reasonably could have raised" has been justified procedurally as eliminating an AIA drafting error and justified substantively as assuring the new post-grant procedure functions effectively. But the assertion of a drafting error is very much in dispute, and more fundamentally, as a matter of substantive policy, the elimination of "reasonably could have raised" promises to have an impact precisely opposite to one of the principal goals of the AIA by extending, rather than limiting, patent litigation.

H.R. 3349, the Innovation Protection Act: Among the many achievements of the landmark Leahy-Smith America Invents Acts, one of the greatest disappointments was the inability to include reliable full funding of USPTO. The bipartisan H.R. 3349 accomplishes this critical objective by providing USPTO with autonomy over the fees that it collects. As former USPTO Director David Kappos testified before your committee, providing the USPTO with full fee access is essential for the USPTO to fulfill the potential of the AIA to strengthen the U.S. patent system and its capacity to support invention, innovation, and economic development.

We thank the Chairman for the work of you and your staff to address the costly problem of abusive patent litigation. We believe that H.R. 3309 has the potential, if properly crafted, to address this problem in significant ways, and we look forward to working with you to achieve such an outcome.

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November 19, 2013

Statement from the Higher Education Community on Amendment in the Nature of a Substitute to H.R. 3309

We write to communicate the views of the higher education community on the Amendment in the Nature of a Substitute to H.R. 3309. We commend Chairman Goodlatte for the improvements in this Manager's Amendment in comparison to the previous version of H.R. 3309. Included among those improvements, in our view, are the elimination of the expansion of the kinds of patents that can be reviewed under the AIA's post-grant review procedures for covered business method patents and retaining the transitional nature of those procedures, and the narrowing of the joinder provisions -- although we are concerned about some remaining aspects of these provisions.

Despite these improvements, however, we believe that a number of provisions in the Manager's Amendment are problematic, including the extremely broad scope of civil actions to which fee shifting would apply and the high, indefinite threshold for a court's waiver of that fee shifting, the extent of the heightened pleading requirements, the breadth of the information required in Sec. 4's transparency provisions, and the narrowing of the scope of the estoppel provisions in the AIA's new post-grant review procedure. It continues to be our view that the courts are best suited to manage litigation according to the facts of a case, and a number of the proposals unduly limit that court discretion in meritorious patent infringement cases. We are concerned that these proposals would undercut the value of a patent to encourage investment in new technology, which is why patents exist, and how universities use them.

We strongly encourage the addition of H.R. 3349 to the Manager's Amendment. Providing the USPTO with full access to its fee revenue is the most significant action that can be taken to enhance the quality and effectiveness of the U.S. patent system.

We respectfully request the Judiciary Committee to address these issues of concern as it considers the Manager's Amendment.

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University of California (UC), Preliminary Analysis of Concerns: Amendment in the Nature of a Substitute to HR 3309, the "Innovation Act"

The University of California leads U.S. universities in the number of patents awarded annually by the U.S. Patent and Trademark Office (U.S. PTO). Having a strong U.S. patent system that supports patent holders whose rights are infringed is crucial to ensuring that early stage innovations created at universities will be taken up by businesses and turned into products that benefit society. If patent protections are weakened, or it becomes more difficult to enforce patent rights, it will impair the commercialization of early stage inventions from universities. Unfortunately, after an initial review of HR 3309, the "Innovation Act," and the Manager's Amendment, UC remains concerned that the legislation, if enacted in its current form, would make it more difficult and costly for good faith patent holders to enforce their patent rights when infringement occurs.

While taking steps to weed out abusive patent litigation practices is an important goal, any efforts to do so should be carefully structured to not weaken patent protections making it more difficult for patent holders to enforce their patent rights. UC is concerned that HR 3309 as drafted, including the Manager's Amendment, would make it especially hard for non-deep-pocketed entities such as universities, start-up companies, non-profits and small businesses to enforce their patent rights when infringement occurs. The University looks forward to working with Congress to address concerns prior to HR 3309 moving forward.

Section 3. Patent Infringement Actions

Pleading Requirements: UC understands the need for cases to be pleaded with particularity to avoid abusive litigation practices. However, it would be better to continue to allow the Judicial Conference to establish uniform Federal court rules and pleading requirements, through the Federal Rules of Civil Procedure (FRCP), than to have separate pleading requirements established just for patent cases under HR 3309. A complaint should be able to continue to satisfy Rule 11 of the FRCP as a standard to bring a case.

UC is concerned that the pleading requirements in HR 3309 are too specific, and could make it more difficult for good faith patent holders to protect their patent rights in the Federal Courts when infringement occurs. The pleading requirements ask for information that may not be known by the patent holder alleging infringement, until after discovery has taken place, which would make it difficult for good faith patent holders to comply with the pleading requirements. The language should specify that a party would only be required to state information that is known at the time of filing a case. The particular pleading requirements do not seem to adequate y consider the type of knowledge patent holders may have about the particulars of an infringement at the beginning of a case.

For example, the pleading requirements ask patent holders to plead what the "accused instrumentality" of an infringement may be, the exact theory of infringement, and whether it is direct, or contributory infringement, and, if it is not a direct infringement case. These particular pleading requirements ask for information that may not be known by a patent holder at the time the pleading requirements in HR 3309 would be required to be satisfied, which could make it difficult for patent holders to bring legitimate cases of infringement forward. In addition, a patent holder may not know just from the alleged infringer's products, what it can examine and where the exact infringement may be coming from, prior to additional discovery taking place. The pleading requirements may also require patent holders to attest to information that can't be known by the patent holder to the litigation when initial pleadings are filed. For example, some patent claims may include a method of manufacture, which may be an infringer's trade secret or prior user right.

It is also unclear under HR 3309, whether a patent holder would be able to amend a specific complaint later to include new patent claims or new infringing products in light of what is learned of the infringer in discovery. The new pleading requirements also ask "whether such patent is subject to any licensing term or pricing commitments through any agency or standard setting body," which could be a difficult requirement to

meet at the outset of an infringement case, when the extent of the infringing activity may be largely unknown. Another concern with the pleading requirements is that they are specific to what is required to be pleaded by patent holders alleging infringement, and would not apply to defendants.

Attorney's Fees: UC is concerned that HR 3309 would change the standard for awarding attorney's fees in patent related cases, under Section 285, to a standard that requires Federal judges to award attorney's fees to a prevailing party, on a "shall" award attorney's fees and other expenses basis, rather than continuing to allow judges to exercise discretion to determine whether to award fees in a particular case, based on the specific facts of a case. UC is concerned that a shift toward a "loser pays" attorney's fees model will make it substantially more difficult for universities, nonprofit organizations, start-ups, small businesses, inventors, and other non-deep pocketed patent holders, to bring forward cases of patent infringement, because it would become too risky and costly to bring a case forward. A "loser pays" basis for awarding attorney's fees, could result in less protection for patents, and less access to the courts to address infringement, especially for universities and other non-deep pocketed entities, which may not be able to take the risk of bringing an infringement action forward, if the patent holder is concerned that there is any chance that the litigation could result in a negative outcome, resulting in an award of attorney's fees and costs on a "shall" grant basis as would be required under HR 3309.

The changes to Sec. 285 Attorneys Fees and HR 3309 generally, also cause concern because the provisions would apply to any federal court action in which any party alleges a claim under any "Act of Congress related to patents," which captures a number of Federal statutes, aside from just those arising under Title 35 of the U.S. Code. Instead, HR 3309 would apply to over 25 statutes containing patent law clauses, including the Space Act, the Atomic Energy Act, the Non-Nuclear R&D Act as well as all titles of the omnibus bills in which the Bayh-Dole Act and amendments became law. The overly broad scope of HR 3309 would cause unintended consequences and draw in potentially unrelated subjects aside from patent infringement actions. The scope of HR 3309 should be narrowed to apply only to patent infringement actions under Title 35 of the U.S. Code.

It is also unclear what would qualify under the Attorney's Fees language as a special circumstance where a party could be found to be "substantially justified" in bringing a case forward, which would allow a judge to have discretion about whether to award fees. For example, it is not clear from the language that being a nonprofit would qualify as a special circumstance to be considered, which causes concern. The risk for small businesses and universities to bring legitimate patent infringement cases forward would be substantially increased if the fee shifting language in HR 3309 is enacted as written. It would be better to continue to allow judges to exercise their discretion in awarding attorney's fees in patent infringement cases, rather than to impose a new standard. UC is also concerned about any language which would require a bond to be posted to bring a case because this could again disadvantage non-deep pocketed good faith patent holders from being able to bring their cases of infringement forward if they could not afford to post a bond.

In addition, the U.S. Supreme Court has already decided to review the U.S. Court of Appeals for the Federal Circuit's standard for awarding attorney's fees in two different cases, in the current Court term beginning on October 1, 2013, Highmark *v Allcare* and *Octane Fitness v Icon*. Since the U.S. Supreme Court is already acting to address when attorney's fees in patent cases may be awarded under 35 USC 285, this is a further indication that Congress may not need to act in this area.

Joinder of Interested Parties: HR 3309 establishes new rules for the joinder of interested parties in patent infringement cases once Sec. 285 attorney fees are awarded. UC is concerned that the Joinder provisions would require courts to grant a motion by a defendant in a patent infringement suit, on a "shall grant" basis, to join another "interested party," on a very broad basis. UC is also concerned that HR 3309 uses a very broad definition of "interested party," which is written to include "the right to any part of an award of damages or any part of licensing revenue." This definition of "interested party" arguably would include a university's inventors and licensing partners, and any third party a university inventor has designated to receive some or all of his or her inventor share, which all could be joined to a case. Also, the substitution of "subject matter" for "patent" in

the Manager's Amendment indefinitely broadens the provision. The broad joinder provisions could make it much riskier for a patent holder, such as a university, to be able to commercialize university based research through licensing activities, and to seek redress for infringement when it occurs. The joinder provisions should be narrowed in scope to prevent the broad ways in which parties could be joined to cases. Judges should also continue to retain flexibility about whether to join parties to a case given a particular case's circumstances.

Discovery in Patent Infringement Action: HR 3309 introduces new limits on discovery in patent infringement cases under 299A which could result in delays and denials of necessary discovery being obtained and increased costs for good faith patent holders alleging infringement. UC is concerned that the discovery limits could make it much more difficult for patent holders to protect their patents when infringement occurs. It would be better to allow the courts to continue to administer discovery needs in patent infringement cases, such as through the Model Discovery Order issued by Chief Judge Randall Rader, of the U.S. Court of Appeals for the Federal Circuit, rather than to impose new limits on discovery through HR 3309. Judges need to have flexibility in determining what makes the most sense for discovery in particular cases, and imposing limits on discovery, or imposing cost shifting for discovery requests, would have a negative impact on the ability of universities, nonprofit organizations, start-ups and other non-deep pocketed organizations to bring legitimate cases of patent infringement forward.

Section 4. Transparency of Patent Ownership

Section 4 establishes new rules for providing transparency regarding the ownership of patents. UC supports requiring patent holders to disclose their ownership interest in patents as a part of patent litigation, but Section 4 as drafted causes concern because it contains an overly broad definition for what must be disclosed to the U.S. PTO, beyond what would be needed to establish the ownership of a patent involved in a lawsuit. In particular, UC is concerned about the requirement that patent holders would have a duty to disclose in an initial infringement complaint and to update the U.S. PTO and court within 90 days of changes for any assignee of the patent or any party with a "financial interest' in the patent in suit. The mandatory requirement to provide information about "any entity...that the plaintiff knows to have a financial interest in...the patent...or...the plaintiff," is very broad as further defined "right to receive proceeds from such action."

UC is concerned that the definition of "financial interest" could include a university's inventors and licensing partners, and any third party a university inventor has designated to receive some or all of his or her inventor share, and it may be difficult to ascertain all of the parties with a "financial interest" that would be triggered under the language in Sec. 4, and plaintiffs would be subject to penalties for noncompliance. The broad definition of "financial interest," coupled with the penalties for "Failure to Comply," could make it much riskier for patent holders such as a university to be able to commercialize university based research through licensing activities, and to seek redress for infringement when it occurs.

Section 5. Customer Suit Exception

Section 5 would allow a manufacturer of an allegedly infringing product to intervene and stay cases against downstream customers and retailers, who are not in the best position to defend an infringement lawsuit. UC is concerned that Section 5 could lead to automatic stays of downstream litigation that may be unrelated to the infringement case the stay is issued for, which could result in weakening patent rights for other patent holders, whose patents could become held up through a stay issued through the customer suit exception language. It is also not clear why a stay to a patent infringement action should be granted if the manufacturer is a party along with its customer, and why a stay could be issued to protect a customer, but not a manufacturer.

Section 6. Procedures and Practices to Implement and Recommendations to the Judicial Conference

Consistent with the comments under Section 3 above, it would be better to allow the courts to continue to administer discovery needs in patent infringement cases, such as through the model discovery order issued by Chief Judge Randall Rader, rather than to have new limits established through legislation. The language under Section 6 also suggests that the Judicial Conference should adopt rules that would include new cost shifting requirements for discovery beyond discovery for "core documentary evidence." Consistent with the comments regarding attorney's fees, non-deep pocketed entities such as universities, non-profits, small businesses, start-ups and others could be disadvantaged by a rule that would shift costs on a more automatic basis for needed discovery to a requesting party. Under such a rule, UC is concerned that it could become too costly for a non-deep pocketed entity, such as a university to obtain necessary discovery, and too risky to bring a patent infringement case forward. It would be better to leave decisions about what discovery rules should be applied with the judges who work on patent cases on a regular basis, and understand the particular discovery issues that may be pertinent in a particular case. Section 6 may have the unintended consequence of freezing in place a statutory structure that may not make sense depending on the circumstances of each case. It would be better to allow the Judicial Conference to continue to determine the rules for discovery in cases.

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

Repeal of 35 U.S. Code Section 145: UC is concerned that repealing 35 U.S. Code Section 145 removes an important safeguard to ensure that patent rights are determined correctly, and the University does not recommend that 35 U.S. Code Section 145 be repealed. 35 U.S. Code Section 145 provides an important safeguard to allow parties to appeal erroneous decisions by the U.S. PTO directly to the Federal District Court that should be retained in the law, so that there is effective review and recourse available, especially where a fair hearing includes the chance to present new evidence into the patent application file. The need for new evidence in a patent application file is rare, but can be critical to a patent issuing or to issuance of patent claims of appropriate breath.

Post-Grant Review Estoppel: Section 9 would repeal the "raised or reasonably could have raised" estoppel standard from the Post-Grant Review section of the America Invents Act (AIA), allegedly because of a scrivener's error. As observed by key players in the enactment of the AIA, this was not a scrivener's error. UC supports retaining the current law's strong estoppel standard of "raised or reasonably could have raised" in Post Grant Review procedures, which will help to prevent litigation abuses and to strengthen patent claims that survive PGR. Retaining the strong estoppel standard would be particularly important for start-up companies that are trying to raise money. Having a constant cloud over a patent does not engender confidence in investors.

Covered Business Method Patent Reviews: UC appreciates that the Manager's Amendment to HR 3309 removed much of the language that would have expanded the business method patents language in Section 18 of the AIA.

Grace Period: UC continues to seek clarification of the continuation of the American grace period in a form of appropriate breath to be effective, as opposed to the currently extremely narrow interpretation of the grace period from the AIA that the U.S. PTO imparted, during the U.S. PTO's rule making process to implement the switch to a First Inventor to File system. Correcting the narrow interpretation of the AIA's grace period is a top priority for universities. Without correction, there is a great risk that opportunities for inventions developed at universities to be commercialized will be compromised. The university community has developed grace period language that would correct the grace period problems arising from the AIA.

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November 14, 2013

Honorable Robert W. Goodlatte
Chair
Committee on the Judiciary
U.S. House of Representatives
Washington DC, 20515

Honorable John Conyers, Jr.
Ranking Member
Committee on the Judiciary
U.S. House of Representatives
Washington DC, 20515

Re: H.R. 3309, the Innovation Act

Dear Chairman Goodlatte and Ranking Member Conyers:

I am writing to express the views of the American Bar Association on H.R. 3309, the Innovation Act, which we understand will be scheduled for Committee markup in the near future.

H.R. 3309 would amend the Patent Code as codified in title 35, U.S. Code, and other provisions of federal law relating to patents in several respects, with the objective of reducing abusive litigation practices in patent cases. The ABA understands that these proposed changes are designed to address practices by litigants that have come to be identified as "patent assertion entities," so named because they acquire and hold patents not for commercial exploitation, but solely to sue for monetary relief or extortionist settlements. The ABA agrees that changes in court procedures relating to pleadings, disclosure of real parties in interest, joinder of parties, and discovery can improve the administration of justice in our nation's federal courts, including in patent cases. However, the ABA opposes the enactment of H.R. 3309 as introduced, and urges the Committee to continue further development and revision of the bill to achieve its worthy objectives.

Our primary concerns regard provisions of the bill that call for Congress, rather than the courts, to establish certain rules of procedure for the federal courts, thereby circumventing a rulemaking process that has served our justice system well for almost 80 years. In the Rules Enabling Act, Congress recognized that responsibility for establishing rules of procedure to be applied in our federal courts is best reposed in the Article III courts themselves. Provisions of that Act assure that amendment of the Federal Rules occurs only after a comprehensive and open review is undertaken. Before a proposed rule change can become effective, it must be approved by the

Supreme Court and transmitted to Congress, which retains the ultimate power to reject, modify, or defer any rule or amendment before it takes effect.
This circumvention called for in H.R. 3309 takes two forms: direct legislative enactment of rules of procedure and case management, and statutory direction to the Judicial Conference or the Supreme Court to develop particular rules and procedures for patent cases, with the substance of those rules and procedures specified in the bill. Examples of the former include provisions in section 3 of the bill relating to pleading, joinder, and discovery; requirements in section 4 that an initial complaint include detailed disclosure of parties in interest; and requirements in section 5 to stay actions for patent infringement in certain specified circumstances. Examples of the latter include provisions in section 6 directing the Judicial Conference to develop rules and procedures relating to issues of discovery and case management, with the content of those rules prescribed in the bill.

The ABA believes that the more effective approach is to adhere to the time-proven policy of allowing the federal judicial system to prescribe procedural rules, augmented by the local rules of the district courts. However, H.R. 3309's proposed departures from this system present another concern. By mandating particular rules of procedure applicable only to patent cases, the legislation calls for the same issues to be governed by different rules in patent cases than in all other civil cases. This unhealthy precedent could prompt calls to Congress to provide special rules of procedure for still other areas of the law, leading to the balkanization in the administration of justice—precisely the result that the Rules Enabling Act process was designed by Congress to avoid.

H.R. 3309 has the commendable objective of making it more difficult for ill-founded patent suits to succeed, and making it easier to identify and dispose of those suits more promptly and less expensively. By addressing these abusive litigation tactics, the bill ideally will lead both plaintiffs and defendants to realize that extortionist settlements should no longer be expected or feared. These are salutary objectives that the ABA supports. At the same time, however, overly prescriptive congressionally mandated rules of procedure may have the unintended result of creating more delay and expense, not less, and ill-serve the worthy objectives of H.R. 3309.

The ABA urges the Committee to continue reviewing and refining the bill, with a particular emphasis on providing guidance to the Judicial Conference and district courts in their development and improvement of rules of procedure and case management to address the concerns regarding abusive litigation practices that prompted this proposed legislation. Such guidance can and should be provided without abrogating the ability of the judicial branch to carry out its Article III responsibilities by adopting and adapting rules of procedure and case management.

Sincerely,

Thomas M. Susman

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COMMITTEE ON RULES OF PRACTICE AND PROCEDURE
OF THE
JUDICIAL CONFERENCE OF THE UNITED STATES
WASHINGTON, D.C. 20544

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November 6, 2013

Honorable John Conyers, Jr.
Ranking Member
Committee on the Judiciary
United States House of Representatives
Washington, DC 20515

Dear Representative Conyers:

We write to offer the initial views of the Judicial Conference Rules Committees on one aspect of H.R. 3309, the Innovation Act.

We are the current chairs of the Judicial Conference's Committee on the Rules of Practice and Procedure and the Advisory Committee on the Federal Rules of Civil Procedure. In those capacities, we have reviewed the legislation and have shared it with the chairs of other committees of the Judicial Conference that may have an interest in the legislation. The Judicial Conference may wish to comment on the Innovation Act in the future, and we may have a few additional comments about the draft legislation in the future. For now, however, we wish to offer a comment about Section 6 of H.R. 3309, which it may be useful to hear sooner rather than later.

In its current form, Section 6 requires the Judicial Conference to develop rules to implement the requirements described in the Act that are intended to address asymmetries in discovery burdens and costs in patent litigation. In doing so, Section 6 sets forth the content of the civil rules that the Judicial Conference is expected to develop through the Rules Committees.

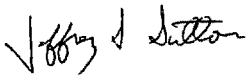
We greatly appreciate, and share, the desire to improve the civil justice system in our federal courts, including by reducing abusive procedural tactics in patent litigation. But legislation that mandates the contents of the federal rules contravenes the longstanding Judicial Conference policy opposing direct amendment of the federal rules by legislation instead of

through the deliberative process Congress established in the Rules Enabling Act, 28 U.S.C. §§ 2071–2077. Congress passed the Rules Enabling Act to create a thorough and inclusive process for addressing procedural problems in the federal courts. Under that process, the Rules Committees collect information that is essential to promulgating effective rules by commissioning empirical studies, analyzing relevant case law, and consulting with experts and others with direct experience in the area. Proposals for change are published for public comment and thoroughly analyzed by the Civil Rules Committee, the Standing Rules Committee, the Judicial Conference, the Supreme Court, and Congress. This multi-layered process ensures a thorough evaluation of proposals while reducing the ever-present risk of unintended consequences.

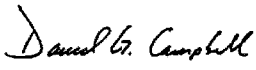
By dictating the outcome of the Rules Enabling Act process with respect to potential rules, Section 6 of H.R. 3309 runs counter to that process. We worry that this kind of approach more often will undermine, rather than further, the development of sound rules and practices. Instead of mandating the outcome of the Rules Enabling Act process, Congress may wish to urge the Judicial Conference's Rules Committees to study whether certain rules should be amended to address abusive patent litigation tactics and/or to implement the provisions of the Innovation Act. That approach would allow Congress to express its interest in addressing these problems *and* would respect the long-established virtues of the deliberative processes created by the Rules Enabling Act.

The Rules Committees and the other relevant Judicial Conference committees will continue to study the bill. If additional concerns are identified, they will be communicated to you as soon as possible. For now, however, we want to let you know immediately about our specific concerns with Section 6. The Rules Enabling Act process has worked well for the last 80 years or so, and we hope to see this collaborative partnership continue to work well long into the future. Thank you for considering our concerns. If you or your staff have any questions, please do not hesitate to contact us or Benjamin Robinson, Deputy Rules Officer and Counsel, at 202-502-1820.

Sincerely,



Jeffrey S. Sutton
United States Circuit Judge
Sixth Circuit
Chair, Committee on Rules
of Practice and Procedure



David G. Campbell
United States District Judge
District of Arizona
Chair, Advisory Committee
on Civil Rules

cc: Democratic Members of the House Committee on the Judiciary

Identical letter sent to: Honorable Bob Goodlatte

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November 20, 2013

The Honorable Bob Goodlatte
Chairman
Committee on the Judiciary
U.S. House Representatives
Washington, DC 20515

Dear Chairman Goodlatte,

On behalf of the National Venture Capital Association (NVCA), I am writing to express our views on H.R. 3309, the Innovation Act of 2013. As illustrated by a recent study[1] conducted by UC Hastings law professor Robin Feldman with participation from NVCA members and portfolio companies, patent assertion is a growing and costly burden for some participants in the innovation ecosystem. This is especially true for many small venture-backed companies whose efforts to commercialize innovation often threaten to disrupt marketplaces and their entrenched interests. The costs for established companies in challenging or infringing upon the patents of innovative upstarts are relatively low, while the benefits can be high. Conversely, the costs and burdens of defending against infringement or assertions for those small venture-backed companies is often disproportionately high. These dynamics have made assertions and infringements popular strategies, and they must be addressed.

NVCA believes H.R. 3309 includes several helpful provisions to help curb abuses in patent litigation. However, it is critical that Congress balance the need for patent litigation reform with the needs of those start-ups that depend on strong patent protection and that believe the system is working. Congress must also take care to avoid any unintended consequences that could weaken strong patent protection.

Within this context, NVCA believes several changes should be made to H.R. 3309 in order to strike this delicate balance including the following:

Fee Shifting:
Although a prevailing-party approach for attorney fees may be acceptable for litigants that are similarly situated economically, this approach puts an unfair burden on early-stage companies which are typically capital constrained. The proposed legislation potentially also impacts incentives / risks of new-company formation, because of contingent fee liability (285(c)) with respect to proposed joinder (see below). We hope to have specific language to suggest on this issue in the near future.

Joinder:
As proposed, joinder of "a person who has a direct financial interest" may inadvertently include equity investors (e.g., venture capital fund entities). Although the proposed legislation provides an exception for entities whose "sole financial interest in the patent or patents at issue is an

[1] Feldman, Robin. UC Hastings; "Patent Demands & Startup Companies: The View from the Venture Capital Community."

equity interest in the party alleging infringement", the proposal also provides a carveout to this exception – for entities that also have the "right or ability to influence, direct or control the civil action". This carveout may preclude venture capital funds from relying on the equity-interest exception, since such funds typically have voting agreements that provide for VC-appointed directors. We believe this concern could be addressed simply with a minimal clarification such as:

> Revise Sec. 3(c) of proposed legislation to reflect the following indicated **changes** to proposed Sec. 299(d)(3)(C)(ii):
>
> "(C) has a direct financial interest in the patent or patents at issue, including the right to any part of an award of damages or any part of licensing revenue, except that a person with a direct financial interest does not include—
>
> (i) an attorney or law firm providing legal representation in the civil action described in paragraph (1) if the sole basis for the financial interest of the attorney or law firm in the patent or patents at issue arises from the attorney or law firm's receipt of compensation reasonably related to the provision of the legal representation; or
>
> (ii) a person whose sole financial interest in the patent or patents at issue is ownership of an equity interest in the party alleging infringement, unless such person also has the explicit right or ability to directly and materially influence, direct, or control the civil action."

Estoppel:

During the last round of patent reform legislation and passage of the AIA, NVCA advocated for strong estoppel provisions as the trade-off for supporting a post grant review (PGR) structure. The AIA language provided that invalidity claims that 'reasonably could have been raised' in a PGR cannot subsequently be made in civil action. H.R. 3309 changes the PGR estoppel language so that rather than barring the challenging party from re-asserting invalidity grounds that were "raised or could have been raised" only grounds that were actually raised in a PGR would be barred and therefore small companies would not be able to rely on the validity of their intellectual property to attract capital and build their companies.

Thank you for your leadership. We look forward to working with you and the other members of the Committee on legislation that balances the need to curb patent litigation abuses with the need to maintain strong protection for patent-dependent startups.

Sincerely,

Bobby Franklin
President & CEO

Cc: The Honorable John Conyers, Jr., Ranking Member
Members of the Committee on Judiciary

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Fed. Circ. Chief Calls For Caution On Patent Troll Bills

By Ryan Davis

Law360, New York (November 04, 2013, 8:35 PM ET) -- The chief judge of the Federal Circuit on Friday urged Congress to refrain from passing legislation aimed at cracking down specifically on so-called patent trolls, saying district court judges are able to curb abusive patent litigation on their own.

In a speech at the Eastern District of Texas Bench Bar Conference in Plano, Texas, Chief Judge Randall Rader decried "litigation blackmail" where the patent owner tries to extort a settlement from accused infringers that is less than the cost of a defense.

However, he said the solution was not, as some bills introduced in Congress have proposed, to make special rules for patent owners that don't make any products. American law does not make distinctions based on the characteristics of the parties, but on their actions, he said.

"The definition of a 'troll' will always be overinclusive or underinclusive to the detriment of justice," Judge Rader said. "Instead of finger pointing and name calling, the law needs to focus on blameworthy conduct."

Judges already have the authority to reduce abusive litigation tactics and can eliminate the need for new laws passed by Congress if they to make better use of those tools, he said.

"Because I have confidence in the ability of the judiciary to address these issues in a more flexible and thus just manner, I consequently encourage the legislative branch to proceed with great caution in attempting to solve specific and evolving problems with sweeping definitions," he said.

For instance, Judge Rader said that judges should make "liberal use" of their ability to grant summary judgment if a patent plaintiff brings a suit that is not meritorious. Disposing of such cases through summary judgment is "the key to removing the abusers from the system," as it will prevent them from using the cost of protracted litigation to leverage settlements.

"An impotent summary judgment process encourages nuisance settlement strategies because the accused has to assume they will bear the full cost of trial to vindicate their position," he said.

He also said that judges should make more use of the provision of patent law that allows them to order litigants that bring "exceptional" or baseless cases to pay their opponents' litigation costs.

"When a judge perceives that a case exhibits litigation abuse, that case should be 'exceptional' on that basis alone," he said. "The potential of shifting fees helps to balance

the playing field so that the wrongly accused at least have hope of recovering their fees if they do not pay a nuisance settlement."

Finally, he praised efforts by judges to reduce the cost of litigation, including recent model orders drafted by the Federal Circuit Bar Association that call for limits on discovery and the number of claims asserted in litigation.

"It only makes sense to actively require the parties to focus their cases so that the true issues can be timely resolved," he said. "Excess claims and excess prior art has clogged the system for too long."

The patent system has long been subject to misguided criticism, including unsubstantiated claims that patent hinder innovation, Judge Rader said. That criticism has been exacerbated by abusive litigation, but judges are capable of solving that problem, he said.

"By addressing litigation abuse, I have full confidence that the judiciary has the tools to restore confidence in the patent system," he said.

--Editing by Elizabeth Bowen.

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Speech Excerpt from CAFC (retired) Chief Judge Paul Michel of the Federal Circuit Court of Appeals described the practical impact of this flawed proposal:

"First, provisions concerning pleadings, fees, discovery and stays all multiply the issues requiring adjudications, adding measurably to the already excessive complexity of such cases and thus increasing still further the harmful delays, costs, disruptions and uncertainties. For example, the stringent pleading requirements of Section 3 for the "initial Complaint" will lead to motions to dismiss, now very rare, in almost every case. The parties must then litigate and the judge must decide if any missing information was "known" to the patent owner or, if not known, was nevertheless "reasonable accessible." And if the Complaint is dismissed, it can be refiled, perhaps with only some of the gaps filled, possibly leading to another round of dismissal litigation.

Complaints typically allege infringement of multiple patents, each with multiple claims, each with many limitations and often against multiple products. Consider a case with 5 patents, each with 5 asserted claims, each with 5 limitations against 5 products. Such numbers are not fanciful. Under the bill, if enacted, the initial Complaint must link every limitation to a feature of every accused product, specifying as well whether infringement is literal or equivalent, whether direct or indirect, and in the latter case, additional details are required. Do the math and you see such a complaint must contain hundreds, likely thousands, of facts in a huge matrix. Seldom will every box in the matrix be filled. Under the proposed bill, any omission will result in dismissal, leading to much wasteful litigation, the very thing the bill seeks to minimize. And what if discovery reveals additional infringing products? Can the complaint not be amended, as at present? "

Patent Office Professional Association
Box 25287, Alexandria, VA 22313

November 18, 2013

Honorable Robert W. Goodlatte
Chairman
Committee on the Judiciary
U.S. House of Representatives
Washington, D.C. 20515

Honorable John Conyers, Jr.
Ranking Member
Committee on the Judiciary
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairman Goodlatte and Ranking Member Conyers,

The Patent Office Professional Association (POPA) represents more than 8,000 patent examiners and other patent professionals at the U.S. Patent and Trademark Office (USPTO). While POPA appreciates the work of the Committee in preparing a Manager's Amendment to the Innovation Act, H.R. 3309, for Committee mark-up, we continue to have concerns regarding this legislation.

First and foremost is the failure of this legislation to address in any way the lack of stable funding for the USPTO and the impacts of sequestration on the Agency's abilities to carry out its mission. The Leahy-Smith America Invents Act of 2011 (AIA) gave the USPTO limited fee-setting authority and the access to all its fee income. No sooner had the first fee-setting rule been implemented, however, than the Agency became subject to a substantial loss of that fee income through sequestration. No attempt has been made in H.R. 3309 to resolve this issue.

Until such time as the USPTO is provided stable and full fee funding, POPA must oppose this legislation.

POPA greatly appreciates the removal of the provisions of H.R. 3309 regarding expansion of the transitional covered business method (CBM) provisions of the AIA. It is noted, however, that the proposed legislation authorizes the Director to waive the payment of fees for a transitional proceeding under the CBM provisions of the AIA. POPA opposes this provision. Permitting the Director to waive this fee would simply act to further incentivize challenges to issued U.S. patents on covered business methods and decrease the certainty of patent owners and investors in the value of the patent. A strong U.S. patent system must provide some certainty to patent owners once their patent has survived legal challenge. Without that certainty, the incentives of the patent system become illusory. Furthermore, with its current unstable funding, it is entirely unclear how the USPTO could afford to waive fees for such a proceeding. The USPTO needs its fees to cover the expense of the work performed for those fees. Indeed, under current fee setting authority, fees are set, on average, to recover costs of the Agency's activities. Waiving a fee for a CBM transitional proceeding would appear ill-advised at best.

Of broader general concern for POPA is that the Innovation Act appears skewed against small inventors. POPA has always supported small inventors, recognizing that it is these very inventors who do the majority of true innovation – whether in their garage, small company or university laboratory. While others are much better able to delve into the specifics of those provisions affecting small inventors, POPA believes that any changes to the U.S. patent system should work to advantage, not disadvantage, small inventors. They represent the very lifeblood of American innovation.

Finally, we are deeply concerned that this legislation is being pushed through the legislative process much too quickly to allow adequate development of the issues and crafting of solid, workable solutions to resolve those issues. POPA hopes that the Committee will continue discussions with stakeholders until the interests of all have been adequately addressed. We look forward to continuing to work with the Committee on crafting patent reforms that will keep America's patent system the strong and vibrant engine of innovation it has been for over two hundred years. We would be happy to discuss with you any questions you may have.

Sincerely,

/Robert D. Budens/

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November 19, 2013

The Honorable Bob Goodlatte
Chairman
Committee on the Judiciary
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Goodlatte,

IEEE-USA supports the stated goals of the *Innovation Act* (H.R. 3309) – to address abusive patent litigation and improve U.S. Patent and Trademark Office ("PTO") examination quality. We appreciate your efforts to improve this bill by offering the Manager's Amendment in the Nature of a Substitute, released yesterday (the "Bill"). This legislation will have significant impact on innovation, a matter central to IEEE-USA's mission.

Our initial review of the Bill indicates that while it contains positive changes from the original bill, newly-introduced problematic provisions and several provisions that remain counterproductive may produce results contrary to the Bill's stated goals. Moreover, the Bill does not help remove significant ambiguities that remain in the America Invents Act ("AIA") with respect to the "grace period." IEEE-USA believes that given the current language of the AIA, no competent patent attorney can advise their client that they have a "grace period" for secret commercialization – a critical period in the formative stages of small businesses and startups.

A positive feature of the Bill is the restoration of the original scope of the transitional review proceedings for Covered Business Method patents ("CBM"). However, the Bill provides an open-ended authority, unrelated to entity size or any other policy principle, under which "subject to available resources, the [PTO] may waive payment of a filing fee for a transitional proceeding." This would provide the PTO plenary authority to arbitrarily pick and choose parties to reward with free proceedings, or to single out certain patent kinds for review free of charge. This provision contradicts § 10(a)(1)(2) of the AIA which provides that "fees may be set or adjusted ... *only* to recover the aggregate estimated costs to the Office." Thus, the "available resources" are by definition those paid for by user fees and since all fees are set according to PTO's costs to provide the service, there are no "available resources" for free. Effective January 1, 2014, the PTO's CBM review request and post-institution fees are set based on PTO's estimated costs to more than $30,000 per petition. If such fees are waived for any party, fees for services for other users must be raised to subsidize that party. A single CBM fee waiver would be equivalent to the fee collected from more than 500 micro entity applicants filing a provisional application. IEEE-USA strongly objects to provisions that provide special treatment and a free pass to challengers of issued patents at the expense of patent applicants.

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IEEE-USA could support in principle several provisions, such as heightened pleading standards and enhanced disclosure of real parties in interest, if redrafted in a balanced way and not overly burdensome on litigants. Unfortunately the Bill still misses the mark on these issues. We are concerned that the Bill unfairly shifts procedural burdens, costs and risks to patentees. For example:

- The Bill's patent infringement pleading standards require particularities of asserted claim elements matched to accused infringing product features but have no similar requirements that defendants show with particularity why they do not infringe. Since most patent infringement complaints draw a counter-claim of patent invalidity, any such counter-claim should also be pleaded with comparable particularity (e.g., citing applied prior art references to all claim terms) that would support the invalidity contention.
- The Bill attempts to shift litigation costs and expenses to benefit the prevailing party without adequately defining the term "prevailing party." In as much as litigation often has multiple issues, one party can prevail on one issue and another party can prevail on another issue. The Bill only creates uncertainty on this issue and fails to meet its stated goal.
- Real Party in Interest provisions require that parties asserting patents disclose all entities having a financial interest in the asserted patents. This will deter many investors and those holding security-interests in patents who, for privacy reasons, wish to remain anonymous. In contrast, no disclosure of Real Party in Interest is required for parties challenging patents in declaratory actions or at the PTO in reexamination and in post issuance proceedings.

We believe that other provisions in the Bill are still not sufficiently narrowly crafted to target litigation abuse and therefore would reduce the value and enforceability of patents more broadly. IEEE-USA believes that legislation addressing litigation abuse should be implemented in a manner that is not patent-specific or discriminatory against certain patent owners. For example, we are concerned that the discriminatory enhanced fee-shifting provisions have the potential of creating new unfair risks for particular litigants while rewarding others. While we favor judicial stays against innocent consumers of end products where a stay would promote fair and efficient resolution of a patent suit, we are concerned that the mandatory stay provisions are still overly broad and unduly shift the procedural burdens onto patentees. IEEE-USA objects to provisions that strip away or materially undermine patentees' enforcement rights to exclude the "use" of patented inventions.

IEEE-USA strongly opposes the repeal of Section 145, which unfortunately remains in the Bill. Under this repeal, applicants would be gratuitously denied the fundamental right of de-novo judicial review of adverse patentability determinations by the PTO when it refuses to consider certain evidence. The importance of this 170-year-old protective provision is in its restraining effect on PTO's potential abuse of discretion for all patent applicants – not just for those who would seek judicial review. A repeal of Section 145 would empower administrative decision-making, giving the PTO the final say, displacing the courts and severely eroding U.S. patent rights.

IEEE-USA believes that the "could have raised" estoppel in the current post grant law was a hard-fought compromise in the AIA legislation. The Bill still contains a provision that strikes the phrase "or reasonably could have raised." It would give accused infringers that should have raised all arguments administratively, piecemeal options in court to repeatedly challenge patent validity, unfairly burdening patent holders and increasing the complexity of litigation.

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IEEE-USA notes an important provision that is still missing in the Bill. The presidential sequestration order issued on March 1, 2013 subjects the PTO's fees to sequester even though these fees are not taxpayer funds. This denies the PTO access to all user fees collected and thus, to the resources it needs to tackle the patent backlog. IEEE-USA opposes the sequestration of the PTO's resources.

IEEE-USA is an organizational unit of the Institute of Electrical and Electronics Engineers, Inc. (IEEE), the world's largest organization for technical professionals, and a leading educational and scientific association for the advancement of technology. IEEE-USA fosters technological innovation for the benefit of all, including more than 200,000 U.S. engineers, scientists, and allied professionals who are members of the IEEE.

IEEE-USA's members serve on the "front line" of the US patent system. Our membership includes inventors who create and use cutting-edge technology, who research and publish professional articles and journals, and who develop published standards that form the bases of widely adopted and critical technologies. IEEE-USA members are more than merely scientists and research engineers; they are also entrepreneurs and employees of firms that acquire, license, and market patented technology; proper operation of patent law is a critical interest of IEEE-USA.

We look forward to a continuing dialog with you and other members of the Judiciary Committee to address the concerns we have with the legislation as it develops during this legislative session.

Sincerely,

Marc T. Apter
IEEE-USA President

cc: The Honorable John Conyers, Jr., Ranking Member
Members of the Committee on the Judiciary

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AIPLA
AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION

November 19, 2013

The Honorable Bob Goodlatte
Chairman
Committee on the Judiciary
United States House of Representatives
2138 Rayburn House Office Building
Washington, DC 20215

RE: Manager's Amendment to H.R. 3309, the Innovation Act

Dear Chairman Goodlatte:

I am writing on behalf of the American Intellectual Property Law Association (AIPLA) to give our perspective on the Manager's Amendment to H.R. 3309, the Innovation Act. AIPLA appreciates the amendments to H.R. 3309 that address some of the concerns voiced about the introduced bill, and we believe the bill is moving in the right direction. We are particularly pleased with the removal of provisions that would have expanded the Transitional Program for Covered Business Method Patents (CBM). However, we continue to have several concerns with H.R. 3309, and cannot support it as currently reflected in the Manager's Amendment.

AIPLA is a national bar association with approximately 15,000 members who are primarily lawyers in private and corporate practice, in government service, and in the academic community. AIPLA represents a wide and diverse spectrum of individuals, companies, and institutions involved directly or indirectly in the practice of patent, trademark, copyright, and unfair competition law, as well as other fields of law affecting intellectual property. Our members represent both owners and users of intellectual property, as well as patent litigation and prosecution attorneys, which gives AIPLA a unique perspective on particular abusive patent litigation practices.

Initially, we would note that many areas addressed by H.R. 3309 are also areas addressed by the recently-enacted provisions of the Leahy-Smith America Invents Act (AIA), whose impact on the system has not been fully realized nor completely understood. We agree with former USPTO Director David Kappos, who testified before your committee recently, that it is preferable that the reforms implemented by the AIA be given adequate time for implementation and evaluation before making further significant changes.

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That said, AIPLA recognizes that certain patent litigation abuses, and more specifically patent assertion abuses, have become a source of serious concern. Although recent independent studies have shown that assertion entities themselves are not actually responsible for recent increases in patent litigation, we understand that certain entities may assert overbroad or invalid patent claims with an intent to simply extract quick settlements. These actions are often directed at multiple potential defendants, some of whom may feel compelled to settle primarily to avoid the cost of litigation. We also understand that the threat of such frivolous litigation could burden the U.S. economy as some of these businesses may feel they need to respond by diverting funding away from other activities.

To the extent that reform is necessary to deal with such concerns, we urge the Committee to take a balanced approach that continues to encourage innovation. We believe that any legislation in this area certainly should reduce incentives for abuse, but it should do so while preserving the traditional rights of patent owners to protect and secure reasonable returns on their innovations, safeguarding the interests of users before the USPTO and the courts, and maintaining judicial discretion to appropriately manage litigation.

Moreover, AIPLA believes that any reforms should approach the process by carefully targeting specific abusive actions rather than a particular category of actors. In addressing this problem, Congress should avoid singling out patent litigation or a particular category of litigant with inflexible statutory changes to the judicial process. Instead, it should encourage courts to more readily exercise their discretion with existing tools for case management, or, where necessary, the courts acting collectively could provide new tools that maintain the discretion and flexibility so important to trial judges.

To be clear, there are some provisions of H.R. 3309 which we currently support, including the following:

- Section 9(c), which aligns the claim construction standard in *inter partes* review and post-grant review (PGR) with the standard used by district courts. As an alternative to costly and often burdensome litigation, these processes should apply the same standards of review as used in the courts, so that consistent claim construction across these post-grant validity challenges will provide greater certainty in final decisions and reduce the need for further litigation.

- Section 9(b), which corrects a so-called "scrivener's error" made during the AIA legislative process by striking "or reasonably could have raised" from the estoppel provisions of 35 U.S.C. §325. In order for the newly implemented PGR proceedings to improve patent quality as intended, especially in the early stages of patent term when reliance, commercialization and related investment are likely at their minimum, parties need to be encouraged to use this new review proceeding to address questionable patents early on. Moreover, the current estoppel provision would require patent challengers to anticipate any and all possible validity arguments at this very early stage; otherwise they

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would waive their right to raise different validity defenses if they are later sued for infringement. This may substantially deter parties from using the proceeding.

- We support in principle Section 5, which would give courts clearer instruction to stay customer suits in favor of a suit against a manufacturer where the parties consent. This, more than other provisions, would directly ease the burden on potentially innocent end-users. However further clarification of this provision is needed, particularly as to the requirements for a stay and when a court may deny a request for a stay.

However, AIPLA continues to have significant concerns about other provisions of the legislation which would introduce many new requirements into the patent litigation process. We fear that many of these would intrude on the established role of the Judicial Conference and would overly restrict the traditional discretion of district court judges to manage their cases. In this regard, AIPLA is concerned that the bill will mandate inflexible rules, many of which may have unintended consequences including impeding access to the courts, and we further believe that the Judicial Conference in its own discretion is in a better position to work with the district courts to institute appropriate case management rules.

Among our concerns are the following sections:

- Section 3(a), which removes judicial discretion by imposing significantly heightened pleading requirements for patent lawsuits;
- Section 3(b), which removes judicial discretion by mandating a presumption of awarding attorneys' fees in all cases;
- Section 3(c), which singles out patent litigation or a particular category of litigation with amendments to the rules of joinder;
- Section 3(d), which removes judicial discretion with statutory limitations on discovery in all patent litigation;
- Section 4, which imposes on patent owners who enforce their rights through litigation disclosure requirements for the life of the patent; and
- Section 6, which directs the Judicial Conference to adopt rules and procedures detailed by Congress.

We would note that the Judicial Conference Advisory Committee on Civil Rules has begun the process for amending the Federal Rules of Civil Procedure to reduce costs and delays in litigation through active case management and proportionality in discovery. Additionally, the U.S. Supreme Court has granted certiorari in two cases dealing with the standard for fee shifting in patent cases under the current 35 U.S.C. § 285. Given these developments, legislative action in this area may be premature or even unnecessary.

We also have several other additional concerns, including:

- Section 9(i)(6): "Time Limit for Commencing Misconduct Proceedings." This new provision is reportedly being advanced by the USPTO because it believes it is unable to

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complete the review of misconduct allegations against registered attorneys and agents in a timely manner, thus apparently necessitating the filing of potentially unwarranted charges to avoid tolling the statute of limitations. We strongly opposed the original provision in the AIA, and we are equally concerned about this amendment. This provision seeks to extend the threat of discipline against individuals within our membership, with the related potential for increases in malpractice insurance rates against all registered members, for unjustified reasons. Many of the provisions of the AIA, more challenging than this, impose one year deadlines on the USPTO, e.g. PGR and CBM. It remains incumbent upon the USPTO to complete their work in this highly sensitive area in the amount of time both they and the Congress allocated the USPTO in the AIA.

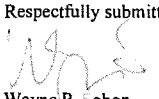
- Section 9(a), which eliminates Section 145. While we understand the concern that these actions may constitute a burden on the resources of the USPTO, even though infrequently used, we believe that this provision maintains an historic alternative means of providing for review of examiner decisions and establishing the rights of inventors, and should be retained.

Finally, and perhaps most importantly, AIPLA strongly believes that the single most important reform for improving the quality of patents is requiring a fully-funded USPTO. Congress understood the importance of giving the USPTO access to all of its user fees at the time of the AIA, but 2 years after its passage USPTO funds are again being made unavailable to the Office due to sequestration. The hoped-for improvements from the AIA were starting to be felt as new examiners were hired to tackle the backlog of pending patent applications, essential new IT systems were being developed, and new administrative procedures and proceedings were put into place. Sequestration has delayed all these efforts and improvements, which undoubtedly risks undercutting major initiatives designed to continue improving the patent system.

Until full funding is restored to the USPTO, AIPLA has reservations about trying to implement further reforms such as those included in the Innovation Act. To that end, AIPLA strongly supports H.R. 3349, the Innovation Protection Act, and suggests it become central to any legislative initiative.

In summary, and for the reasons noted above, AIPLA does not currently support the Manager's Amendment to H.R. 3309. We would welcome the opportunity to continue to work with you and your staff on these issues moving forward. Thank you for considering our views.

Respectfully submitted,



Wayne P. Sobon
President
American Intellectual Property Law Association

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The Honorable Robert Goodlatte
Committee on the Judiciary
2138 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Goodlatte:

The National Association of Patent Practitioners (NAPP) is a nonprofit trade association for patent agents and patent attorneys. NAPP has approximately 400 members in the US and various foreign countries. The practices of the practitioner members are focused primarily on patent prosecution, namely practice before the USPTO. Our practitioner members represent thousands of clients who seek patents, which for the most part are small and mid-sized business and individual inventors, well-understood to be the driving force of the American economy. As part of NAPP's mission, we aim to create a collective nationwide voice to address issues relating to the patent prosecution practice. Additional information about NAPP can be found at www.napp.org.

NAPP understands the motivation of the House Judiciary Committee for considering legislation to curb abusive patent litigation. However, the provisions contained in the recently introduced Innovation Act (H.R.3309) are not narrowly crafted to address abusive practices, but instead broadly undermine the ability of patent owners to enforce their constitutionally protected, government (USPTO) granted patent rights. The only ways to enforce a patent is to approach an infringer (through a demand letter) or to file a patent lawsuit. The patent bill being considered will impose substantial burdens on the ability to enforce patents effectively and efficiently, both "legitimate" patents asserted properly and "illegitimate" patents that the USPTO mistakenly granted. The result will be to hinder the value of patents and lessen incentives for patentable innovation across technology areas. The Committee cannot simply allow a few non-representative concerns about abusive litigation to override the need to strike an appropriate balance with all patent holders and not weaken incentives for U.S. innovation.

The following lists specific concerns NAPP has identified in H.R. 3309, the Innovation Act, as currently drafted:

- Fee shifting provisions of amended Sec 285 are extremely broad, applying to any civil action in which any party asserts a claim for relief under the Patent Act. The presumption is heavily in favor of fee-shifting as a default outcome. The provisions will interfere with ordinary enforcement of exclusive patent rights. The chilling effect of the uncertainty about whether such expense would be due and who ultimately will pay it is disproportionately adverse to parties of limited means such as individual inventors and small-business entrepreneurs.

National Association of Patent Practitioners
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- Increases pleading requirements in a way that raises questions about the balance between patent infringement plaintiffs and defendants. Plaintiffs are required to have information available at the time of lawsuit, and any invention for which infringement cannot be proven without litigation discovery (e.g., software) could be impossible to enforce. This provision calls into question the commitment to prompt and effective access to the courts by patent owners more broadly (Section 3(a)).

- Imposes restrictions on discovery that could serve to delay ultimate resolution of patent litigation, further clog federal court dockets, and increase costs, by creating satellite motions and fights about whether discovery should be granted (Section 3(d)).

- Raises serious questions regarding balance between those who might seek to enforce a patent and those who might seek to invalidate a patent by mandating requirements for transparency of ownership only to the former (Section 4). In connection with fee-shifting, similarly, patent owners put themselves at risk if they dare to sue, but patent pirates can remain hidden behind corporate shields in denying or infringing patents at will.

- Includes a customer suit exception provision that is not targeted narrowly and could lead to delayed resolution of disputes (Section 5).

- Prescribes activities for the Judicial Conference, or the Supreme Court, that may more appropriately be considered areas for reflection by those bodies (Section 6).

- Eliminates Section 145 proceedings as a procedural option for patent applicants (Section 9(a)), curtailing their right to introduce further evidence of patentability of their inventions.

- Proposes an inappropriate limitation on patent term adjustment by the PTO (Section 9(f)).

NAPP is hopeful this legislation will be amended to address the above concerns.

Sincerely,

Priya Sinha Cloutier
Chair, NAPP Government Affairs Committee

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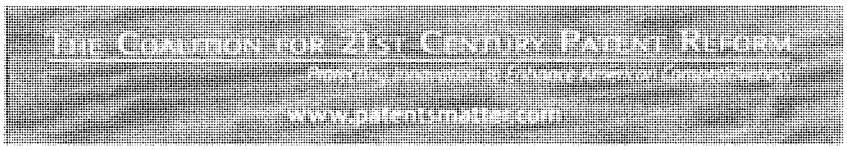

November 18, 2013

The Honorable Bob Goodlatte
Chairman
Committee on the Judiciary
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Goodlatte:

The Coalition for 21st Century Patent Reform applauds you for continuing to move ahead on the "Innovation Act" (H.R. 3309) with the introduction of your Manager's Amendment, in which there are a number of positive features and improvements.

Specifically, as we indicated in our letter to you upon introduction of H.R. 3309, we are pleased that the bill properly repeals the "or reasonably could have raised" estoppel for civil litigation, which inadvertently appeared in the text of the AIA through a scrivener's error. Likewise, we are pleased that the bill requires the USPTO to construe patent claims involved in the AIA's new post-issuance proceedings in accordance with the ordinary and customary meaning of the claim language, as understood by one of ordinary skill in the art and the prosecution history pertaining to the patent. We also applaud removal of most of the provisions relating to the CBM transitional program (although we remain concerned that CBM proceedings are still expressly exempted from the aforementioned claim construction requirements).

As you know, we have long been a proponent of a relaxation of the "exceptional" case standard to permit fee shifting in more cases to encourage both plaintiffs and defendants to assert only meritorious positions, and support the bill's language that would amend Section 285 to achieve that result. We also believe that the significant improvements have been made in the language of pleading requirements section, although we believe its continued requirement that each Complaint disclose detailed contentions on a product-by-product, claim-by-claim and element-by-element basis is unworkable, and should not be retained in the final bill. We also believe that repeal of Section 145, which has long served as an important procedural protection for innovators, is a bad idea that should be dropped from the bill.

We continue to have a serious concern that the provision related to stays of discovery pending claim construction would prolong all patent litigation by a year or more, substantially increase its cost, and deny parties with meritorious positions of the timely

relief they deserve. Unless it is substantially revised, this provision should not remain in the bill.

As the bill continues to move through the legislative process, 21C remains committed to continuing to work with you and the other members of the Committee, and of the House, to achieve measured, targeted legislative reforms designed to curb litigation abuse.

Sincerely,

Carl B. Horton
Coalition for 21st Century Patent Reform

cc: The Honorable John Conyers, Jr., Ranking Member
Members of the Committee on the Judiciary

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11/18/2013

H.R. 3309, Manager's Amendment of 11/18/2013, and IPO Positions

	H.R. 3309 – Goodlatte	H.R. 3309 Manager's Amendment (Unless otherwise noted, provisions listed in H.R. 3309 column are included in the Manager's Amendment in substantially the same form.)	IPO Position
1. Cost Shifting Including Attorney Fees	• Awards to prevailing party unless non-prevailing party position "substantially justified" or exceptional circumstances make unjust. • If losing party unable to pay, court may make recoverable against joined "interested party." •Party asserting claim, who later extends covenant not to sue, is deemed "non-prevailing party."	• Amends exclusion to require the non-prevailing party's position <u>and conduct</u> to be "substantially justified."	• Award to prevailing party unless position and conduct of non-prevailing party were objectively reasonable and substantially justified. • Not required if exceptional circumstances make unjust.
2. Disclosure of Real Party-in-Interest (RPI)	• Disclosure to court, USPTO, and adverse parties in infringement suits except ANDA suits; encumbers patent with ongoing duty of disclosure to USPTO. • Includes assignee, entity with right to sublicense or enforce patent, financial interest in patent or plaintiff, and ultimate parent. • Financial interest defined as ownership/control of > 5% of plaintiff or right to receive proceeds from assertion of patent. • Nondisclosing party may not recover fees/damages related to period of noncompliance, and court may award adverse party costs incurred as result of nondisclosure. • Court may join "interested party" upon showing by defendant that plaintiff interest is primarily asserting the patent in litigation.		• Expand current rules to include ultimate parent of owner. • Oppose multiple mandatory disclosures at prescribed times and potential limitation of damages. • Oppose requiring disclosure of non-ownership interests: direct financial interest, exclusive licensees and others with right to enforce patent.
3. Stays of Litigation Against End Users	• Requires stay as to customer where manufacturer is party to same or other action on same patent. • Parties must consent to stay. • Motion must be filed within 120 days. • Customer must agree to be bound by judgment entered against manufacturer. • May be lifted where manufacturer suit will not resolve major issue in customer suit or unjust to party seeking to lift.	• Motion must be filed within later of 120 days or the date the first scheduling order is entered. • Customer must agree to be bound by any issues <u>finally decided</u> as to the manufacturer. • If manufacturer seeks or consents to entry of a consent judgment or does not appeal a final decision, court may determine that decision is not binding on customer.	Support stay against customer while suit proceeds against manufacturer. Should be carefully tailored to avoid unintended adverse consequences to innovators, manufacturers and customers.
4. Heightened Pleading Standard for Patent Infringement	• Requires pleading each asserted claim, allegedly infringing product or process including names and model numbers if known, and theory of how each accused product or service infringes each asserted claim except in ANDA suits and where information not reasonably accessible. • Requires description of all rights to assert patent. • Requires description of certain licensing commitments, e.g. through standard setting. • Requires explanation of inaccessibility and attempts to access where information not disclosed. • Permits court to allow filing of confidential information under seal. • Eliminates Form 18; Supreme Court may create new form.		Support modifying Form 18 to include identification of at least one claim alleged to infringe, statement explaining such infringement, and statement addressing any indirect infringement alleged.

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Intellectual Property Owners Association

11/18/2013

H.R. 3309, Manager's Amendment of 11/18/2013, and IPO Positions

	H.R. 3309 - Goodlatte	H.R. 3309 Manager's Amendment (Unless otherwise noted, provisions listed in H.R. 3309 column are included in the Manager's Amendment in substantially the same form.)	IPO Position
5. Post Grant Review and Inter Partes Review	• Eliminates provision barring PGR petitioner from later asserting in a civil action that a claim is invalid on any ground that the petitioner "reasonably could have raised" during PGR. • Requires USPTO to change approach to claim construction in PGR and IPR.		• Support eliminating provision barring PGR petitioner from later asserting in civil or ITC action that a claim is invalid on any ground petitioner "reasonably could have raised" during PGR. • Support requiring USPTO to change approach to claim construction in PGR and IPR.
6. Expanding Transitional Program for Covered Business Method Patents	• **Amends scope of prior art.** • **Allows USPTO Director to waive fee.** • Eliminates 8-year sunset. • Limits to pre-AIA patents. • Codifies PTAB panel decision interpreting Section 18 as encompassing patents claiming activities incidental and complementary to financial activity.	• Only includes **bold** provisions.	Oppose provision in H.R. 3309.
7. Identification of Core Discovery and Discovery Fee Shifting	• Limits discovery prior to claim construction ruling to information necessary to construe claims or resolve motions. • Court may expand where resolution within specified period of time affects rights of a party with respect to patent(s). • Instructs Judicial Conference to develop rules: identifying "core documentary evidence" that must be produced by both parties, requiring party seeking additional discovery to bear costs including attorney fees, and allowing court to deny request for additional discovery if excessive, irrelevant, or abusive. •Requires Judicial Conference to study efficacy of rules and procedures for first four years after implementation, authorizes modification following this study.	• Court shall expand discovery limits where resolution within specified period of time affects rights of a party with respect to patent(s). • Permits court to allow additional discovery as necessary to prevent manifest injustice. • Instructs the Judicial Conference to develop the same types of rules, but gives the Judicial Conference more discretion in implementation. • Further authorizes the Judicial Conference to modify rules during the first four years after implementation to prevent a manifest injustice, the imposition of an excessively costly requirement, or an unintended result.	n/a
8. Bankruptcy Protection	Bars bankruptcy trustee from terminating certain licenses.	• Adds trademarks to definition of "intellectual property" in title 11. • With regard to trademarks, holds bankruptcy trustee to any contractual obligation to monitor and control the quality of a licensed product or service.	Support provision in H.R. 3309.
9. Double Patenting	Codifies doctrine of double patenting for first-inventor-to-file patents.		n/a
10. Repeal of 35 U.S.C. §145	Prevents patent applicant rejected by the USPTO from filing suit in district court.		Oppose

Note: Please send any corrections to sgarner@ipo.org.

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November 14, 2013

The Honorable Robert W. Goodlatte
Chairman, House Committee on the Judiciary
2138 Rayburn House Office Building
United States House of Representatives
Washington, D.C. 2015

Dear Chairman Goodlatte:

On behalf of the Biotechnology Industry Organization (BIO), I am writing to share our views about H.R. 3309: The Innovation Act of 2013 in light of upcoming Judiciary Committee action. H.R. 3309 was introduced with the goal of furthering reform of the patent system, particularly with respect to patent-related litigation. Some of the provisions in the legislation would complement the 2011 patent reforms in beneficial ways, and should be supported. However, other provisions are problematic as currently drafted because, in sum, they would erect unreasonable barriers to access to justice for innovators, especially small start-ups that must be able to defend their businesses against patent infringement in a timely and cost-effective manner, and without needless and numerous procedural hurdles or other obstacles. We also remain cautious as to whether patent-specific litigation reform is the most appropriate way to address some of the Committee's identified concerns. It is our strong desire to see this bill amended and improved based on our concerns, and we welcome the opportunity to work with you and your staff to do so.

BIO supports the provisions that protect IP licenses in bankruptcy proceedings, harmonize the claim interpretation standards in administrative patent litigation with those in district court, and clarify how the doctrine of "double patenting" applies to related patent applications under the new first-inventor-to-file system. BIO also appreciates the bill's recognition of the already existing and specific statutory schemes that apply to certain types of litigation in the biopharmaceutical sector. Unfortunately, other provisions included in the bill are concerning in their current form. This list includes provisions that:

- Routinely defer or suspend discovery and litigation on the merits in patent infringement cases, whether in whole or against certain parties;
- Permit infringers to add additional parties to the litigation under overly broad criteria; and permit parties to seek reimbursement of their litigation costs from other parties under a vaguely-defined and potentially very broad set of patent-related cases;
- Require unreasonable amounts of pleading specificity and disclosure and public recordation of patent ownership, litigation interests, and other business or confidential information;

- Direct courts and judges how to handle patent case management in an overly-prescriptive and one-size-fits-all manner that would unduly interfere with the responsibility of judges and courts to craft case-appropriate management orders that reflect the complexity of the matters at issue and the respective positions of the parties; and
- Single out patents on certain technologies for unfavorable treatment in open-ended administrative litigation, contrary to long-standing U.S. policy and international treaty obligations.

Taken as a whole, the provisions bulleted above create opportunities for systematic delays in patent litigation by inviting piecemeal discovery and adjudication that would push back a determination of patent infringement liability until much later in the case, and by the inclusion of potentially numerous and unnecessary parties – raising the time and expense of patent litigation, contrary to the legislation's purported goals. While many of the provisions are well-intentioned and aimed at addressing legitimate patent litigation concerns, the current language is overly-broad and would result in too many unintended and unknowable consequences for innovators who rely on the patent system to fund and protect their inventions. In short, we are concerned that, in an attempt to target abusive litigation practices by the few, the proposals impose unjustified burdens on too many legitimate patent owners seeking to enforce and defend their inventions in good faith. Accordingly, such proposals are not supportable without significant amendment.

We appreciate your consideration of our comments and hope to have the opportunity to work with you and your staff to make improvements.

Sincerely,

James C. Greenwood
President and CEO
Biotechnology Industry Organization

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PhRMA RESEARCH PROGRESS HOPE 950 F STREET, NW, SUITE 300 WASHINGTON DC 20004 202 835 3400 PhRMA.org

November 13, 2013

The Honorable Bob Goodlatte
House Judiciary Committee
United States House of Representatives
Washington, DC 20515

The Honorable John Conyers, Jr.
House Judiciary Committee
United States House of Representatives
Washington, DC 20515

Dear Chairman Goodlatte and Ranking Member Conyers:

The Pharmaceutical Research and Manufacturers of America (PhRMA) commends the House Judiciary Committee for considering legislation to curb abusive patent litigation. We appreciate the opportunity to work with you toward this goal.

However, many of the provisions contained in the recently introduced Innovation Act (H.R. 3309) perhaps unintentionally undermine the ability of patent owners more broadly to enforce their rights by filing a patent suit and litigating it to completion. This may impose substantial burdens on the ability to enforce legitimate patents effectively and efficiently. The unintentional result may actually hinder the value of patents and lessen incentives for patentable innovation across technology areas.

We understand the concerns of the Committee and applaud their efforts regarding abusive litigation, but any attempts to address these issues must strike an appropriate balance with all patent holders and not inadvertently weaken incentives for U.S. innovation.

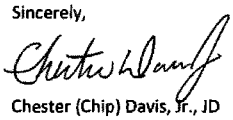
The following is a list of concerns PhRMA has identified in H.R. 3309, the Innovation Act, as currently drafted:

- Increases pleading requirements in a way that raises questions about the balance between having information available in pleadings and providing for the prompt and effective access to the courts by patent owners more broadly (Section 3(a)).
- Includes a troublesome new paragraph in the fee shifting provisions on "covenants not to sue" (Section 3(b)).
- Imposes restrictions on discovery that could serve to delay ultimate resolution of patent litigation and increase costs (Section 3(d)).
- Raises serious questions regarding balance in requirements for transparency of ownership (Section 4).

- Includes a customer suit exception provision is not targeted narrowly and could lead to delayed resolution of disputes (Section 5).
- Prescribes activities for the Judicial Conference, or the Supreme Court, that may more appropriately be considered areas for reflection by those bodies (Section 6).
- Eliminates Section 145 proceedings as a procedural option for patent applicants (Section 9(a)).
- Modifies elements of the Transitional Covered Business Method Patent Program created by Section 18 of the AIA (Section 9(e)) by expanding it in time and scope.
- Proposes an inappropriate limitation on patent term adjustment by the PTO (Section 9(f)).

PhRMA is committed to working with Congress on targeted reforms that curb abusive patent litigation. However, we are hopeful this legislation will be amended to address the above concerns.

Sincerely,



Chester (Chip) Davis, Jr., JD
Executive Vice President
Advocacy and Member Relations

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November 19, 2013

The Honorable John Conyers
U.S. Capitol
Washington, D.C. 20515

Dear Ranking Member Conyers,

As a leading voice for tech start-ups and emerging companies, CONNECT enthusiastically endorses your efforts to introduce patent legislation that is critically important to America's innovation ecosystem and the U.S. economy, H.R. 3349 the Innovation Protection Act. As the U.S. House of Representatives again considers patent reform, we encourage the House to tread extremely cautiously with other proposed legislation, while promptly moving forward with H.R. 3349. The Innovation Protection Act represents the only patent reform bill which advances the one issue that unifies intellectual property stakeholders across the innovation spectrum.

CONNECT was birthed out of the University of California—San Diego over twenty-five years ago with the mission to propel creative ideas and emerging technologies to the marketplace by training entrepreneurs and connecting them to the comprehensive resources they need to sustain viability and business vibrancy. Since 1985, CONNECT has assisted in the formation and development of over 3,000 companies and is recognized as one of the world's most successful regional innovation development programs. CONNECT is the recipient of the 2010 "Innovation in Regional Innovation Clusters" award presented by the U.S. Department of Commerce.

With our extensive history helping startups grow and succeed, we understand the importance of robust and strong patents. Because San Diego has a diverse and mature innovation ecosystem, we also recognize that intellectual property serves the innovation ecosystem in multiple ways allowing different sectors, business models, and investors to succeed. Policymakers in Washington should be extremely cautious in advancing patent reform proposals that do not have broad consensus among patent stakeholders or which favors a certain sector of the innovation ecosystem over other sectors. The one proposal the broad IP community agrees with is the idea to fully fund the U.S. Patent and Trademark Office. Not only would full USPTO funding improve patent quality, but it would also give the USPTO the resources it needs to properly implement the recently enacted AIA, which could help solve some of the problems other legislation is trying to address. Since the AIA did not end fee diversion as promised, H.R. 3349 provides a bipartisan opportunity to rectify the problem.

Again, we applaud you and your bipartisan cosponsors for introducing the bill and stand ready to assist you in any way necessary.

Best regards,

Timothy Tardibono

Timothy Tardibono, M.A., J.D.
Vice President of Public Policy

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La Jolla, CA 92037

University of California—Washington D.C. Center
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PHYLLIS SCHLAFLY
PRESIDENT

October 29, 2013

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OPERATIONS CENTER: P.O. BOX 618, ALTON, IL 62002, (618) 462-5415, *fax*:(618) 462-8909, *eagle@eagleforum.org*

The Honorable Robert Goodlatte
Committee on the Judiciary
2138 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Goodlatte:

As an advocate for a strong, self-governing America with liberty, family, virtue, and private enterprise as her pillars, Eagle Forum must express profound concerns about H.R. 3309, the Innovation Act. In short, this legislation would weaken American patents, patent rights, and the ability of innovators — particularly independent inventors — to secure their constitutionally guaranteed private property right in their discoveries.

H.R. 3309 would further diminish our patent system. This and similar proposals are presented as "litigation reform." Taken as a whole, however, the provisions of H.R. 3309, including judicial stays, fee-shifting, disclosures for real parties in interest, and the postgrant review estoppel standard, all make it easier for infringers to game the system and tie up small inventors in multiple patent challenges that effectively devalue their patents. The bill would deprive the backbone of the "promot[ion] of science and useful arts" of their "exclusive right" to their intellectual property. The bill further tilts the playing field in favor of big business and patent infringers against the little guy. It would diminish property rights and access to the courts, and weaken U.S. patents.

H.R. 3309 expands the postgrant review pilot program for covered business method patents. This would merely give patent infringers another venue for forcing patent holders to mount costly defenses of their patents. It would threaten patents on software in the high-tech tools used throughout our economy. This provision carries serious economic consequences. Whereas we suffer from a $39 billion trade deficit, we actually enjoy a trade surplus on licensing and fees.

Eagle Forum sympathizes with small businesses that receive demand letters and is open to addressing this predatory nuisance in a narrow, targeted fashion. However, H.R. 3309 goes far beyond addressing the grievances of such small business end users.

Finally, Eagle Forum is concerned about the bill's dictating specific case-management rules changes to the judiciary. While we certainly oppose judicial activism that amounts to usurpation of legislative powers, we likewise take issue with legislative intrusion into the inner workings of the judicial branch. This abridges the separation of powers.

We urge a deliberative approach be taken on patent issues. Eagle Forum suggests holding more hearings where independent inventors, venture capitalists, R&D shops, small manufacturers, thoughtful judges such as Paul Michel and Kathleen O'Malley, nonpracticing entities that play a vital role in technology transfer such as universities, and victims of foreign IP theft be given a fair and full hearing. Eagle Forum welcomes the opportunity to work with you toward that end. Unfortunately, we must oppose H.R. 3309 in its current form.

Sincerely,

Phyllis Schlafly

Phyllis Schlafly

cc: The Honorable John Conyers, Ranking Member
Members of the Judiciary Committee

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November 19, 2013

The Honorable Patrick J. Leahy
Chairman, Committee on the Judiciary
United States Senate
224 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Bob Goodlatte
Chairman, Committee on the Judiciary
U.S. House of Representatives
2138 Rayburn House Office Building
Washington, DC 20515

The Honorable Chuck Grassley
Ranking Member, Committee on the Judiciary
United States Senate
224 Dirksen Senate Office Building
Washington, DC 20510

The Honorable John Conyers, Jr.
Ranking Member, Committee on the Judiciary
U.S. House of Representatives
2138 Rayburn House Office Building
Washington, DC 20515

Dear Messrs. Chairmen and Ranking Members:

We write as inventors whose discoveries to date have added hundreds of billions of dollars in value to the U.S. economy and improved the quality of lives of billions of consumers worldwide.

We support many of the laudable goals sought by recent legislative proposals to amend the U.S. patent system, particularly the goal of curbing the mass distribution of bad-faith demand letters. We also believe the passage and implementation of the America Invents Act (AIA) of 2011 has benefitted the U.S. innovation economy, in large part because the concerns of all stakeholders were carefully weighed during a six-year legislative process, and those concerns were properly balanced in the final bill that was signed into law. Along with many other key stakeholders, however, we must note that the process now underway is strikingly different in terms of the unprecedented haste with which it is being pursued and the lack of breadth and depth of key stakeholder feedback to evaluate the scope of the harm that will be caused by some of the proposed legislative provisions.

Notably, the concerns of key inventor stakeholders like us – principally small companies that create the fundamental inventions that drive our innovation economy – have not yet been evaluated in depth. Historically, the vast majority of legitimate patent holders have honorably sought the fruits of their labor through patent rights promoted by the Constitution and secured by Congress, by licensing when possible and litigating when necessary. Our nation and, indeed, our planet have benefitted enormously as a result of the identification and disclosure of these

discoveries through the U.S. patent system. Legitimate inventors and patent holders should not be confused with, or punished as a result of, a small minority of bad actors who create shell entities that send mass demand letters for the purpose of seeking money under the threat of unjustifiable litigation.

We have grave concerns about several newly-proposed changes to our patent laws that go far beyond closing loopholes used by shakedown artists whose demand letters and nuisance lawsuits can impose unjustifiable costs on small businesses. In our view, Congressional precision and elegance are needed lest hasty, overbroad legislation cripple the virtuous cycle of invention, disclosure, licensing, and commercialization that has made the U.S. patent system and technology economy the envy of the world.

As we explain in more detail in the attachment to this letter, many features of the proposed legislation would unfairly create new advantages for larger, market-dominant incumbent companies while burdening the new start-ups whose technological creativity is often viewed as a threat to disrupt that dominance. Several provisions in the proposed legislation would take patent rights away from the small U.S. companies that create our Country's new inventions, and these same provisions would make it easier for dominant companies to utilize and exploit those inventions without paying a fair price. The most egregious provisions include:

- Indiscriminate imposition of stays of litigation for an overbroad class of "covered customers";
- mandatory shifting of fees to nonprevailing parties;
- requiring overbroad disclosures when a complaint is filed;
- bypassing the Rules Enabling Act to directly amend federal civil procedure; and
- weakening the balanced post grant review estoppel provision of the AIA.

Importantly, supporting and encouraging the next generation of disruptive technologies is not only a question of fairness, but also of promoting long term economic growth. As the Kauffman Foundation has amply demonstrated, new start-ups are the sole source of net new job creation in the United States. If Congress is to act, it should take the side of the inventors and patentees, not the side of giant incumbent companies that have already captured a dominant place in the market.

If Congress passes legislation that hampers the ability of start-ups and independent inventors to protect their innovations meaningfully, it will become prohibitive for many inventors like us to justify and sustain the tremendous economic and financial risks that inventors and their investors take to create the disruptive new technologies, products, and start-up companies that enable new global markets that will drive tomorrow's U.S. competitiveness and fuel U.S. job growth. We strongly urge you to pause and analyze the damage about to be done, and consider simpler, more effective, and more focused solutions to the problems of mass patent license demand letters and shakedown patent lawsuits.

Please reach out to get feedback from the successful and responsible independent inventors and entrepreneurs who have created the technologies that have proven to be so important for our nation. Strong patent protections are vital to these men and women so that they can raise the capital required to develop and commercialize their inventions.

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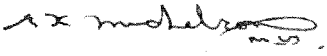
Our Constitution grants Congress the power to promote the useful arts by securing for inventors the exclusive right to their discoveries for limited times. As those inventors, we ask that our rights continue to be secured, not de-secured by passing new laws that increase complexity and uncertainty of patent rights. Independent inventors and innovative startups have been underrepresented to date in the current legislative deliberations, and so we also ask that our concerns be heard and weighed alongside those of other stakeholders. We urge Congress to act without haste, and with great care, so that its laudatory efforts to curb the harms done by a handful of abusers will be accomplished surgically, without creating greater harm to the foundations of our innovation economy.

Please see the attached for our recommendations on specific issues.

Sincerely,

Louis J. Foreman
Chief Executive Officer, Enventys
Chief Executive Officer, Edison Nation
Charlotte, NC



Gary K. Michelson, M.D.
Independent Inventor
Founder, Michelson Medical Research Foundation
Founder, 20 Million Minds
Inductee, National Inventors Hall of Fame
Los Angeles, CA

Gregory G. Raleigh, Ph.D.
Chief Executive Officer and Chairman, ItsOn
Member of the Board, Headwater Partners
Redwood Shores, CA

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CONFIDENTIAL DRAFT

VIA E-MAIL

M E M O R A N D U M

To	National Bankruptcy Conference Executive Committee
CC	Sally Schultz Neely Alan N. Resnick
From	International Aspects Committee
Re	Proposed Amendment to Section 1520 Section 6(d) of Innovation Act, H.R. 3309
Date	November 12, 2013

The Innovation Act, which is primarily focused on patent litigation reform, contains an amendment to section 1520 of chapter 15 of the Bankruptcy Code that we believe is inappropriate and that we recommend the Conference strongly oppose in its present form. The proposed amendment appears in **SEC. 6. PROCEDURES AND PRACTICES TO IMPLEMENT AND RECOMMENDATIONS TO THE JUDICIAL CONFERENCE** and provides as follows:

> (d) PROTECTION OF INTELLECTUAL-PROPERTY LICENSES IN BANKRUPTCY.—
> (1) IN GENERAL.—Section 1520(a) of title 11,
> United States Code, is amended—
> (A) in paragraph (3), by striking "; and"
> and inserting a semicolon;
> (B) in paragraph (4), by striking the period at the end and inserting "; and"; and
> (C) by inserting at the end the following
> new paragraph:
> '(5) section 365(n) applies to intellectual property of which the debtor is a licensor or which the debtor has transferred.".
> (2) EFFECTIVE DATE.—The amendments made by this subsection shall take effect on the date of the enactment of this Act and shall apply to any action for which a complaint is pending on, or filed on or after, such date of enactment.

Chapter 15 of the Bankruptcy Code, included in the 2005 amendments to the Code with large bipartisan majorities, is designed to achieve worldwide cooperation in the liquidation or reorganization of a multinational company in order to preserve value for creditors and other stakeholders, especially employees. Its fundamental structure is "universalist" in that it requires that each country recognize a foreign *main* proceeding in the debtor's home country as the leader in the worldwide effort and that it cooperate with that jurisdiction to achieve the best results for all concerned. Among other advantages, this approach permits the sale of whole divisions with assets and operations in several nations as a single piece, which almost always will yield a higher price. It is also essential to reorganization of a global business.

Chapter 15 incorporated the UNCITRAL Model Law on Cross-Border Insolvency "to encourage cooperation between the United States and foreign countries with respect to transnational insolvency cases."[1] While the Model Law required modifications to fit into the existing judicial and legislative scheme, chapter 15 followed the exhortation of UNCITRAL: "Therefore, in order to achieve a satisfactory degree of harmonization and certainty, it is recommended that States [countries] make as few changes as possible in incorporating the model law into their legal systems."[2] The proposed amendment to section 1520 violates the purpose of chapter 15 to further international cooperation and, to that end, the guidance of UNCITRAL to minimize modifications to the Model Law.

Adding a provision to chapter 15 that deals with a special situation violates the principle of uniformity that makes the Model Law a valuable mechanism for greater legal certainty for

[1] H.R.Rep. No. 109–31, pt. 1, 109th Cong., 1st Sess. 105 (2005) ("House Report" or "H.R. Rep.").

[2] *UNCITRAL Model Law on Cross-Border Insolvency with Guide to Enactment adopted on May 30, 1997 (the "Model Law," the "Guide.").* The Guide repeats this admonition in ¶ 50: "In enacting the Model Law, it is advisable to adhere as much as possible to the uniform text in order to make the national law as transparent as possible for foreign users of the national law (see also paragraphs 11-12 and 21 above)."

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trade and investment. This is true even if one believes that, as a matter of public policy, the special situation should always be decided applying U.S. law. By such a unilateral, non-uniform amendment, the United States invites other countries to modify their versions of the Model Law in ways that may be detrimental to United States parties in foreign proceedings. The situation addressed by the proposed amendment is already before the courts and the tools to address the situation are already within chapter 15. The courts can deal with the issue appropriately and predictably without opening the door to other countries to reciprocate with their own deviations from the Model Law.

Section 1520, *Effects of recognition of a foreign main proceeding*, provides automatic relief on recognition of a foreign main proceeding.[3] It implements Article 20 of the Model Law by incorporating sections of the Bankruptcy Code that are consistent with the purpose of Article 20.[4] Both Article 20 and section 1520 operate automatically upon recognition of a foreign main proceeding and impose "effects" that "are necessary to allow steps to be taken to organize an orderly and fair cross-border insolvency proceeding...."[5] The fundamental effects necessary for an orderly and fair cross-border insolvency are (a) a stay of actions against or concerning the debtor or its assets, rights, obligations or liabilities, including a stay of execution against the

[3] Section 1520 provides, in pertinent part, as follows:

(a)Upon recognition of a foreign proceeding that is a foreign main proceeding—
(1)sections 361 and 362 apply with respect to the debtor and the property of the debtor that is within the territorial jurisdiction of the United States;
(2)sections 363, 549, and 552 apply to a transfer of an interest of the debtor in property that is within the territorial jurisdiction of the United States to the same extent that the sections would apply to property of an estate;
(3)unless the court orders otherwise, the foreign representative may operate the debtor's business and may exercise the rights and powers of a trustee under and to the extent provided by sections 363 and 552; and
(4)section 552 applies to property of the debtor that is within the territorial jurisdiction of the United States.

[4] H.R.Rep. 114-115 (2005).
[5] Guide at ¶ 143. Reference to the Model Law and the Guide for interpretation of chapter 15 are encouraged by section 1508. See, also, H.R. Rep. 109-110.

debtor's assets and (b) a stay of the debtor's transfer, encumbrance or disposition of assets.[6] Section 1520 imposes the stay by incorporating the automatic stay of section 362 (but limited to the debtor and its assets within the territorial jurisdiction of the United States) and the transfer restrictions of sections 549, 363 and 552.[7]

The Innovation Act would introduce into section 1520 a section of the Bankruptcy Code, section 365(n), that has nothing to do with allowing "steps to be taken to organize an orderly and fair cross-border insolvency proceeding". This would be a blow to the goals of uniformity and harmonization embodied in the Model law and chapter 15. Instead of a provision that affects all parties with an interest in a foreign proceeding, that effectively preserves the status quo and (potentially) going concern value and that does not intrude on the foreign proceeding, section 365(n) is not concerned with preservation of the status quo and affects the rights of a subset of licensees of intellectual property in the event that their license agreement is rejected or otherwise subjected to nonperformance in a foreign main bankruptcy case of a debtor who is their licensor. It effectively imposes U.S. law on the foreign proceeding whether or not U.S. law should apply to a particular license. If the legislation is adopted, it should, at the very least, be limited to licenses that are within the territorial jurisdiction of the United States.[8]

Automatically applying this section upon recognition of a foreign main proceeding would ignore the territorial limits of chapter 15 to property within the

[6] Model Law § 20(1)(a).
[7] H.R. Rep. 114-115.
[8] Section 15102(8) provides that "within the territorial jurisdiction of the United States", when used with reference to property of a debtor, refers to tangible property located within the territory of the United States and intangible property deemed under applicable nonbankruptcy law to be located within that territory, including any property subject to attachment or garnishment that may properly be seized or garnished by an action in a Federal or State court in the United States."

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territorial jurisdiction of the United States, since license grants by the foreign debtor may not be governed by U.S. law or may not even involve U.S. intellectual property. There should be a choice of law analysis performed before section 365(n) is applied in a chapter 15 case.[9] Section 365(n) could be applied in an appropriate situation on an appropriate showing under section 1522(a) and (b)).[10] Applying it automatically, without considering whether U.S. law should apply to the license in question and without the safeguards of sections 1521 and 1522 would be detrimental to the goals of the Model Law and chapter 15.[11] Rather than enhancing a cross-border insolvency proceeding, automatic application of section 365(n) would likely deter foreign representatives from seeking recognition to obtain necessary assistance for the foreign proceeding if a condition to recognition were entanglement in the possible briar patch of licensee rights under U.S. bankruptcy law.

The genesis of section 6(d) of the Innovation Act is likely the case of In re Qimonda AG, 462 B.R. 165 (Bankr. E.D. Va. 2011) which considered, on remand, the request of the foreign representative of a German liquidation proceeding, recognized as a foreign main proceeding, to modify a prior order that applied § 365 (and a laundry list of other sections of the Bankruptcy Code) in the chapter 15 case. On the petition of the administrator appointed in Qimonda's

[9] *In re Maxwell Comm. Corp. plc* 93 F.3d 1036 (2d Cir. 1996) (dealing with choice of law in an avoidance action brought in connection with a proceeding under former section 304, the predecessor to chapter 15).

[10] Section 1522(a) and (b) provide: "(a)The court may grant relief under section 1519 or 1521, or may modify or terminate relief under subsection (c), only if the interests of the creditors and other interested entities, including the debtor, are sufficiently protected. (b)The court may subject relief granted under section 1519 or 1521, or the operation of the debtor's business under section 1520(a)(3), to conditions it considers appropriate, including the giving of security or the filing of a bond."

[11] Relief under § 1521 must be "necessary to effectuate the purpose of this chapter and to protect the assets of the debtor or the interests of the creditors..."

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German main proceeding, the bankruptcy court entered an order recognizing the foreign main proceeding and, on the same date, entered a Supplemental Order under section 1521 that applied several sections of the Bankruptcy Code, including section 365 to the chapter 15 case. Upon realizing that section 365(n) interfered with his rights under the German insolvency code to "elect non-performance" of contracts, the administrator sought modification of the Supplemental Order. Licensees of U.S. patents, who would lose the protection of § 365(n) if § 365 no longer applied, objected. The Bankruptcy Court, on remand from the district court, found that there was a fundamental U.S. policy favoring innovation and that eliminating § 365(n) protection would be manifestly contrary to that policy. The court also ruled that the requested relief should be denied on the alternative section 1522 ground that the interests of the licensees would not be "sufficiently protected" if the requested relief were granted. The *Qimonda* decision was certified for direct appeal to the Fourth Circuit.[12] The Fourth Circuit heard argument on September 17, 2013 but has not ruled.[13]

Rather than passing legislation that would pre-empt the ruling of the Fourth Circuit and conflict with the purpose of the Model Law and chapter 15, Congress should reject this amendment. As noted, relief is already available to licensees in appropriate circumstances under section 1522 if a foreign representative seeks to deprive them of their rights under U.S. law. Applying section 365(n) to all foreign main proceedings would implicate licenses that are not within the territorial jurisdiction of the United States and would be

[12] In re Qimonda AG, 470 B.R. 374 (E.D. Vir. 2012).
[13] Case No. 12-1802.

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inconsistent with the ancillary nature of a chapter 15 case, to provide assistance to the main case in another country where the debtor has the center of its main interests.

If the debtor's property is sliced into national bits, the cooperative approach of chapter 15 and the Model Law is seriously handicapped. The proposed amendment does just that as to intellectual property. IP is itself subject to a worldwide system of recognition and enforcement, which will be shattered for companies emerging from reorganization, creating a host of difficult questions and serious uncertainty about these crucial property rights. The United States makes a serious error by going it alone and by failing to let the courts develop the key issues under the existing statute. In short, those pushing this amendment might regret getting what they wished for.

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December 16, 2013

The Honorable Patrick J. Leahy
Chairman, Committee on the Judiciary
United States Senate
224 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Chuck Grassley
Ranking Member, Committee on the Judiciary
United States Senate
224 Dirksen Senate Office Building
Washington, DC 20510

Re: S. 1720 (the "Patent Transparency and Improvement Act of 2013") and S. 1013 (the "Patent Abuse Reduction Act of 2013")

Dear Mr. Chairman and Ranking Member:

We write as inventors whose discoveries to date have added hundreds of billions of dollars in value to the U.S. economy and improved the quality of lives of billions of consumers around the world. Now that the House of Representatives has passed H.R. 3309 it is more important than ever that the Senate take pause to hear from inventors – the true creators of new jobs and game-changing technologies that have allowed this country to remain preeminent throughout the world in this era of the innovation economy.

In particular, we respectfully ask for the Senate Judiciary Committee to not rush to judgment but to instead collect the best information available before acting, by conducting a hearing with testimony from inventors, startups, and universities who create the fundamental technology innovations that drive our economic growth and job growth. Doing so will provide the information needed to surgically curb the harms done by a handful of abusers without collaterally bludgeoning the people who are the very foundation of our innovation economy.

We support many elements of the current legislative proposals and continue to believe a bill that targets abusive behavior in patent litigation is achievable and necessary. But we are alarmed by (i) the unprecedented haste with which the current patent legislation is moving forward, (ii) the scant attention being paid to the views of the independent inventors whose creativity is the source of technological progress and whose livelihood will be directly impacted by that legislation, and (iii) the aggressive promotion of overbroad proposals that will not curb the patent litigation abuse suffered by retailers or "mom and pop" small businesses.

The currently proposed legislation would do little to solve the real problems caused by bad actors in the patent system. Instead, its chief impact would be to significantly weaken the ability of legitimate inventors to enforce valid patents, which means these inventors would be powerless to stop large corporations from stealing their ideas. The legislation would deny inventors and other non-deep-pocketed entities such as startups and universities the fair, timely and affordable access to our court system needed to protect their patent rights.

This will in turn make it exceedingly difficult for inventors to raise capital. As a result, many of the next generation of inventions will never be created, let alone disclosed to the public in patent applications, because their development will never get funded.

Why are inventors' concerns being ignored? Our Constitution gave Congress the power to promote the progress of science and useful arts by securing for "inventors" the exclusive right to their discoveries for limited times. In that light, we were dismayed that not a single inventor was invited to testify before the House Judiciary Committee during the rush to pass H.R. 3309. Instead, the debate has been dominated by the voices of secondary actors, the voices of huge corporations that have amassed vast numbers of patents assigned to them by inventors.

Inventors are humans, corporations are not. Inventors create, corporations proliferate goods and services. Both are needed in our innovation-driven economy, but one should not drown out the other. We respectfully ask that our human voices and concerns be fully heard and weighed in a second hearing conducted by the Committee, before key elements of patent law be changed that would do great harm to the foundations of our innovation economy.

Please see the attached for our recommendations on specific issues.

Sincerely,

Louis J. Foreman
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Chief Executive Officer, Edison Nation
Charlotte, NC
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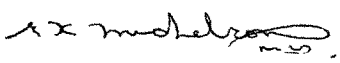

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RECOMMENDATIONS ON PATENT ABUSE LEGISLATION

From Louis J. Foreman, Dr. Gary K. Michelson, M.D. and Dr. Gregory G. Raleigh Ph.D.

For convenience, these recommendations address provisions found in three bills:

- the Innovation Act (H.R. 3309) (Goodlatte)
- the Patent Abuse Reduction Act of 2013 (S.1013) (Cornyn), and
- the Patent Transparency and Improvement Act of 2013 (S. 1720) (Leahy)

Our guiding principle in these recommendations is that changes to the U.S. civil litigation system should be undertaken only with great caution, when (i) there is a demonstrated need for change and (ii) there are no less Draconian solutions available.

1. Mandatory Stays of Litigation (H.R. 3309 & S. 1720). These proposed provisions mandate that courts impose a stay of judicial proceedings against a "covered customer" when an upstream manufacturer or subcomponent supplier is a party to the lawsuit or a separate lawsuit relating to the accused product or process.

There is no evidence that our nation needs Congressionally-mandated stays in patent litigation. Every federal court is already fully empowered to grant stays in the interests of justice, and no data exists to show that courts have inappropriately failed to grant stays in the classic customer/manufacturer circumstances that stakeholders now cite as the basic rationale for the new law.

The stay proposals as written would harm inventors by immunizing certain deep-pocketed infringers. The glaring shortcomings of the proposed mandatory stay provisions were recently pointed out by no less of an authority than David Kappos, the celebrated former Under Secretary of Commerce for Intellectual Property and Director of the USPTO. Mr. Kappos recently testified that, among its multiple other flaws, the litigation stay provisions of H.R. 3309 would immunize from infringement liability all parties (not merely individual end users and retailers), as long as they are located somewhere in a product channel downstream of the first component part maker. Such an unprecedented and broad grant of infringement immunity would include "large commercial actors such as manufacturers combining procured components into value-added completed devices, as well as assemblers," and might also "leave an American innovator with no infringer at all to pursue where infringing manufacturers are located outside the reach of the US courts, such as overseas, or lack adequate assets to answer for infringement."

Does Congress truly intend to grant such wholesale immunity from infringement liability for the astonishing, previously unheard-of reason of where an accused infringer happens to be located amid its supply chain – a vagary that can be altered or otherwise manipulated overnight? Doing so would eviscerate a foundational principle that has served our patent system well throughout its entire history: infringement is based on the unlicensed use of patented technology, not on the identity, or supplier arrangements, of an accused infringer.

In our view, there are far simpler and more balanced ways of protecting against the abuse of innocent bystanders.

RECOMMENDATION: Congress should identify and adopt narrowly tailored solutions that would immediately de-leverage shakedown artists without eliminating any key foundation of the U.S. patent system. For example

- Congress could simply restore a minimum "amount in controversy" requirement to patent lawsuits at an appropriate dollar amount, ensuring that truly de minimis nuisance litigation would be excluded from the courts.

- Congress could establish a small claims patent court, after deliberating on the public comments received by the USPTO on the subject earlier this year, as recommended by the ABA IP section and the AIPLA.
- Congress could also require those who send patent demand letters to "Mirandize" their demands by identifying where the recipient can receive assistance before responding to the letter, whether that assistance comes from within the USPTO or from industry groups organized to combat abusive patent holder behavior.
- Congress could limit "covered customer" to small businesses and retailers who sell unaltered goods.

In short, Congress should fully explore a range of narrowly focused solutions so that the unintended consequences of a new law do not harm inventors and legitimate patent licensing activity.

2. Fee Shifting (H.R. 3309 & S. 1013). The proposed changes that encourage fee shifting will create a new source of leverage for giant companies accused of infringement, to the detriment of inventors and their agents.

Section 285 of the current Patent Act already provides a balanced approach to fee shifting when a case lacks merit. Because it provides that courts "in exceptional cases may award reasonable attorney fees to the prevailing party," the current Patent Act is consistent with the longstanding "American Rule" that each party should bear its own costs in litigation. The proposed legislation would reverse the American Rule in patent cases, making the imposition of fees mandatory, unless the position of the non-prevailing party or parties was "substantially justified" in H.R. 3309, or "objectively reasonable and substantially justified" in S. 1013.

These "loser pays" provisions would deter inventors from exercising their Congressionally granted right to assert valid patents in meritorious lawsuits, and are foreign to well established American judicial practices. According to one of the nation's most distinguished civil procedure scholars, Professor Arthur R. Miller, who has served as a member and Reporter for the Advisory Committee of Civil Rules of the Judicial Conference of the United States, the American Rule

> *reflects the Founders' rejection of the British 'loser pays' system. The Founders rejected the British system in large part to allow all citizens access to courts, in which disputes would be resolved on the merits. Over the years, when Congress has granted exceptions to the American Rule, it has generally been for the purpose of encouraging litigation by creating 'private attorneys general' to conduct litigation to enforce public policies that might otherwise be too risky to pursue. The Equal Access to Justice Act is a prime example.*

The proposed amendments of Section 285 is quite unlike the Equal Access to Justice Act, where fees can be granted only when the party of limited net worth has prevailed against one specific party – the United States of America. In contrast to the EAJA, the proposed loser pays provisions are designed to actively discourage inventors from pursuing litigation to enforce their Congressionally bestowed rights by massively increasing the financial risk inventors bear when forced to seek relief in court, which, in turn, gives large company defendants extra leverage over legitimate inventors when negotiating license agreements.

Moreover, the U.S. Supreme Court is reviewing the issue of fee shifting in two cases on certiorari from the Federal Circuit. It would be unwise for Congress to act before the Court has resolved those cases.

RECOMMENDATION: Congress should not amend Section 285 of the Patent Act in ways that create greater risks for inventors and patent holders, and in any event should not act on the issue until the Supreme Court has resolved the relevant cases now under review. The current law allows courts to award reasonable attorneys fees to prevailing parties in "exceptional cases," which enables courts to discourage meritless shakedown patent lawsuits that follow irresponsible mass demand letters.

3. Transparency of Ownership (H.R. 3309, S. 1013 & S. 1720). We support and encourage the disclosure of the ultimate owner of any patent offered in licensing discussions or asserted in litigation. As currently drafted, however, the proposed provisions would require far more and as such are overbroad, unnecessarily burdensome, and impractical.

H.R. 3309 requires patent plaintiffs to disclose in the complaint, and continually update

- highly confidential business information such as the identity of anyone with a right to sublicense or enforce the patents at issue; and
- difficult-to-collect information including the identity of anyone who has a financial interest in the plaintiff.

S. 1013 requires patent plaintiffs to disclose in the complaint

- highly confidential business information such as whether the patent at issue is subject to any license term or commitments through any entity, the identity of anyone with a financial interest in the outcome of the action along with a description of the agreement or other legal basis for such financial interest.

S. 1720 H.R. 3309 requires patent plaintiffs to disclose to the Court and to adverse parties any

- difficult-to-collect information including the identity of anyone with a financial interest "of any kind" and "any other kind of interest that could be substantially affected by the outcome of the proceeding."

Today, to the extent any such information is relevant to the issues in the lawsuit, it is typically disclosed under seal in discovery. In other instances, the information would be irrelevant, unknown to the plaintiff, or would call for a legal conclusion that may well be determined only after the litigation has progressed.

In short, the proposals have laudable goal of preventing shell games but are drafted in such an overbroad manner that they would inevitably increase the number of issues in dispute between parties, multiplying court proceedings and costs rather than reducing them.

RECOMMENDATION: Congress should require disclosure of the ultimate owner of any patent offered for licensing or asserted in litigation but should allow courts to tailor, on a case-by-case basis, the degree and manner of the disclosure of additional information concerning persons with financial interests related to the patent.

4. Heightened Pleading Standards (H.R. 3309 & S. 1013). These provisions would deter legitimate inventors from asserting valid patents in meritorious cases by requiring that plaintiffs provide at the inception of a lawsuit overly detailed claim charts as well as technical information that is accessible only to the accused infringer. Theses provisions would allow accused defenders to obtain early dismissal of meritorious cases simply by refusing to provide the information needed to plead the case.

RECOMMENDATION: Congress should refrain from altering the present notice pleading requirements of the Federal Rules of Civil Procedure, and refrain from eliminating Form 18, the standard form to make initial pleadings in patent cases.

5. Mandated Document Discovery Restrictions and Burden Shifting (H.R. 3309 & S. 1013).
Both H.R. 3309 and S. 1013 mandate significant limitations on discovery prior to claim construction rulings, stripping courts of the discretion to manage their own dockets by organizing and scheduling discovery on a case-by-case basis. One size does not fit all patent lawsuits, nor does one discovery schedule. Moreover, a key element of the architecture of our Federal Rules of Civil Procedure is a self-executing discovery regime featuring "equal access to all relevant data," which allows each party to best assist the court in the resolution

of a case. The proposed provisions contradict that key element and would prejudice plaintiffs by freezing in place an asymmetric access to data – defendants alone would have access to the technical data needed to prove plaintiff's case. As Professor Miller has testified

> *Discovery is often the key that opens the door to information critical to the remediation of violations of important constitutional, statutory, and common law principles as well as providing compensation for injuries sustained by citizens because of those violations. Effective discovery is the lifeblood for proving one's case. Without it, even meritorious cases may fail or not even be instituted.*

RECOMMENDATION: Congress should not mandate one particular schedule for discovery but should defer to courts in the management of their own dockets and discovery schedules.

6. "Reasonably Could Have Raised" Estoppel (H.R. 3309 & S. 1720). This is simple – when it becomes necessary for an inventor to protect his or her inventions by asserting patents, it is unfair for defendants to have multiple bites at the same apple, imposing extra years of delay and millions of dollars of additional expense in multi-phased attacks on the validity of those patents. Inventors simply cannot afford the extra cost and delay serial attacks on validity cause them.

The notion that "reasonably could have raised" estoppel resulted from a scrivener's error is an urban myth. In the extensive debates leading up to the enactment of the America Invents Act, Congress sought, heard, and credited testimony about how "patent assassin" attorneys use multiple reexamination procedures to generate legal traffic jams that tie up issued patents in lengthy and expensive proceedings, degrading the patent owners' ability to obtain royalties or complete litigation. An important principle emerged: new administrative review procedures for invalidating an already-granted patent are justifiable only if they truly provide a cheaper and faster alternative to – not a serial, second-bite-at-the-apple supplement to – litigation.

This "true alternative to litigation" principle led to the addition of "reasonably could have raised" estoppel language to the House version of two new proposed procedures for challenging a patent after issuance, post-grant review (PGR) and *inter partes* review (IPR). After the Senate adopted the House bill, that language became the law. The AIA barred those who petitioned the USPTO to invalidate a patent via PGR or IPR from asserting that a patent claim is invalid in a district court or ITC proceeding on any ground that the petitioner raised or reasonably could have raised during the PGR or IPR. Thus, petitioners who elected to pursue PGR or IPR relief could not "sandbag" government authorities by presenting some grounds for invalidity to the PTO but hiding other arguments until the dispute reached a court or the ITC.

In short, the strong estoppel provisions of the AIA were no mistake – they resulted from compromise reached during a hard-fought legislative process and should not be lightly set aside. As Robert L. Stoll, who served as Commissioner for Patents at the USPTO from 2009 to 2012, wrote:

> *Reasonably-could-have-raised estoppel, as enacted in the AIA, represents a compromise position between two competing proposals: an expansive estoppel applying to all issues that a petitioner could possibly have raised, and a narrow estoppel applying only to issues actually raised.*

Proposals to delete "reasonably could have raised" would undo that compromise and give accused infringers extra opportunities to serially raise patent validity challenges in multiple venues, unfairly disadvantaging inventors by increasing the complexity and costs of defending and enforcing patents.

Already, these "true alternative to litigation" proceedings have been used extensively to challenge patents. As the former general counsel of the USPTO recently noted, even though AIA has been in effect a short period of time, the number of post-issuance challenges under its new proceedings has greatly exceeded expectations:

> *Todoy, the Patent Trial and Appeal Board already is faced with a much greater workload than originally forecast by the USPTO. In fact, the filings in the first year of the program were almost 50 percent greater than predicted. The USPTO now has the third largest patent docket in the country . . . .*

Accordingly, there appears to be no legitimate need to weaken estoppel, which would thereby multiply the number and mechanisms of post-issuance challenges.

RECOMMENDATION: Congress should not amend the AIA's estoppel provisions. Though still in their infancy as a governmental means for resolving disputes, the post-issuance proceedings as set forth in the AIA have been used extensively to date to reduce litigation costs, showing that amending the AIA's estoppel compromise is not appropriate at this time. Again, the proposed legislation would unfairly create new gamesmanship advantages for larger, market-dominant incumbent companies accused of infringement while burdening inventors.

7. <u>Mandated Document Discovery Restrictions and Burden Shifting (H.R. 3309, S. 1013 & S. 1720).</u> All three bills call for sweeping changes to the rules and procedures of civil litigation. Following the circulation of a draft of H.R. 3309 that required such changes to the rules and procedures on document discovery, the Rules Committees of the Judicial Conference of the United States wrote a diplomatic letter to the House Judiciary Committee, as follows:

> *We greatly appreciate, and share, the desire to improve the civil justice system in our federal courts, including by reducing abusive procedural tactics in patent litigation. But legislation that mandotes the contents of the federal rules contravenes the longstanding Judicial Conference policy opposing direct amendment of the federal rules by legislation instead of through the deliberative process Congress established in the Rules Enabling Act, 28 U.S.C.§§ 2071-2077. Congress passed the Rules Enabling Act to create a thorough and inclusive process for addressing procedural problems in the federal courts. <u>Under that process, the Rules Committees collect information that is essential to promulgating effective rules by commissioning empirical studies, analyzing relevant case law, and consulting with experts and others with direct experience in the area. Proposals for change are published for public comment and thoroughly analyzed by the Civil Rules Committee, the Standing Rules Committee, the Judicial Conference, the Supreme Court, and Congress. This multi-layered process ensures a thorough evaluation of proposals while reducing the ever-present risk of unintended consequences.</u> (Emphasis added.)*

To paraphrase: far more investigative work, deliberation, and consultation between the separate branches of government ought to occur before significant changes to the federal rules of civil procedure are promulgated. We agree.

RECOMMENDATION: Congress should not amend the federal rules of civil procedure regarding discovery or otherwise, except in a manner consistent with the Rules Enabling Act, in full partnership with the judicial branch.

AAU *Association of American Universities*
ACE *American Council on Education*
AAMC *Association of American Medical Colleges*
APLU *Association of Public and Land-grant Universities*
AUTM *Association of University Technology Managers*
COGR *Council on Governmental Relations*

Statement from the Higher Education Community on
S. 1720, the "Patent Transparency and Improvements Act of 2013"

We write to communicate the views of the higher education community on S. 1720, the "Patent Transparency and Improvement Act of 2013." We commend Chairman Leahy and his original co-sponsors Senators Lee, Whitehouse, and Klobuchar for introducing legislation effectively focused on curbing abusive patent litigation practices while preserving the ability of patent holders effectively to enforce their patent rights.

The passage of the America Invents Act (AIA), which our associations strongly supported, strengthened and harmonized U.S. patent law to the benefit of the nation's innovation system. S. 1720 effectively extends the enhancements of the AIA by targeting abusive litigation practices that corrode the capacity of the patent system to exploit the AIA enhancements to innovation and economic competitiveness.

Universities are a key component of the nation's innovation system, conducting the preponderance of the nation's fundamental research – research that expands the frontiers of basic knowledge and understanding and, in so doing, yields discoveries that have extraordinary, far-reaching impact – the laser, MRI, life-saving drugs, defense technologies, food and agriculture, and so much more. The US patent system plays a critical role in the transfer of discoveries resulting from university research into the commercial sector for development into products and processes that benefit society. Because the discoveries arising from university research tend to produce early-stage patents, the university technology-transfer process must preserve a capacity for licensing such high-risk/high-payoff patents for further commercial development. And the innovation process also needs to sustain a climate in which the startup companies that are the frequent licensees of such patents can gain a financial footing and grow.

Two consequences follow from this process of commercialization of the largely publicly funded university research that has produced extraordinary benefits to this nation:

1) the not-for-profit universities and their often undercapitalized startup companies are vulnerable to abusive patent litigation practices, but

2) measures to curb abusive litigation practices must target those practices in ways that do not undermine the ability of universities and their licensees to enforce their patent rights.

The capacity of university patents to encourage investment is dependent on their right to exclude others. Patents are often the most critical assets of startups and small businesses. It is critical that legislation addressing patent litigation balance the value of protection from abusive litigation practices against the need to preserve the strength of patents to foster innovation.

For these reasons, we were very concerned about several provisions in the Innovation Act (H.R. 3309) that recently passed the House. In our judgment, H.R. 3309 failed to meet the balance between reducing abusive

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litigation practices and preserving the strength of patents, and we therefore were obliged to oppose the bill despite its worthy goals. We commend Chairman Leahy for omitting in S. 1720 the following provisions which, however well-intentioned, would entail greater cost than benefit by undermining the ability of universities and their licensees to enforce their patent rights:

- Fee shifting and joinder: These proposals as constructed in H.R. 3309 are especially problematic for not-for-profit universities and undercapitalized licensees, due not only to the prospect of the substantial financial burdens that could result from litigation not initiated or controlled by universities, but, perhaps even more problematically, the prospect of such outcomes gravely chilling the ability of universities to transfer their early-stage patents into the commercial sector because of the major new financial confronting potential licensees. The chilling effects range from dampening the willingness of inventors to disclose their inventions and support the transfer of those inventions throughout the commercialization process, to discouraging passive investors from investing their funds in development of new technology dependent on effective patent protection. These problems are caused by the overbroad language of these provisions in H.R. 3309. If fee shifting and joinder provisions are included in S. 1720, we would like to offer language to address these problems. The U.S. Supreme Court, however, is currently reviewing two cases concerning appropriate standards for awarding attorneys' fees under 35 U.S.C. § 285; it would seem prudent to withhold statutory treatment of fee shifting and joinder pending resolution of these cases.

- Expansion of covered business method (CBM) patents: Proposals for expanding this narrow and time-limited AIA transition provision would sweep into the current CBM definition patentable subject matter that was not intended to be covered under the rubric of business method patents. The amplitude of such an expansion would negatively impact patent owners, including universities and their non-profit technology transfer organizations, adding uncertainty to patent holders, reducing the incentive for early challenges to patents, and upsetting the balance between the post-grant and inter partes procedures codified in the AIA.

- Detailed Statutory Instructions to Courts on Pleading and Discovery: The discretion of the courts to continue management of individual cases on their merits should be preserved. Case-specific situations vary widely, so the courts should be able to continue their management of cases, with adjustments as warranted, such as Judge Rader's model discovery rules, court review and correction of perceived abuses.

The Patent Transparency and Improvement Act includes a number of provisions that would curb abusive litigation in ways that sustain ability of patent holders to defend their patents; of particular relevance to universities are the following two:

- Assuring transparency of patent ownership will go a long way to limiting the ability to conduct abusive litigation practices by hiding behind "shell" companies,

- Protecting end-user customers from unwarranted infringement allegations can help innocent retail companies and small businesses far removed from the product manufacturer.

Each of these provisions, however, should be modified to assure that they do not override their abuse-curtailing benefits with unintended consequences due to overly broad and costly requirements for transparency, and opportunities for collusion among entities in the product chain from manufacturers to end-point customers in the customer stay provisions.

USPTO funding: Among the many achievements of the landmark Leahy-Smith America Invents Acts, one of the greatest disappointments was the inability to include reliable full funding of USPTO. As former USPTO Director David Kappos has testified, providing the USPTO with full fee access is essential for the USPTO to

fulfill the potential of the AIA to strengthen the U.S. patent system and its capacity to support invention, innovation, and economic development. We strongly encourage the inclusion of such a USPTO funding provision in S. 1720.

We thank the Chairman and his co-sponsors for their effective work in addressing the costly and corrosive problem of abusive patent litigation. We believe that S. 1720 goes a long way toward effectively addressing this problem while preserving the ability of patent owners legitimately to enforce their patent rights. We are committed to working with the Chairman and the Judiciary Committee to achieve the shared goal of building on the substantial achievements of the AIA to further strengthen the U.S. patent system and its capacity to nurture the innovative capacity of the nation and enrich the lives of its citizens.

December 11, 2013

S.1720, the Patent Transparency and Improvements Act of 2013, is a Better Approach to Patent Reform

S.1720, the Patent Transparency and Improvements Act of 2013, introduced by Sen. Leahy (D-VT), offers a more balanced, fair and pragmatic approach to patent reform and takes into account the needs and concerns of small businesses and inventors. We are very encouraged that the Senate bill does not include any of the harmful and burdensome reforms to the patent litigation system. Key differences in S.1720 include: ***No heightened pleading standards, no "loser pays" fee shifting provision, no severe discovery limits*** and ***no unnecessary impediments on the discretion of the Judiciary***.

H.R. 3309, the Innovation Act, is Fatally Flawed!

The American Association for Justice (AAJ) firmly believes that H.R. 3309, the "Innovation Act", goes far beyond any justifiable step to address abusive patent litigation practices. The "Innovation Act" contains ***burdensome mandatory fee shifting provisions, places unfair limitations on discovery*** and ***impedes on the discretion of the courts***. Specifically, the ***"loser pays"*** fee-shifting provision creates yet another disincentive for inventors and small businesses to defend their patent rights in court. Ultimately, this bill would leave inventors without the practical ability to enforce their patents and powerless to stop large corporations from simply stealing their inventions and ideas.

AAJ does not condone non-meritorious patent infringement claims. However, H.R. 3309 adds unnecessary and unfair litigation hurdles to inventors and small businesses while taking patent reform in the wrong direction.

This legislation:

Requires the loser to pay attorney fees and expenses – The bill's "loser pays" provision deters individuals from pursuing even meritorious patent infringement claims. It also allows large corporate defendants with enormous financial resources to bully injured individuals into unfair settlements due to the risks associated with losing even a potentially successful case. Patent litigation already has inherent risks and costs for plaintiffs and "loser pays" creates another disincentive for inventors and small businesses to defend their valid patent rights in court.

Mandates overly burdensome pleading requirements – H.R. 3309's heightened pleading standards will have a detrimental effect on patent holders with legitimate infringement claims. The stringent pleading requirements in this bill would require excessively detailed claim charts in the complaint and lead to additional litigation and challenges even before the case gets off the ground. The practical effect of this change is that many meritorious cases will face early dismissal because large corporate defendants will simply refuse to provide the information necessary to plead the case.

Places dramatic limits on discovery – The Federal Rules of Civil Procedure that govern discovery in patent cases would be replaced by limits so severe that even valid patent infringement cases will become completely unwinnable. Placing such severe limits on discovery would inhibit the inventor's or small business' ability to access vital documents and materials necessary to prove their patent infringement claims. Ultimately, the individual would be either forced to expend additional financial resources to compel additional discovery or abandon their valid patent infringement claim altogether.

Impedes on the discretion of the Judiciary – The Innovation Act unnecessarily requires the Judicial Conference to implement specific rules concerning discovery and case management. As outlined in the Rule Enabling Act, this type of rulemaking and docket management has traditionally, and rightfully, been left to the discretion of the United States Courts and not Congress. This bill sets a dangerous precedent for interference in a coequal branch of government. As the Constitution sets out, the courts themselves are best suited to manage their own dockets in patent infringement cases.

December 16, 2013

Senator Patrick J. Leahy
Chairman, Committee on the Judiciary
437 Russell Senate Office Building
Washington DC 20510

Senator Charles E. "Chuck" Grassley
Ranking Member, Committee on the Judiciary
135 Hart Senate Office Building
Washington DC 201510

Dear Chairman Leahy and Ranking Member Grassley:

We write today as representatives of regional, state and local associations of Printing Industries of America to thank the Senate Committee on the Judiciary for holding a hearing to examine the issue of "Protecting Small Business and Promoting Innovation by Limiting Patent Troll Abuse."

Together, we represent are more than 30,000 individual printing plants in this country in virtually every city and town in America. The average printing company employs just 27 workers and more than 60 percent of printing companies are family-owned businesses – a statistic to which I know the Chairman can relate personally. In aggregate, we employed over 800,000 workers and in 2012 shipped over $147 billion in products.

Unfortunately, we're also an industry that has attracted the damaging attention of patent assertion entities (PAE) or "patent trolls." Patent trolls in our estimation do not innovate, do not promote economic growth, and do not contribute to the greater good of education or scientific research. Most importantly, patent trolls do not create jobs – the businesses we represent do.

We commend this Committee for exploring legislative solutions to address the complexities of patent law, and we encourage a healthy debate on these ideas. Our overriding view is that legislation should deter patent trolls from the outset to protect printing companies from ever becoming part of the cycle of abusive patent litigation. However, if printers do in fact find themselves involved in extortionate legal situations, we hope that new laws will be in place to provide less costly, less burdensome courses of defense.

Some of these solutions include:

- Deterring patent troll activity by cracking down on deeeptive behavior that accompanies bad faith demand letters. This would help tremendously in reducing the vague and threatening aspects of demand letters our members currently receive.
- Protect customers who are targeted in patent infringement lawsuits by permitting the case against them to be stayed while the manufacturer litigates the alleged infringement.
- Ensuring end users have a robust defense against abusive patent claims through an expanded, permanent Covered Business Method (CBM) review that would consider the quality of functional patents in question.
- Reforming the patent litigation system to include new heightened pleading requirements as well as increasing the transparency of patent ownership; and, finally,
- Reduce the overall cost of abusive patent litigation by balancing discovery demands. This would empower more of our member companies to fight frivolous claims of infringement rather than settle.

The solutions above are all contained in some shape or form in one or more of the following bills under consideration in the Senate:

- Patent Transparency and Improvements Act (S. 1720) (Sen. Leahy/Sen. Lee)
- Patent Quality Improvement Act (S. 866) (Sen. Schumer)
- Patent Abuse Reduction Act (S. 1013) (Sen. Cornyn)
- Patent Litigation Integrity Act (S. 1612) (Sen. Hatch)

We realize that there won't be one simple solution to reform our nation's patent process, but, to borrow a phrase from President Obama, it's critical that we build consensus to produce "smarter patent law." As an industry, we are committed to working with our elected officials to balance the protection of small business and the promotion of innovation – and – above all – to combatting the threat and damages caused by patent trolls.

Sincerely,

Great Lakes Graphics Association (IL, WI, IN)
Printing Industries Association, Inc. of Southern California
Pacific Printing Industries Association (OR, WA, HI, AK, ID)
Printing Industries Association of San Diego, Inc.
Printing Industry of the Carolinas, Inc.
Printing Industries of Arizona/New Mexico
Printing Association of Florida, Inc.
Printing & Imaging Association of Georgia, Inc.
Printing & Graphics Association MidAtlantic (VA, MD)
Printing Industries of New England (CT, RI, MA, NH, VT, ME)
Printing Industries of Michigan, Inc.
Printing Industry Midwest (MN, IA, NE, SD, ND)
Print Media Association (MO, IL)
Printing Industries Alliance (NY/CT)

Printing Industries of Ohio & Northern Kentucky
Graphic Arts Association (NJ, PA, DE)
Printing Industry Association of the South, Inc. (AL, MS, TN, KY, WV, MS)
Printing & Imaging Association of MidAmerica (TX, OK, KS)
Printing Industries of America Mountain States (CO)
Printing Industries of the Gulf Coast (TX)
Printing Industries of Utah
Visual Media Alliance (Northern California)

Cc: Members of the Senate Committee on the Judiciary

December 16, 2013

The Honorable Patrick J. Leahy
Chairman, Committee on the Judiciary
United States Senate
224 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Charles Grassley
Ranking Member, Committee on the Judiciary
United States Senate
224 Dirksen Senate Office Building
Washington, DC 201510

Dear Chairman Leahy and Ranking Member Grassley:

We, the undersigned trade associations and members of the Stop Patent Abuse Now Coalition ("SPAN Coalition"), applaud bipartisan efforts moving through Congress to curb abusive patent litigation. As Congress continues to consider this much-needed legislation, we would like to voice our strong support for provisions contained in S. 1720, the "Patent Transparency and Improvements Act," that would provide the Federal Trade Commission with further direction, under its existing Section 5 authority, to go after the bad-faith demand letters that patent trolls routinely send to unsuspecting businesses and nonprofits across the country. The current provision would also promote demand letter transparency by requiring that certain minimum disclosures be made by trolls to better identify themselves, the patent in question, and the specific nature of the alleged infringement.

Patent trolls are increasingly harassing businesses and nonprofits of every size with demand letters. These letters come out of nowhere, and often allege that the mere use of everyday technology violates the patent holders' rights. Further, these questionable letters typically state vague or hypothetical theories of infringement, often overstate or grossly reinterpret the patent in question, and, in some cases, make allegations of infringement of expired or previously licensed patents.

At their core, demand letters use the threat of litigation as leverage to extract a "licensing fee" from the recipient business. Recipients often simply settle these nuisance claims rather than run the risk of protracted litigation in federal court. Put simply, it is often much more expensive to hire a lawyer to review or defend against a suspect claim than it is to pay the requested "fee." This is the troll's calculated business model.

Vague and misleading demand letters are central to the patent troll problem. Indeed, many claims begin and end with these letters as companies quickly pay these undeserved "licensing fees," given the expense and complication of defending on the merits in court. We urge Congress to enact meaningful legislative solutions to protect businesses of all sizes from these smash and grab tactics. The fight for patent litigation reform and demand letter relief is truly a main street issue impacting businesses and nonprofits in communities across the country. We look forward to continue working with you on this important issue.

Sincerely,

American Association of Advertising Agencies

National Retail Federation

The Direct Marketing Association, Inc.

Association of National Advertisers

The Mobile Marketing Association

CC: All members of the Senate Judiciary Committee

Testimony of Food Marketing Institute

To the Committee on the Judiciary,
Full Committee
United States Senate
Regarding "Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse"
Tuesday, December 17, 2013

2345 Crystal Drive, Suite 601 Arlington, VA 22202-4801 T 202.452.8444 F [illegible] www.fmi.org

Introduction

Chairman Leahy, Ranking Member Grassley, and other distinguished members of the Senate Judiciary Committee, we want to thank you for giving us the opportunity to submit testimony on the need to protect consumers and end users of technology from patent troll abuse. The Senate Judiciary Committee is currently considering a number of bills aimed at patent troll abuse including the Patent Transparency and Improvements Act of 2013, the Patent Quality Improvement Act of 2013, the Patent Abuse Reduction Act of 2013, and the Patent Litigation Integrity Act of 2013. We applaud the Senate Judiciary Committee on the attention given to the serious issue of patent abuse. It is not the intention of this testimony to debate the strengths and weaknesses of these Acts, but instead to explain the need for Congressional action in this area.

FMI proudly advocates on behalf of the food retail industry. FMI's U.S. members operate nearly 40,000 retail food stores and 25,000 pharmacies, representing a combined annual sales volume of almost $770 billion. Through programs in public affairs, food safety, research, education and industry relations, FMI offers resources and provides valuable benefits to more than 1,225 food retail and wholesale member companies in the United States and around the world. FMI membership covers the spectrum of diverse venues where food is sold, including single owner grocery stores, large multi-store supermarket chains and mixed retail stores. For more information, visit www.fmi.org and for information regarding the FMI foundation, visit www.fmifoundation.org.

Our testimony explains why Congressional action is necessary to put an end to predatory patent troll practices that harm consumers and retailers:

- There is a difference between a beneficial and procompetitive use of patents and the harmful behaviors of predatory patent trolls. Patent trolls have established a business model that bears no relation to the value or merits of a patent assertion and instead relies on the high costs of litigation to demand large settlements.
- End users such as retailers are ill-equipped to assess patent claims and fight against invalid patent assertions, yet are the primary targets for predatory patent activity. Most end users do not want to be involved in the patent system and simply want to use technology products without fear of attacks from patent holders.
- Demand letters are often the root of the patent troll problem. We urge Congress to target predatory and deceptive demand letters in any legislation it passes. The demand letter is often both the beginning and ending of patent troll activity. Therefore, any legislation that fails to address problematic demand letters will fall far short of solving the patent troll problem.

I. Patent Trolls Represent a Business Model Wholly Separate From Legitimate Patent Holder Activity

It is important to distinguish the predatory patent troll business model from legitimate patent holder activity. Patents, when used correctly, foster innovation and competition that is beneficial to society. Beneficial patent activity begins when an inventor "invents or discovers a new and useful process, machine, manufacture, or composition of matter, or any new useful

improvement thereof"[1] and obtains a patent. The inventor then chooses to practice, license, or assign his or her patent. The ultimate owner of the patent fosters the technology by practicing the invention or licensing the invention to a party who will practice the invention. The patent holder can protect its technology by preventing parties not covered by a license from making, using, selling, or offering to sell[2] the patented technology. While it is not required, this process almost always results in the practice of a beneficial technology and license agreements are ideally made before the licensee begins to practice the patented invention. Patent holders and licensees have the opportunity to seek each other out and form agreements based on the value of the patented technology.

The predatory patent troll business model is wholly different from this beneficial patent activity. A predatory patent troll often begins by buying low value patents of old or failed technology. These patents are picked for their broad or hard to interpret language that can be construed to cover technology in use, or at least given the pretense that it covers technology in use. The patent troll then generates a large volume of demand letters, often deceptive, asserting these patents against practicing entities. The patent trolls pursue negotiations in bad faith leveraging the high cost of litigation to obtain settlements for amounts greater than the value of the patent asserted. If the patent troll chooses to litigate, they will often pursue strategies designed to generate costs for their opponents. Patent trolls have no desire to promulgate technology or negotiate licenses *ex ante*. Instead, they seek *ex post* licenses based primarily on avoiding litigation costs and disruption to business.

The main driver of predatory patent troll activity is the high costs of litigation with little chance of recoupment. The American Intellectual Property Law Association estimates that the cost of litigation ranges from $350,000 to $3,000,000 to reach the end of discovery and from $650,000 to $5,000,000 to try a case.[3] These high costs create a market for otherwise low value or worthless patents. A patent owner is in the position to offer an attractive deal compared to the cost of a defendant winning a patent trial. FindTheBest.com provides a typical example. They were threatened with a patent of extremely questionable validity. The patent troll offered them a choice between an extremely expensive patent trial and a $50,000 settlement offer.[4] Irrationally, FindTheBest.com chose to go to trial and spent $200,000 to invalidate the patent troll's patent.[5]

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[1] 35 U.S.C. § 101

[2] 35 U.S.C. § 271

[3] Comments of American Intellectual Property Law Association to the United States Patent and Trademark Office, Request for Comments on a Patent Small Claims Proceeding in the United States, April 30, 2013, *available at* http://www.uspto.gov/ip/global/patents/comments/aipla_comment_letter_on_small_patent_claims_4-30-2013.pdf.

[4] Joe Mullin, *FindTheBest destroys "matchmaking" patent, pushes RICO case against troll*, ARS TECHNICA, Nov. 23, 2013, http://arstechnica.com/tech-policy/2013/11/findthebest-destroys-matchmaking-patent-pushes-rico-case-against-troll/.

[5] *Id.*

Fortunately, the patent was invalidated early in litigation on Section 101 grounds, saving FindTheBest.com from having to enter into a costly discovery process.[6]

While the high cost of litigation discourages defendants from mounting a substantive defense, it encourages litigation by patent plaintiffs. Typically, we would expect a defendant to only consider a threat to litigate credible when the probability of success times the anticipated damages minus the plaintiff's cost of litigation is greater than zero.[7] If this value is below zero a defendant would not accept any settlement offers because the plaintiff's value of the suit is negative. However, if the plaintiff develops a reputation of litigating even negative value cases, then the defendant cannot rely on the plaintiff acting rationally during negotiations. A defendant faced with an irrational plaintiff will be forced to accept any settlement offer that is less than the defendants cost of litigation plus the probability of plaintiff prevailing times the expected damages.[8] It is worth noting that this formula produces significant values even when the probability of success or expected damages is zero. Indeed, a study has shown that cases involving frequently litigated patents are only successful ten percent of the time.[9]

This patent troll strategy creates social costs. The strategy incentivizes frivolous litigation which is a drain on practicing entities' resources.[10] Practicing entities are also encouraged to file applications for low quality patents because of their increased value in secondary markets. These patents, which compound the problem, would otherwise not be worth filing. Finally, the patent trolling strategy has the overall effect of decreasing innovation by expanding patent thickets.[11] Companies that successfully innovate increase their risk of being targeted by patent trolls who can use old patents to hold that success hostage for easy payouts. End users who adopt new technology increase their risk of being sued by patent trolls capitalizing on their inability to afford patent litigation.

II. End Users, Who are Technology Consumers and Not Technology Manufacturers, are Attractive Targets to Predatory Patent Trolls

End users of technology, such as retailers, can infringe a patent by using or selling the covered technology.[12] However, end users are rarely targeted with lawsuits under traditional beneficial patent activity. This is because the manufacturer is the most attractive party for a patent holder to assert its rights. The patent holder only has to negotiate or file suit against one

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[6] *Lumen View Tech. LLC v. Findthebest.com, Inc.*, 13 Civ. 3599, 2013 U.S. Dist. LEXIS 166852, at *34-37 (S.D.N.Y. Nov. 22, 2013).

[7] Erik Hovenkamp, Predatory Patent Litigation 8 (Aug. 5, 2013) (unpublished manuscript) (on file with SSRN at http://ssrn.com/abstract=2308115).

[8] *Id.* at 16.

[9] John R. Allison, Mark A. Lemley, & Joshua Walker, *Patent Quality and Settlement Among Repeat Patent Litigants*, 99 Geo. L.J. 677, 686-87 (2011).

[10] Hovenkamp, *supra* note 6, at 17.

[11] *Id.* at 17-18.

[12] 35 U.S.C. § 271

party to obtain licensing fees and damages for all manufactured products. This lowers the transaction costs for the patent holder. Society also benefits from manufacturer suits because the manufacturer is the party with the most knowledge of the technology and the greatest interest in defending against invalid assertions. This minimizes the amount of capital lost on non-productive activities. End users suits are typically only attractive to patent holders when the patent holder cannot feasible bring suit against the manufacturer or the end user is using a non-infringing technology in a way that becomes infringing.

A. Retailers Do Not Possess the Expertise or Knowledge to Efficiently Respond to Patent Demands

Retailers do not possess the in depth knowledge of technology products that manufacturers have. Compared to a manufacturer, a retailer typically needs to seek large amounts of outside knowledge in order to interpret a claim for infringement against a technology product they use or offer for sale. This makes it difficult and costly for the retailer to make an initial determination whether the claim is valid or whether the patent is likely invalid or not infringed. The retailer also has greater difficulty in preparing a case than a manufacturer if the retailer discovers the patent holder's claim is without merit.

Retailers also traditionally have very little, if any, experience with patent law. While a retailer may innovate, the retailer's core business model does not involve inventing or practicing inventions. Retailers instead strive to provide the best products at the lowest prices while giving consumers a high level of service. As a consequence, retailers usually have to seek expensive outside counsel in order to deal with patent infringement claims. While retailers and their in-house counsel are becoming increasingly savvy to the intricacies of patent law, it is primarily due to continuous threats from patent troll activities.

B. Patent Trolls Target Retailers Because the Higher Cost of Defense and Disruption to Business Encourages Settlement Regardless of the Merits of the Alleged Infringement

Patent trolls are increasingly targeting end users because the end users' lack of resources, relevant technical knowledge, and expertise makes them easy prey for meritless suits.[13] Retailers, who often operate on low margins, are particularly vulnerable to patent troll demands. "Many retailers do not . . . employ legal counsel in-house, let alone a highly specialized patent attorney."[14] These low margins mean that any extra costs, whether they are costs to settle or costs to litigate, cannot be easily absorbed and must be passed on to the consumer either through increased prices or reduced services. Patent troll suits are also a huge drain on a company's time and employee resources. This further reduces the ability of a company to effectively operate and provide consumers with the services they demand.

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[13] *Demand Letters and Consumer Protection: Examining Deceptive Practices by Patent Assertion Entities Before the S. Comm. on Commerce, Sci., & Transp. Subcomm. On Consumer Prot.*, Prod. Safety, and Ins., 113th Cong. 3 (2013) (written testimony of Lary Sinewitz, Exec. Vice President of BrandsMart USA).

[14] *Id.*

Retailers are so vulnerable to patent troll suits that they can be forced into settlements without even infringing a patent. For example, BrandsMart USA received a two paragraph letter claiming infringement based on "technology that enables debit cards and gift cards to read and process information via the magnetic strip on the back of the card."[15] BrandsMart USA consulted a patent attorney and discovered they used technology different from that asserted.[16] The patent troll refused to drop their demand when informed of this and instead lowered their settlement offer.[17] BrandsMart eventually paid five figures for the patent troll to go away and another five figures in legal fees for the trouble.[18] This transaction occurred entirely outside of the court system because the threat of legal fees unrecoupable by § 285 was too great.

Meritless suits not only increase costs to consumers, but decrease the service provided to them as well. For example, White Castle testified before the House of Representatives that it will be limiting it's usage of QR codes and hyperlinks, as well as passing up creative web designs due to patent troll threats.[19] White Castle has also stated that it is considering going away with digital menu boards "despite the potential business efficiencies they create for our operators and customers by allowing us to provide real-time up-to-date information about our latest products, promotions, and offering."[20]

III. Demand Letters are the Cornerstone of Patent Trolling and Must be Addressed to Limit Abuse

Predatory patent troll activity often begins and ends with a demand letter. A company will receive a demand letter and decide that it is not worth fighting the claim in court. The company will then settle and usually sign a non-disclosure agreement forbidding them from revealing the details of the settlement with any other parties. These activities happen largely out of the public eye, which makes information scarce for those parties that receive demand letters in the future. This also means that we have very little data on how widespread the patent troll demand letter problem is.

Predatory demands letters are distinguishable from good faith demand letters. A good faith demand letter assists a party in determining which claim of a patent is infringed, which product is infringing, and how that product infringes. A predatory demand letter is the opposite, obfuscating the patents and products infringing. A predatory demand letter is often deceptive, hostile, and threatening. Examples of deceptive behavior include not identifying which patents or

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[15] *Id.* at 2.

[16] *Id.*

[17] *Id.*

[18] *Id.*

[19] *The Impact of Patent Assertion Entities on Innovation and the Economy Before the H. Comm. on Energy & Commerce Subcomm. On Oversight and Investigations*, 113th Cong. 5 (2013) (written testimony of Jamie Richardson, Vice President Gov't & S'holder Relations, White Castle System, Inc.).

[20] *Id.* at 5-6.

claims are allegedly infringed, alleging infringement based on a patent that is not actually infringed, or alleging infringement on a product that is already covered under a license by an upstream manufacturer or distributor. Deceptive demand letters are used to obtain settlements based on false or misleading information. Demand letter abuse must be addressed in any legislation that seeks to stop predatory patent trolls.

Conclusion

End users, such as retailers, desperately need patent reform targeted at predatory patent troll behaviors.

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December 17, 2013

The Honorable Patrick J. Leahy
Chairman
Committee on the Judiciary
United States Senate
224 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Charles E. Grassley
Ranking Member
Committee on the Judiciary
United States Senate
152 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman Leahy and Ranking Member Grassley:

The lodging industry is pleased that the House of Representatives recently took action to address patent assertion entities (PAEs) by passing Chairman Bob Goodlatte's (R-VA) Innovation Act (H.R. 3309). We now urge the Senate to immediately consider Chairman Leahy's bill, The Patent Transparency and Improvements Act of 2013 (S.1720) and take further steps to curb the damaging practices of "patent trolls."

PAEs buy patents on inventions for products they don't manufacture, and sue or threaten to sue organizations they claim infringe on the patents. This problem is exploding, and PAEs are targeting end-users of electronic devices with allegations of patent infringement. All told, abuse of the patent process by certain PAEs costs the U.S. economy $80 billion yearly in lost revenues and productivity.

The lodging industry employs 1.8 million employees across the United States, is comprised of 4.9 million guest rooms, and generates $155.5 billion in annual sales. Approximately 55% of our industry is classified as small businesses, made up of properties with fewer than 75 rooms. These properties do not have the financial resources to fight aggressive patent litigation and often their only recourse is to settle.

In Texas alone during the past year, patent trolls have sued almost 100 hotels, claiming the wireless internet routers and access point devices they purchased to provide Wi Fi to guests infringe upon patents held by PAEs. These hotels have to fight the lawsuits in court while incurring enormous legal fees or accept a forced settlement, even though they did nothing more than purchase a Wi Fi device from a retailer for installation at the properties.

As the Committee considers this important issue, we urge that any resulting legislative proposals include the strongest protections possible for end-users, who are merely customers buying products and using them as intended yet are being targeted by PAEs. Further, we strongly support language in the bill aimed at reining in PAE's issuance of fraudulent demand letters and urge consideration of additional reforms to the current demand letter process to ensure that end-users are further protected from predatory PAEs.

We view S.1720 as an important step toward protecting the rights of legitimate patent holders while addressing the growing problem of abusive litigation targeted at the small businesses that are an important driver of our economy. We urge you to consider this legislation as soon as possible and enact end-user protections against patent litigation. Our members are at the heart of the American economy. Ensuring their viability, free from abusive lawsuits, is something we all can benefit from.

Sincerely,

American Hotel & Lodging Association
Alaska Hotel & Lodging Association
Arkansas Hospitality Association
Arizona Lodging & Tourism Association
California Hotel & Lodging Association
Colorado Hotel & Lodging Association
Connecticut Lodging Association
Florida Restaurant & Lodging Association
Georgia Hotel & Lodging Association
Hawai'i Lodging & Tourism Association
Illinois Hotel & Lodging Association
Indiana Restaurant & Lodging Association
Louisiana Hotel & Lodging Association
Maine Innkeepers Association
Maryland Hotel & Lodging Association
Massachusetts Lodging Association
Michigan Lodging and Tourism Association
Nebraska Hotel & Motel Association
New Hampshire Lodging & Restaurant Association
New York State Hospitality & Tourism Association
North Carolina Restaurant and Lodging Association
Ohio Hotel & Lodging Association
Oklahoma Hotel and Lodging Association
Pennsylvania Restaurant & Lodging Association
Rhode Island Hospitality Association
South Carolina Restaurant & Lodging Association
Tennessee Hospitality Association
Texas Hotel & Lodging Association
Utah Hotel & Lodging Association
Virginia Hospitality & Travel Association
Washington Lodging Association
West Virginia Hospitality & Travel Association
Wisconsin Hotel & Lodging Association
Wyoming Lodging and Restaurant Association

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December 17, 2013

The Honorable Patrick Leahy
Senate Judiciary Committee
United States Senate
Washington, DC 20510

The Honorable Mike Lee
Senate Judiciary Committee
United States Senate
Washington, DC 20510

Dear Chairman Leahy and Senator Lee:

The Pharmaceutical Research and Manufacturers of America (PhRMA) commends you both on the introduction of S. 1720, the Patent Transparency and Improvements Act. We believe your legislation represents a thoughtful approach to the current patent litigation reform debate. As the Senate Judiciary Committee focuses on addressing issues surrounding patent litigation raised by some sectors of the business community, we request that the rights of innovators to protect their Intellectual property not be compromised

S. 1720 properly focuses on reforms that are targeted at abusive behavior such as the blanket sending of demand letters and patent infringement suits that inappropriately target small retailers and businesses for the use of technology rather than the actual manufacturer or seller of that technology. These reforms should go a long way towards addressing harmful practices that may do harm to the economy. We believe your bill also makes several positive improvements such as requiring the USPTO to use the same patent claim construction rules in the new post-grant and inter-partes review proceedings that are used in the courts; the protection of intellectual property licenses in bankruptcy and provisions clarifying double patenting.

We must be clear, however, that regardless of the positive impact your legislation may have, our ultimate support for patent litigation reform will rest primarily on the manner in which any resulting legislation balances the effort to curb abuses in the system with the legitimate interests of patent owners who seek to enforce their patent rights. We would hope that any additional steps to alter patent litigation procedures be taken with the utmost caution to avoid unintended consequences. For innovators whose patent rights are threatened by infringing activity, the ability to quickly and efficiently enforce their rights in court is paramount.

PhRMA looks forward to continuing to work with you on improvements as the Committee process moves forward, so that the end result will benefit all patent holders across all industries. We thank you for your leadership and diligence in this regard.

Sincerely,

Chester (Chip) Davis, Jr., JD
Executive Vice President
Advocacy and Member Relations

December 17, 2013

Abusive patent infringement claims threaten community banks

On behalf of the Independent Community Bankers of America (ICBA) and the nearly 7,000 community banks we represent, thank you for convening this important hearing entitled "Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse." We appreciate the opportunity to put forth our views on the issue of abusive patent litigation brought by patent assertion entities (PAEs), popularly referred to as "patent trolls," which assert infringement of dubious-quality patents against legitimate businesses, including many community banks.

According to a recent study, direct costs associated with litigation brought by PAEs are substantial, totaling an estimated $29 billion in accrued litigation and non-litigation cost in 2011.[1] Managing these aggressive and frivolous patent lawsuits has become an expensive distraction for an increasing number of community banks that often lack the financial and legal resources to properly dispute these claims and are forced to settle out of court. These claims and settlements sap valuable monetary, management and legal resources from community banks that would otherwise be directed toward serving the financial needs of their customers. What's more, PAEs use settlements to build war chests to target other legitimate small businesses. We need tools to stop this vicious cycle.

ICBA appreciates the efforts of Congress in 2011 to pass the Leahy-Smith America Invents Act, which established a transitional proceeding at the Patent and Trademark Office (PTO), known as a Covered Business Method (CBM) review, to re-examine the validity of dubious business method patents. We are encouraged by the initial efforts of the PTO to "stand-up" the CBM program. If made permanent and more accessible to smaller community banks that may lack financial resources to cover the initial filing fees, the CBM review will mature into a valuable tool to combat these frivolous claims.

However, further steps are needed. Below, we suggest additional measures to protect community banks from the abuses perpetrated by PAEs.

Demand Letters

Community bankers across the country have seen a dramatic increase in the number of demand letters received from law firms representing PAEs. The typical letter states that the community bank is in violation of a patent or a suite of patents held by the PAE. Typically, the PAE is willing to settle or sell a sub-license, often a "limited or one-time offer," to the community bank for using the technology in question. These letters are often accompanied by a list of patent numbers from the PTO but contain no description of what the actual patents are or how the community bank is in violation. The community banker is then forced to choose between costly and time-consuming litigation to challenge the patent or compliance with the letter's demands, regardless of how dubious the infringement claims are. Compliance with the demand letter strengthens the PAE's incentive to target additional community banks to extract exorbitant and fraudulent fees. Furthermore, if a demand letter is ignored, a second more threatening letter is often issued along a dramatic increase in the settlement or sub-licensing fee further illustrating the extortive nature of this act.

[1] The Direct Costs from NPE Disputes by James Bessen and Michael J. Meurer (Boston University School of Law) 6/22/12

1615 L Street NW, Suite 900, Washington, DC 20036 ▪ 202-659-8111 ▪ Fax 202-659-9216 ▪ www.icba.org

To address this issue, ICBA urges Congress to pursue legislation that would strengthen demand letter transparency. Each demand letter send by a PAE should be detailed and personalized to each recipient and not sent "scatter-shot" to dozens of community banks in a given state. Each demand letter should provide a detailed description of the patent, including each claim of each patent that is allegedly infringed, as well as a detailed description of the alleged infringement. The letter should also disclose the actual owner of the patent and all relevant case history involving the patent.

Additionally, a PAE that sends more than 10 demand letters in a calendar year should be required to enter these letters and other detailed information regarding their patents and their assertions of infringement in a Federal database housed at the PTO or the Federal Trade Commission (FTC). This would increase transparency in an extremely murky area and allow those accused of infringement to identify other similarly situated businesses to enter into joint defense funds and pool valuable legal resources. This would also decrease the tool of intimidation used by PAEs by letting those that receive demand letters know that they are not alone in this process.

Demand letters are a considerable drain on a community bank's finite resources, even though community banks often opt to settle on receipt of a demand letter. Legislation that increases demand letter transparency would go a long way to helping community banks make informed decisions on whether to settle ("feed the troll") or to fight the claim through litigation.

End User Indemnification/Warrantees

Community banks often white-label products that are purchased from vendors to serve their customers. Community banks are "end-users," not creators of these products and services and should not be on the hook for the infringement claims of PAEs. Community banks are especially vulnerable to being sued because they lack the resources and market power to fairly negotiate the protections they need when contracting with large sophisticated vendors. Additionally, the vendors that provide these products and services to community banks often do not stand behind them with regard to patent issues. As a result, when a community bank is accused of infringement, the vendor, often better situated to refute the claim, sits on the sidelines and refuses to defend its customers.

To address this problem, Congress should amend current law to ensure that vendors that sell products or services to community banks provide the appropriate warranties and indemnification to protect the end users from patent infringement claims.

Thank you again for convening this very important hearing. We look forward to working with this committee to curb abusive patent infringement claims that threaten community banks and the customers and communities they serve.

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Statement for the Record

On Behalf of the

AMERICAN **BANKERS** ASSOCIATION

For the Hearing

"Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse"

Before the

Senate Committee on the Judiciary

December 17, 2013

1120 Connecticut Avenue, NW | Washington, DC 20036 | 1-800-BANKERS | aba.com

Chairman Leahy, Ranking Member Grassley, and Members of the Committee:

On behalf of the members of the American Bankers Association (ABA) we appreciate the opportunity to submit this written statement for the above-entitled hearing. The American Bankers Association represents banks of all sizes and charters and is the voice for the nation's $14 trillion banking industry and its two million employees. ABA's extensive resources enhance the success of the nation's banks and strengthen America's economy and communities. ABA members are often end users of technology and the recipients of abusive and deceptive demand letters.

Abusive patent litigation has been a serious concern for banks and financial institutions of all sizes across the country for many years. That is why we supported the reforms Congress put in place in 2011 through enactment of the America Invents Act (AIA), in particular the process for review of overly broad business methods patents by the Patent and Trademark Office (PTO) put in place by Section 18 of the Act.

Unfortunately, the abuses continue and have in fact increased despite those reforms. Banks continue to be barraged by patent assertion entities (PAEs) who use overly broad patents, threats of litigation, and licensing fee demands in an effort to extort payments from banks across the country. As a result, resources and capital that could go toward lending or otherwise serving bank customers, small businesses, and communities have necessarily been re-allocated to defend against abusive patent claims from PAEs.

Faced with threats of expensive patent litigation, many banks, and especially smaller banks, find that their only option is to settle rather than face paying millions to defend against extortive claims of patent infringement. Well-funded and sophisticated PAEs take advantage of community banks with limited resources and little patent experience, and have amassed significant "licensing" fees from banks literally for the cost of mailing a threatening letter.

A recent example of this involves a PAE known as Automated Transactions, LLC (ATL), which targeted banks throughout New England, New York, New Jersey, Georgia, Virginia, Pennsylvania, in addition to an ever-growing number of states. ATL claims that transactions facilitated by the use of the banks' ATMs infringe one or more of its patents. What ATL failed to mention, however, is that several of ATL's claims have been invalidated by courts. In particular, the Supreme Court denied certiorari on ATL's appeal of an April 23, 2012, decision by the Federal Circuit to affirm a ruling by the Board of Patent Appeals and Interferences invalidating several of ATL's patent claims.[1] Despite this, the company continues to assert those patents and sue banks across the country, including banks that do not even have ATMs.[2] While ATL is only one of many different

[1] *See, In re Transaction Holdings, Ltd., LLC*, 484 Fed. Appx. 469 (Fed. Cir. Apr. 23, 2012)(Not selected for publication in the Federal Reporter, NO. 2011-1361, 2011-1492), *reh'g and reh'g en banc denied* (July 2, 2012), *cert. denied Transaction Holdings, Ltd. V. Kappos*, 133 S.Ct. 955 (Jan. 14, 2013).

[2] *See, generally Automated Transactions, LLC v. 7-Eleven and Cardtronics USA, Inc.*, No. 1:13-md-02429-SLR (D.DE) (2013); *see also Automated Transactions, LLC v. Mascoma Savings Bank*, No. 1:13-cv-00503-SLR (D.DE) (2013)(banks located in NH and VT); *Automated Transactions, LLC v. Northfield Savings Bank*, No. 1:13-cv-00504-SLR (D.DE.) (2013) (bank located in VT); *Automated Transactions, LLC v. New England Fed. Credit Union*, No. 1:13-cv-00505-SLR (D.DE.) (2013) (credit union located in VT); Automated Transactions, LLC v. Heritage Family Credit Union, No. 1:13-cv-00506-SLR (D.DE) (2013) (credit union

entities that operate as PAEs filing frivolous patent infringement cases against all industries, ATL's tactics and efforts are a prime example of the problem banks and other companies face, primarily with regard to vague and threatening demand letters. An example of ATL's demand letter is attached to this testimony in redacted form.

We are pleased that members in both the House and Senate—including a number of members of this Committee[3]—have sponsored legislation intended to alleviate some of the incentives that drive abusive litigation by patent PAEs and we strongly support legislation to correct these abuses. In particular, S. 1720, introduced by Chairman Leahy and Senator Lee, includes several provisions that could potentially deter patent trolls from sending abusive demand letters, but we hope that these can be strengthened as the process moves forward in the Judiciary Committee and the Senate, in particular by requiring them to be more "transparent" by providing greater details about the alleged patent infringement.

In addition, a demand letter registry available to the public should be created at either the PTO or the Federal Trade Commission. Any entity that sends more than 10 demand letters in a single year should be required to enter them into the registry. This would provide the FTC and other agencies with the information needed to identify and take action against PAE's that are sending abusive demand letters. It would also allow those targeted in the letters to more effectively form joint defense groups by pooling their knowledge about certain trolls, identifying counsel familiar with those trolls and potentially reduce defense costs. It is vitally important that strong language dealing with abusive demand letters is included in final legislation enacted into law.

Legislation seeking to remedy abusive activities by patent trolls must also deal effectively with a pervasive dilemma facing "end users." End users are purchasers of products from vendors that actually use the final product. This includes embedded technology such as software that accompanies a product. Financial institutions, such as banks, are, in almost all circumstances, end users of technology and should not be threatened with infringement simply for buying something in good faith from a vendor. Simply purchasing a product and using it in the way that was intended by the manufacturer, distributor, or producer should not warrant a lawsuit by a third party claiming a patent violation. This theory turns jurisprudence on its head and is a direct threat to businesses across all sectors of the U.S. economy.

There must be meaningful reforms to provide a solution to the problem faced by end users. Specifically, there should be mandatory joinder or at least a "right of contribution" added to patent law to help put in place a more equitable distribution of liability between end users and suppliers.

There are several other provisions that should be included in patent troll legislation. In particular, we share the views of others in the financial services industry that section 18 should be made a permanent rather than a transitional program and it could be improved further by granting the PTO

located in VT); Automated *Transactions, LLC, v. Automated Transactions, LLC, v. New York Community Bank*, No. 1:13-cv-00591-SLR (D.DE) (2013) (bank located in New York).

[3] *See* The Patent Quality Improvement Act of 2013, S.866, 113th Cong. (2013) (introduced by Senator Schumer); The Patent Abuse Reduction Act of 2013, S.1013, 113th Cong. (2013) (introduced by Senator Cornyn); and The Patent Litigation Integrity Act of 2013, S.1612, 113th Cong. (introduced by Senator Hatch).

discretionary authority to waive the filing fee for these proceedings to encourage its use by smaller institutions. To discourage vaguely worded demand letters, it is also important for the Committee to clarify the intent of Congress in enacting Section 18 as part of the AIA that a demand letter or other pre-litigation communication suggesting that infringement has occurred constitutes an accusation of infringement giving rise to a real and substantial controversy for purposes of a Section 18 review.

To further discourage abusive litigation, S. 1720 should also include provisions to allow the courts the discretion to shift the costs of litigation to the prevailing party and to require bonding to assure that parties are able to meet this obligation. We are concerned that the bill as introduced requires PTO to conduct claims construction proceedings in a manner similar to the federal courts because this shift away from the current "broadest reasonable interpretation" could weaken PTO's ability to invalidate or narrow-low quality patents. We look forward to working with the Committee on these and other issues as legislation is developed.

Abusive patent litigation is a serious problem for the U.S. economy, businesses, and banking institutions of all sizes. We strongly support your efforts to end abusive patent litigation and look forward to working with members of the Committee to address these matters.

American Institute of CPAs
1455 Pennsylvania Avenue, NW
Washington, DC 20004-1081

WRITTEN TESTIMONY FOR THE RECORD

OF

BARRY MELANCON, PRESIDENT AND CEO

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

HEARING

ON

THE PATENT TRANSPARENCY AND IMPROVEMENTS ACT, S. 1720

DECEMBER 17, 2013

COMMITTEE ON THE JUDICIARY

UNITED STATES SENATE

T: 202.737.6600 | F: 202.638.4512 | aicpa.org

The American Institute of Certified Public Accountants (AICPA) would like to thank Chairman Leahy, Ranking Member Grassley, and members of the Committee on the Judiciary for the opportunity to submit this statement for the record of the hearing on the Patent Transparency and Improvements Act, S. 1720, held on December 17, 2013.

The AICPA is the world's largest member association representing the accounting profession comprised of over 394,000 members in 128 countries and a 125-year heritage of serving the public interest. AICPA members represent many areas of practice, including business and industry, public practice, government, education and consulting. The AICPA sets ethical standards for the profession and U.S. auditing standards for audits of private companies, nonprofit organizations, federal, state and local governments. It develops and grades the Uniform CPA Examination and offers specialty credentials for CPAs who concentrate on personal financial planning; fraud and forensics; business valuation; and information technology.

We applaud the Committee's efforts to address the increasing problem of abusive patent litigation. The AICPA has for many months urged Congress to take swift action on patent reforms as it pertains to frivolous patent litigation initiated by some Patent Holding Companies (PHCs) and Patent Assertion Entities (PAEs), more commonly known as patent trolls.

As you know, PHCs/PAEs are entities which acquire patents with a goal of finding inventors and companies that the PAE claims are infringing one or more of their patents. (It should also be noted that some patent aggregators license their aggregated patents to corporations to defend against patent litigation, not to initiate it). PAEs license patents without actually manufacturing or using the patented service or product. As President Obama has explained, these companies "don't actually produce anything themselves" and instead develop a business model to "essentially leverage and hijack somebody else's idea and see if they can extort some money out of them."

Some PAEs are bringing lawsuits against companies regarding patent infringement for mundane daily uses of technology, including document scanners, podcasts and Wi-Fi networks. Federal Trade Commission Chairwoman Edith Ramirez has noted that patent trolls file half of their lawsuits against non-tech companies that simply have IT software embedded in their products.

In the last two years, the number of lawsuits brought by PAEs has nearly tripled, and account for 62% of all patent lawsuits in America, according to a recent White House study. All told, the victims of PAEs paid $29 billion in 2011, a 400% increase from 2005.

S. 1720 builds on the reforms that were made during the last Congress in the America Invents Act. We commend Chairman Leahy and Senator Lee, the bill's sponsors, for acknowledging that abusive patent litigation is a drag on our economy.

AICPA member firms and state CPA societies are among the many small- and medium-sized businesses that have been targeted by PHCs. Many of our members report that they have received letters from licensing entities of a PHC. The letters indicate that the member has been identified as one that may be using patented technology, and that the purpose of the letter is to begin discussions regarding the need for the purchase of a license to use the patented

technology. The alleged patent infringement relates to processes and systems involving using a copier or scanner to scan and email a document to a computer or other location.

The letter also includes information that the PHC has had a positive response from the business community to its licensing program and that most businesses are interested in taking a license promptly. If the member refuses to pay a license fee (some demands are for $1000 per employee) or ignores the letter, the PHC, via its attorney, threatens to bring legal action in federal court to enforce its patent rights, which includes attaching a draft complaint for patent infringement.

Because many smaller businesses do not have the legal resources to contest such challenges, the vast majority of PAE lawsuits are settled out of court.

In response to this growing problem – which some have characterized as litigation extortion – we favor legislative reforms to the patent system that protect off-the-shelf use by consumers and businesses, reduce costs and hurdles to defend against PAEs, increase transparency about PAEs, and shift costs to PAEs for unsuccessful litigation.

Let me discuss each of those guiding principles in greater detail.

Protect "off-the-shelf" use by consumers and business

This principle, in part, aspires to force the dispute to concern the proper parties: patent owner vs. supplier (rather than the user). It would stay judicial proceedings against consumers when a) infringement suit has also been brought against a vendor, retailer, or manufacturer or b) declaratory judgment action has also been brought by a vendor, retailer, or manufacturer. And it may allow alleged infringers to potentially pool resources with others who receive similar letters and determine whether to form a common interest group or collectively leverage a common supplier.

More readily available challenges or defenses for small businesses / individual

This principle involves a proposal for an alternate tribunal for small business or "Main Street" customers that is cheaper and faster. To qualify, an entity would have to satisfy some qualifications of less than a given number of employees and operation of product only in an off-the-shelf use. Quicker adjudication would reduce costs to a challenger. There would be potential cost shifting to the patent owner for successful micro-entity challenge in a IPR or PGR proceeding if a suit has been initiated or a demand letter has been sent. There would be a refund of filing fees and reasonable attorney fees to the micro-entity for a successful challenge.

Greater transparency in the entity asserting the patents

"Real Party in Interest" provisions relating to ownership of patents would be required at the U.S. Patent Office, in court, and in demand letters. It would require disclosure of more than a holding company. This would allow recipients to better identify a patent owner and pool resources if a common real party in interest.

Cost-shifting to patent holding companies (PHC) for unsuccessful litigation.

A PHC that is a losing party would ultimately pay a defendant's costs and fees, under this principle. It would require a fine-tuned definition of "PHC" – no operations, size of company, assets, not original inventor. This would not prevent demand letter campaign activity, but there would some protection for an alleged infringer in the event a suit is filed.

Together, those four principles represent a solid foundation in reforming the patent litigation system, and we are pleased that several of the principles are addressed in S. 1720.

The AICPA appreciates the attention that Chairman Leahy and members of the committee have given this growing problem. Stopping this drain on the American economy will require swift action. Of course, no single piece of legislation will end all abuses of the patent system. But by following the four principles outlined above, we can put a stop to the most egregious actions of PHCs.

We are pleased to support the overall intent of S. 1720, specifically the provisions in the legislation that pertain to the principles as outlined above. We stand ready to continue to work with Congress on this matter that is so crucial to jobs, innovation, and our economy.

Thank you.

Committee on the Judiciary
U.S. Senate

Hearing
"Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse"

Submitted Testimony of Krish Gupta
Senior Vice President and Deputy General Counsel
EMC Corporation

December 17, 2013

EMC²

Testimony of Krish Gupta
EMC Corporation
Senate Judiciary Committee
December 18, 2013

My name is Krish Gupta, and I am Senior Vice President and Deputy General Counsel for EMC Corporation. I would like to thank Chairman Leahy, Ranking Member Grassley, and Members of the Senate Judiciary Committee for taking on the important issue of abusive patent litigation.

Headquartered in Hopkinton, Massachusetts, EMC is a global leader in cloud computing as well as data storage, backup and recovery systems.

EMC has a keen interest in seeing that our patent system is rational, fair, and evenly balanced. We create many innovations and look to the U.S. patent system to protect those innovations and the jobs that result from them. We have more than 3,600 U.S. patents.

Since 2005, EMC has been sued by PAEs over 30 times and has never been found to have infringed. As a matter of principle we don't settle frivolous suits. But defending those suits has cost us millions and has caused great disruption of our business, requiring our employees to shift their attention from designing new products and growing the business to sitting in depositions or going to court. EMC is not alone in this regard.

Randall Rader, Chief Judge of the United States Court of Appeals for the Federal Circuit, recently co-authored a New York Times op-ed describing the current state of the patent litigation system:

The onslaught of litigation brought by "patent trolls" — who typically buy up a slew of patents, then sue anyone and everyone who might be using or selling the claimed inventions — has slowed the development of new products, increased costs for businesses and consumers, and clogged our judicial system...

In the meantime, vexatious patent litigation continues to grind through our already crowded courts, costing defendants and taxpayers tens of billions of dollars each year and delaying justice for those who legitimately need a fair hearing of their claims.

These "vexatious" plaintiffs, as Judge Rader calls them, "filed the majority of the 4,700 patent suits last year — many against small companies and start-ups that often can't afford to fight back."

For EMC, a typical PAE suit involves a shell company, with secret backers, created solely to file suits. The PAE often sues EMC and dozens of companies in separate suits that get consolidated

for pretrial purposes. The complaint is often vague and provides little information about the specific infringement allegations.

When cases are consolidated, we lose some of our due process rights. We are forced to compromise on defense strategies, and incur additional legal fees in coordinating with others. Furthermore, PAEs try to pressure us into settlement by demanding thousands of documents and emails during discovery, most of which are irrelevant to the suit and costly to produce. If we want a decision on the merits, we have to typically wait two years, spend millions, and endure massive business disruption. Meanwhile, the PAE has nothing to lose, with lawyers on contingency and a steady income stream from defendants who have settled along the way. Faced with these choices most defendants cave and are forced to settle, but we don't.

EMC strongly supports patent litigation reform efforts that would effectuate five key goals:

First, PAEs should have something to lose when they file meritless suits. We believe a fee shifting provision along the lines of those included in S. 1013, the Patent Abuse Reduction Act of 2013, introduced by Senator Cornyn (R-TX) and cosponsored by Ranking Member Grassley, or S. 1612, the Patent Litigation Integrity Act, introduced by Senator Hatch (R-UT), will strongly discourage the filing of frivolous suits.

Second, the playing field needs to be leveled by requiring disclosure of the real party in interest and permitting joinder of that party. S. 1720, the Patent Transparency and Improvement Act of 2013, introduced by Senators Leahy (D-VT) and Lee (R-UT), contains strong transparency provisions but we should take this opportunity to ensure that entities with a financial interest in a lawsuit are not able to operate in secrecy. They should be part of the suit, subject to counterclaims, and liable for attorneys' fees for frivolous suits.

Third, there is a need to strengthen the specificity in pleadings for patent infringement cases. Defendants should not have to bear the high cost of discovery, simply to find out some of the most basic facts about the patent in question. We believe that a strong heightened pleading provision along the lines included in S. 1013 will vastly improve the quality of those suits brought in our patent judicial system by ensuring that a plaintiff has in fact conducted pre-suit diligence and has a real basis for filing suit.

Fourth, we need greater certainty in discovery in patent cases. Discovery has become a significant weapon in the arsenal of PAEs to try to extort cost-of-litigation settlements in meritless cases. In a speech to the Eastern District of Texas Judicial Conference, Chief Judge Rader observed that discovery costs in intellectual property cases were almost 62% higher than in other cases and that, based on one analysis, ".0074% of the documents produced actually made their way onto the trial exhibit list—less than one document in ten thousand." And "email appears even more rarely as relevant evidence." Yet despite the irrelevance of most documents produced in discovery, PAEs still use the threat of exorbitant discovery costs to increase the incentives for large companies to settle. Injecting greater balance into the discovery process,

EMC²

which prevents abusive discovery demands in an attempt to drive up the costs, will ensure that smaller businesses have the choice to fight a case rather than settling simply to avoid the greater of two legal cost burdens.

Fifth, we need to protect end user customers by providing explicitly that a manufacturer can intervene on behalf of and stay a case against a customer. PAEs sue customers in order to pressure manufacturers to settle. We applaud the inclusion of such a provision in Senator Leahy and Lee's bill and believe that it is a common sense approach that will curb this particularly egregious tactic.

In conclusion, EMC believes that patent litigation reform must be enacted to restore accountability and balance back into the system to alleviate the unfair burdens that PAEs are able to put on hardworking companies that are the life-blood of our economy. We believe that reform legislation is essential to protecting America's position as the most innovative nation in the world. We stand prepared to help in any way we can to bring a bill to the President's desk in short order.

Thank you.

Statement of the

National Retail Federation

National Council of Chain Restaurants

and

Shop.org

submitted to the

United States Senate
Committee on Judiciary

for its hearing on

"Protecting Small Businesses and Promoting Innovation
by Limiting Patent Troll Abuse"

held on

Tuesday, December 17, 2013

David French
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On behalf of:

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Chairman Leahy, Ranking Member Grassley and members of the Senate Judiciary Committee, on behalf of the National Retail Federation (NRF) and its divisions the National Council of Chain Restaurants and Shop.org, I appreciate the opportunity to submit this written statement to the Committee in connection with its hearing entitled "Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse" held on December 17, 2013.

NRF is the world's largest retail trade association, representing discount and department stores, home goods and specialty stores, Main Street merchants, grocers, wholesalers, chain restaurants and Internet retailers from the United States and more than 45 countries. Retail is the nation's largest private sector employer, supporting one in four U.S. jobs – 42 million working Americans. Contributing $2.5 trillion to annual GDP, retail is a daily barometer for the nation's economy. Retailers create opportunities for life-long careers, strengthen communities, and play a critical role in driving innovation.

Retailers and Main Street Businesses are Significantly Impacted by Patent Troll Lawsuits

Members of the National Retail Federation appreciate the attention the Committee is paying to the issue of abusive patent litigation and its harmful effect on competitiveness and innovation. Many retailers are using capital resources to settle with or fight patent trolls' infringement claims that they would otherwise use to invest in their businesses, engage in their communities, and create jobs.

Retail, at its core, is a highly competitive industry, and many retailers are using innovative technology creatively to expand and grow their businesses. Patent trolls, who are not investing in technological innovation, providing jobs or giving back to their communities, employ tactics that cut at the heart of this growth and ingenuity.

In recent years, hundreds of retailers have contacted NRF about this issue because they have been, or are currently, the target of patent trolls' abusive litigation practices. The threat typically comes from firms whose business model is buying obscure patents which are about to expire and then either licensing the patents to retailers through the threat of litigation or filing lawsuits in an effort to force a settlement. Often retailers will choose to pay the licensing fee because patent litigation is prohibitively expensive.

Patent trolls sued more non-tech Main Street companies than tech companies in 2012.[1] Patent trolls employ a strategy that focuses on businesses such as retailers and restaurants because the businesses that "use" technology, but don't manufacture it, are more numerous. One manufacturer or vendor may supply a product or service to thousands of retail end-users. Thus, there are many more entities from which to demand a royalty. The end-user retailers are also easy prey because they lack the legal resources and in-house expertise to fight complex patent infringement claims. Compared to high tech companies, retailers typically operate on thin profit margins. Patent trolls, knowing that retailers lack technical expertise, retail stores operate on thin margins, and patent litigation is exorbitantly expensive, will often price a settlement demand

[1] Colleen Chien, "Patent Trolls by the Numbers," Patently-O, March 14, 2013. http://www.patentlyo.com/patent/2013/03/chien-patent-trolls.html

(which may still be in the millions) below the cost of litigating, effectively blackmailing a retailer into settlement. This is an abuse of the system.

Patent trolls assert infringement claims covering the use of technology in all areas of e-commerce and mobile retailing because their claims are based on broad concepts and general business methods (such as operating a retail business "online") rather than specific software innovations. This approach is especially damaging to retailers, who are embracing new technology and groundbreaking innovation to better serve their customers.

For example, MacroSolve Inc. has filed numerous suits related to violating U.S. Patent No. 7,822,816, which is a method patent covering the process that many businesses have used to develop their mobile apps. They have sued technology companies, service providers and end-users, including retailers. Over half of the defendants have settled, and the details have not been released. MacroSolve claims their patent covers thousands of apps as well as those yet to be developed.[2] This is of great concern to retail businesses, which increasingly rely on mobile apps as part of their omnichannel presence in the marketplace.

Trolls' claims not only affect e-commerce applications but also affect the operations of traditional "brick and mortar" retail stores. Some examples of the latter are claims that purport to cover the printing of receipts at cash registers, the sale of gift cards, and the connection of any device (such as a computer or printer) to an Ethernet network.

These cases rarely go to trial because the damages claims are so exorbitant, and the prospect of relief through litigation so time-consuming, that retailers make a business decision to settle, rather than litigate. It has been reported that trolls lose 92 percent of cases that proceed to merits judgments, but, as noted, it is infrequent that a defendant has the fortitude to litigate.[3] Smaller retailers may find themselves particularly ill-equipped legally or financially to defend themselves from abusive claims, and dealing with these claims certainly inhibits their ability to innovate and grow.

The exorbitant costs associated with seeing a court case through to final adjudication are startling for retailers, especially small businesses. We have heard from our members that they spend as much as one million dollars or more annually on patent troll-related expenses and settlement agreements. These expenditures and the employee hours diverted to fighting patent trolls are precious capital resources that retailers would rather reinvest in their businesses.

The recent case of *Soverain v. Newegg* demonstrates the many costly steps involved in litigating a patent case and the enormous economic impact that just one patent troll can wreak on an industry. Beginning in 2004 and continuing up through 2012, Soverain has filed numerous suits against dozens of retailers alleging that the basic check-out technology used by nearly all

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[2] Robert Evatt, "MacroSolve adds Wal-mart to list of patent lawsuits," Tulsa World, February 8, 2012. http://www.tulsaworld.com/site/printerfriendlystory.aspx?articleid=20120208_52_E1_Jsasat255194&PrintComments=1

[3] John R. Allison, Mark A. Lemley, and Joshua Walker, *Patent Quality and Settlement Among Repeat Patent Litigants*, 99 GEO. L.J. 677, 694 (2011).

websites infringe its patents[4]. One large retailer is reported to have settled the first suit for $40 million because of the fear of jury verdicts in that era in the Eastern District of Texas. Numerous other settlement amounts are unreported, but in a subsequent suit, an Eastern District of Texas jury awarded damages of almost $18 million against two other national brands.

In 2007 Soverain sued Newegg, which decided to fight back. The case went to trial three years later in April of 2010 and resulted in a judgment of $2.5 million against Newegg. But Newegg decided to appeal to the Federal Circuit, and on January 14, 2013, more than five years after the suit against it was first instituted, it obtained a judgment in its favor, reversing the lower court judgment and declaring the patents invalid due to obviousness. Although Newegg has won, it took more than five years and millions of dollars in attorneys' fees.

The Newegg case is just one example of the broad infringement claims trolls are asserting against retailers. There are over one million software patents in the United States. Many software patents contain broad concepts dealing with Internet functionality and have extraordinarily vague claims.

Troll cases in federal district court have resulted in the waste of extensive judicial and party resources. NRF is concerned that, fueled by the *eBay* decision and certain portions of the America Invents Act (AIA) of 2011, these abuses will simply be replicated in short order at the ITC.[5] Accordingly, NRF believes that preventative steps should be taken so that this does not occur.

NRF Support for Patent Legislation

NRF is engaged in discussions with Members of the Committee and Congress to address the abusive litigation practices patent trolls utilize. Retailers support the Patent Abuse Reduction Act, Patent Quality Improvement Act and Patent Litigation Integrity Act. These bills would help deter frivolous litigation.

The AIA, which the President signed into law in September 2011, established a Patent and Trademark Reserve Fund. The United States Patent and Trademark Office (USPTO) is required to deposit all patent and trademark fees collected in excess of the annual appropriation amount into the fund. The provision also provides for authorization to spend all fees deposited in this fund in the USPTO's annual appropriations. The AIA also establishes a provision requiring patent fees to be used only for patent operations, including a share of administrative expenses.[6]

Despite these significant changes to the funding structure of USPTO to alleviate the backlog it faced, we feel USPTO needs more funding so they are able to review patents more

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[4] Joe Mullin, "How Newegg Crushed the "Shopping Cart" Patent Troll and Saved Online Retail" ArtsTechnica.com, January 27, 2013.
http://arstechnica.com/tech-policy/2013/01/how-newegg-crushed-the-shopping-cart-patent-and-saved-online-retail/

[5] *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006).
[6] USPTO.gov

thoroughly and expeditiously. Providing the USPTO more resources will reduce the backlog of examinations, produce better quality patents, and help retailers, technology firms and other defendants fight back against patent trolls' broad and baseless claims.

While the proposals are laudable, the top priorities for retailers in patent litigation reform are demand letter transparency and customer stay provisions. We appreciate the interest in addressing demand letter transparency and are encouraged to see a provision focused on bringing greater disclosure in demand letters included in S. 1720. We do, however, have serious reservations about the effect of the language in the customer stay provision included in S. 1720.

The Necessity of Customer Stays in Patent Troll Litigation

An important goal of patent litigation reform is to protect Main Street businesses who are customers of products, systems and business methods from the abusive litigation practices of patent trolls. When Main Street businesses do muster resources to fight back against frivolous patent troll lawsuits that threaten their operations, trolls should not be permitted to extend their customer cases out longer than necessary while a separate case is brought by the manufacturer to contest the troll's baseless allegations. For these reasons, obtaining an effective customer stay provision in patent reform legislation has been among the retail industry's highest priorities.

The granting of a stay in patent litigation, under common law, evolved from courts' recognition that the manufacturer had superior access to the evidence and witnesses needed to litigate the disputed claims, and that the customer had virtually no access to that evidence. Because the company with the best information and ability to litigate a patent suit is the manufacturer, the common law stay permits the cases against the customer to be put on hold while manufacturers litigate the key issues in a case about one of their products, processes, or systems. The common law stay does not later disadvantage the customers if they do eventually have to continue litigation with the troll at the conclusion of the manufacturer suit.

While many Federal district courts have granted common law stays to customers in the circumstances where a manufacturer brings a separate lawsuit against a patent troll, the courts are inconsistent in their application of the law. In particular, some Federal districts rarely grant stays of customer suits, even where the manufacturer is in litigation with the patent troll over the validity or non-infringement of the very same patent or patents on which the troll is basing its claims against customers of the manufacturer for using the allegedly infringing technology. This is the case with many patent troll suits directed at retail customers, who have been denied motions to stay patent trolls' cases pending the outcome of the separate suits between the manufacturers and the patent trolls. Denying stays for customers in these cases only benefits the troll, and in many cases, forces the customer to settle given the prospect and cost of lengthy patent litigation. Those customer settlements, in turn, provide the patent troll with the financial resources to continue to harass and sue other unsuspecting customers.

On these grounds alone, we believe the Committee is justified in crafting patent litigation reform legislation that brings consistent application of stays in cases where they are needed the most – when the manufacturer has already filed their own lawsuit against the patent troll and is in the best position to defend against the allegations of validity or infringement over their technology that the customer is using. While the *stated* beneficial purpose of the customer stay

provision in S. 1720 is to restore balance to the patent system by providing stays of patent troll suits against customers in these cases, the bill's customer stay language falls short of this goal unfortunately; and the provision, *as drafted*, will actually make it harder for retailers and other Main Street businesses to defend themselves from abusive patent troll litigation.

Specific Concerns with Customer Stay Provision in Section 4 of S. 1720

Our members have advised us that they will likely never seek a stay under the language of the customer stay provision in Section 4 of S. 1720, as drafted, because it introduces new and incalculable risks into patent litigation for Main Street businesses in exchange for the *opportunity* to obtain a stay under this provision. A provision that intends to bind a manufacturer's customers to any decisions in the manufacturer's separate lawsuit against the troll (in which the customer had no opportunity to protect its own interests) is completely contrary to the large body of current law known as the doctrine of collateral estoppel (CE).

The application of nonmutual CE after the entering of a stay in a customer suit already balances the interests of all parties today, as it permits the plaintiff to preclude issues from relitigation in the customer suit so long as the plaintiff satisfies the elements of nonmutual CE. Section 4 of S. 1720, however, would provide an automatic stay of customer suits when a manufacturer has a separate suit with the patent troll on the same patent, provided certain requirements for its use are met that are not requirements under common law stays. Furthermore, under Section 4, a plaintiff would not have to satisfy all of the elements of nonmutual CE in order to bind the customer to certain decisions in the manufacturer suit. In essence, section 4 would create a prospective, offensive pseudo-CE "effect" against the customer who seeks the stay, as indicated in staff's section-by-section analysis which was released when S. 1720 was introduced.

While Section 4 of S. 1720 may be based on *some* "principles" of CE, it is not the *complete* doctrine of CE itself, and thereby creates a lower hurdle in the statute than exists in common law today for patent trolls to affect the desired offensive pseudo-CE "effect" of binding the customers in their cases. The troll would be encouraged to use this section 4 requirement as an "offensive" weapon to bind the customer to any issue determination in the case between a troll and the manufacturer, without ever having to meet the balanced, common law test for nonmutual CE.

Furthermore, one of the proposed requirements to obtain a stay under Section 4 is for the manufacturer and the customer to consent in writing to the stay before it could be granted. This is not required in common law stays that customers seek after the manufacturer has filed a separate suit against the troll. In common law stays, the manufacturer first determines whether to bring an action against a troll. S. 1720's stay provision would not alter this situation for the manufacturer, as the customer could not force the manufacturer under this provision to bring an action against the troll. It is therefore not necessary for the protection of the manufacturer to require that the manufacturer and customer consent in writing to a stay. Rather, that language benefits the patent troll by providing it with a legal argument that the customer is "in privity" with the manufacturer in the manufacturer's suit, which would bolster the troll's claim that the

customer should be bound in customer suits to the same extent as the manufacturer would be on issues it litigates with the manufacturer.

It is clear to patent attorneys in the retail industry that the proposed construction of the customer stay provision in Section 4 of S. 1720 is intended to be understood as a legal requirement that is not CE, but something different and that provides less rights for customers than they have under the doctrine of CE today. The existing, unaltered doctrine of CE, however, is the most appropriate mechanism to govern which issues the customer is barred from relitigating, and it already operates to protect a patent holder against duplicative litigation where all of the elements of nonmutual CE are met.

As Section 4 is currently drafted, the requirements of paragraphs (1) and (3) of proposed §299A(b) together pose a substantial risk to customers that trolls will reach settlements/licenses with manufacturers that do not protect the customer, while arming the troll with an automatic and undefined "binding" effect of decisions made in the manufacturer case. Trolls routinely claim that settlement/license agreements with manufacturers do not exhaust their claims, leaving customers on the hook to continue to defend these claims. With the requirements of §299A(b) in place, trolls would be incentivized to enter into low-cost settlements with manufacturers that do not protect customers because the trolls can continue to assert claims of infringement against the customers after the stay is lifted with greater leverage than they would have under existing law to preclude issues from being contested by the customer.

Our frustration with the customer stay provision in S. 1720 is that the stated purpose of the provision – to give retailers and other Main Street businesses relief from patent trolls by automatically staying the trolls' suits against them – is undermined by the additional language of the provision explicitly intended to bind retailers to decisions made in the manufacturers' cases. This language is not necessary to the automatic stay language and would weaken a retailer's position against a troll rather than strengthen it. Despite the stated purpose of helping customers, the language intentionally couples the sought-for automatic stay provision with a severe penalty for customers availing themselves of it.

Additionally, for customers who seek stays of patent troll suits outside of the Section 4 provision of S. 1720 (if it were to be enacted in the form as introduced), courts may interpret the new statutory language as Congressional intent to influence the common law doctrine of CE itself, as applied to patent cases, permitting its offensive use against customers by trolls who would otherwise not meet all of the requirements necessary to apply nonmutual CE. This would create more patent troll litigation against customers, who could be rendered defenseless following a manufacturer's case from protecting their interests in their own case. The amalgamation of contradictory estoppel language included in S. 1720 would likely also generate years of satellite disputes in the courts as to its interpretation and application.

Conclusion

By papering Main Street businesses, including retailers, with broad and vague demand letters and filing an endless series of lawsuits against retail end-users alleging the same patent infringement claims alleged against manufacturers and service providers of a particular device or

technology, patent trolls are able to cast a very wide net that hauls in a lucrative catch. They have proven that many of the companies they target will settle given the extraordinarily high demands they make and the costs those companies know it will take to fight even the most frivolous of alleged claims. For those Main Street businesses that do fight back, Congress should not make it harder for them to do so with a customer stay provision that tilts the scales in favor of the patent trolls. Rather, it should ensure that any customer stay provision included in patent reform legislation achieves its intended effect of providing retailers, restaurants and other merchants the relief they seek in the wake of increasing patent troll litigation targeting these and other Main Street businesses.

Addressing this abusive and growing patent litigation problem with common sense reform will help release retailers from the controlling grip on their industry that patent trolls currently enjoy. Because the retail industry contributes $2.5 trillion to our nation's annual GDP, removing or even loosening this grip on retailers will allow innovation and growth to flourish, and undoubtedly benefit the overall U.S. economy.

NRF thanks the Committee for their extensive examination of the impact of abusive patent litigation and is happy to work with Members of the Committee to find effective solutions to curb abusive patent litigation.

STATEMENT
OF
STARWOOD HOTELS & RESORTS WORLDWIDE

SUBMITTED FOR THE RECORD

COMMITTEE ON THE JUDICIARY
UNITED STATES SENATE

HEARING ON

PROTECTING SMALL BUSINESS AND PROMOTING INNOVATION
BY LIMITING PATENT TROLL ABUSE

DECEMBER 23, 2013

I. Introduction

Starwood Hotels & Resorts Worldwide ("Starwood") is grateful to the Committee on the Judiciary for the opportunity to submit this statement for the record for the hearing on protecting small business and promoting innovation by limiting patent troll abuse.

Starwood commends Chairman Leahy and the Members of the Committee for their work on patent troll abuse legislation and for holding this timely hearing. As we discuss below, patent troll abuse has had a negative impact on Starwood specifically and on the travel and hospitality industry, among others, in general.

Starwood is eager to work with the Committee and other industry groups to advance reform legislation in the Senate in order for effective reform measures to promptly become law. We offer the following analysis and recommendation with the hope that they will make a constructive contribution to the enactment of legislation.

II. The Impact of Abusive Patent Troll Lawsuits on Starwood

Starwood, one of the leading hotel and leisure companies in the world, is an owner, operator and franchisor of more than 1169 hotels, resorts, vacation ownership properties and residences in over 100 countries with the following brands: St. Regis®, The Luxury Collection®, W®, Westin®, Le Méridien®, Sheraton®, Four Points® by Sheraton, Aloft®, and Element®. As an industry leader that prides itself on innovation, and a patent holder in its own right, Starwood understands and appreciates the role that patents and legitimate technological advances play in improving the travel and hospitality industry. However, the dramatic rise in opportunistic and abusive patent troll litigation is a significant problem for Starwood and, we submit, for the broader travel and hospitality industry as well as the entire US economy. To be clear, Starwood is not taking issue with the rights of legitimate inventors with valid patents to access the courts to enforce their rights. However, that scenario has not been the problem for Starwood. Rather, it is the fairly recent creation of a type of patent marketplace where individuals and enterprises, without a direct connection to the actual inventors, are buying and asserting patents and using the threat of costly patent litigation to monetize their investments. Starwood believes additional patent reform is most urgently needed to address this type of patent trolling behavior.

The impact of abusive patent troll litigation on Starwood has been significant. Since 2011, Starwood has been sued for patent infringement in nineteen (19) separate cases (before 2011 Starwood had only been sued for patent infringement a total of four (4) times). In all but very few of these cases, those asserting the patents against Starwood are patent monetization enterprises that use the threat of litigation to try to extract settlements. In most cases, Starwood is only one of dozens, or even scores, of companies across various industries targeted by patent trolling entities.

One reason that the targeted companies in these cases are so diverse is that the patent trolls are asserting broad patents that they claim apply to common technology rarely unique to any one company or industry. In the cases against Starwood, the patent trolls have targeted e-commerce, website functionality, mobile applications, and wireless internet, among others:

systems used to benefit consumers. Typically, the technology at issue is not developed by Starwood (or the other defendants), but is purchased or licensed from a software developer or hardware manufacturer. As a result, those with the detailed knowledge of how the accused systems work are usually the third-party suppliers who often are not defendants in the litigation.

Why are patent trolls not suing the suppliers along with the end users? In Starwood's experience, there are at least three reasons. First, patent trolls recognize that end users of technology are at a disadvantage when it comes to analyzing the accused products for non-infringement and identifying prior art that might invalidate the patent in a field where the end users, like Starwood, are not well versed. Second, the patent trolls also recognize that the suppliers of technology are highly motivated to defend their products, which are often central to the suppliers' business. The suppliers' motivation brings resources and resolve that can thwart the patent trolls' plan to obtain settlements from multiple end users. Third, as a function of patent damages law, if a supplier does not prevail and either takes a license or pays a judgment, the ability of the patent troll to obtain additional remedies from the end users of technology can be exhausted. Therefore, patent trolls prefer to target end users like Starwood because resolution or settlement of a claim against the end user typically does not impact the troll's ability to target other end users or eventually the supplier.

All of these issues and obstacles for defendants create an opportunity for patent trolls to take advantage of the significant costs of litigation by targeting end user companies with patents of dubious validity within a judicial system that provides little chance of resolution before trial. This means that patent litigation can be extremely expensive both in terms of legal fees and costs associated with the defense, but also in terms of the companies' internal resources that must be directed toward assisting with the defense. Instead of spending their time growing Starwood's business and improving the customer experience, internal Starwood IT, marketing, and finance professionals are spending countless hours assisting counsel with discovery and other litigation tasks related to defending meritless patent lawsuits. Under the current system where costs are typically borne by the party incurring them, companies like Starwood are often forced to make strategic decisions based not on the merits of the patent claim but rather on the costs associated with defending those dubious claims. Starwood believes that additional patent reform is urgently needed to help put the focus on the merits of the claims and to address the most egregious abuses of the current system by these trolls.

III. Proposed Reforms

Starwood generally supports the reforms identified in the House bill and those identified during the recent Senate hearings. However, there are several proposals that Starwood believes are most urgently needed and would have the most positive impact on the abusive patent trolling behavior Starwood is facing.

- Fee Shifting/Bonding

As noted above, the high cost of defending against patent claims leads to much of the opportunistic patent troll behavior. The current proposal to award prevailing parties their legal fees in patent troll cases strikes an appropriate balance. The fee shifting provision would, in effect, use the cost of patent litigation to curb abuses, rather than foster them. If faced with a

scenario where the patent troll will be forced to pay for the defense if it loses, we are confident that patent trolls will not assert as many dubious patents. Moreover, if Starwood will be entitled to its fees should it prevail, we will be even more motivated to test the merits of the patent claims when we believe they lack merit. However, Starwood also is concerned that because the patent trolls are usually a complex web of shell companies who lack any assets beyond the patent itself, some type of bonding is required to make sure the patent troll will be able to pay if the defendant prevails. Starwood strongly supports the adoption of fee shifting and bonding to help address the significant problems caused by the cost of defending against abusive patent claims. At a minimum, the fee shifting and bonding provisions should apply in the egregious cases such as when patent trolls target end user customers.

- End User Customer Stays

The proposals under consideration providing for stays of cases against end user customers in favor of cases against suppliers provide a common sense approach to address a significant problem facing Starwood and others similarly situated. The patent troll tactic of asserting patents against end users is a transparent and abusive attempt to take advantage of the current system. Instead of permitting multiple cases against numerous end users of a particular technology in multiple venues, those end user cases should be stayed while claims against the suppliers are resolved. This will alleviate burdens on the judiciary and will provide those with the most direct knowledge of the relevant technology an opportunity to defend that technology in a single forum. Starwood strongly supports the adoption of legislation that would stay patent cases against end user customers in favor of cases against suppliers.

- Staged Discovery and Cost Shifting

Starwood also strongly supports the proposals under consideration to (1) stage discovery to first focus on *Markman* proceedings and, (2) to apply cost shifting for discovery in excess of core documents. Starwood believes that both of these proposals will have a direct impact on curbing the abusive use of discovery to encourage settlement. Instead, and consistent with the other proposals Starwood strongly supports, staged discovery and discovery cost shifting will help focus these cases on the merits. And, knowing the focus will be on the merits early in the case, Starwood is optimistic that patent troll plaintiffs will choose not to assert a good number of the meritless and harassing lawsuits Starwood has been forced to defend.

IV. Conclusion

We urge the Committee to act quickly and decisively to address the economic damage caused by patent trolls' abusive tactics and hope that this statement will contribute to your understanding of the harm that they cause to our industry and how best to stop them.

Michael Beckerman and Paul DeRoche: Congress should act now to stop patent trolls

October 28, 2013 01:00 AM

BY MICHAEL BECKERMAN

If you've heard about patent trolls, you already know that they hurt businesses, drive up prices for consumers and are a drain on our economy to the tune of $80 billion annually. What you may not know is that they are no longer limiting their targets to software developers and high-tech companies. Now the trolls are shaking down every type of business, from retailers and restaurants to major corporations and even charities. But by broadening their targets, they've sparked momentum for reform to put a stop to their abusive practices.

They've even taken aim at local banks, grocers and retailers. These companies, which employ thousands of Rhode Islanders, were sued for the use of common e-commerce tools and customer loyalty programs. The money that these businesses have to spend to defend themselves in court is money they can't spend hiring more workers and funding innovation. But that's just a glimpse of how large the troll problem has become.

Businesses targeted by patent trolls are left with two very expensive choices. For small and medium-sized businesses, the average cost of paying the troll a licensing fee is about $1.3 million dollars. For those same small and medium-sized businesses, the average cost of going to court is $1.75 million. So it's no wonder that many choose to pay the trolls rather than fighting them in court.

Trolls make their living by taking advantage of overly-broad, low-quality patents. These often cover everyday business practices like having an online store locator on a website or providing wifi to customers in coffee shops, and many should be invalid. The proof is that when cases based on alleged infringement of these business-method patents are tried in court, the trolls lose 85 percent of the time.

According to the White House, trolls sent out more than 100,000 demand letters last year. And it's adding up to real money for them, and a significant drain on our economy.

As the extent of this problem has become clear, policymakers are taking notice. Some states have taken action to stop the trolls, but because our patent system is under federal jurisdiction, an effective, comprehensive solution must come from Congress.

Already, a number of bills have been introduced to address this issue in both the House and Senate, and from Democrats and Republicans alike. Additionally, President Obama has urged Congress to make a number of changes to our patent system to stop the trolls.

To be effective, reform must accomplish two goals. First, it must make sure that both parties have something at stake, which will change the trolls' calculus and reduce the number of suits that ultimately go to court. Second, reform must make it easier to invalidate low-quality patents that enable abuse. Allowing targets of business-method patents to challenge the validity of the patents at the Patent and Trademark Office instead of in court would give victims of patent abuse a less costly and more efficient way to fight back.

Rhode Island businesses can't afford to wait any longer for reform to stop these patent trolls. We urge members of Congress, and particularly those on the relevant committees of jurisdiction such as Sen. Sheldon Whitehouse (D-R.I.), to act with all deliberate speed to pass reforms that stops patent abuse once and for all.

Michael Beckerman is the president and CEO of the Internet Association. Paul DeRoche is director of the Rhode Island Retail Federation.

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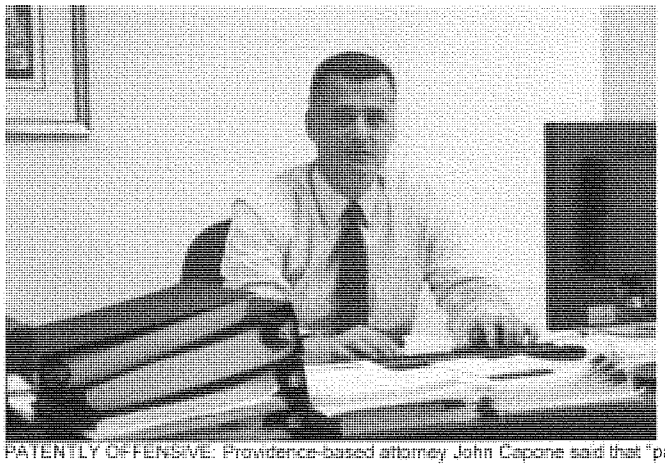
Business leaders seek relief from 'patent trolls'



PATENTLY OFFENSIVE: Providence-based attorney John Capone said that "patent trolls acquire patents simply for the purpose of suing."PBN PHOTO/MICHAEL PERRSON

By Rhonda J. Miller
PBN Staff Writer

11/25/13

David Anderson, president of Skillbuilders, first became acquainted with so-called "patent trolls" in 2011. The 19-year-old software company based in South Kingstown has an international client roster.

"There's an ongoing case being handled by Oracle Corp. because we're an official Oracle partner and it has to do with an Oracle software product," said Anderson.

His firm is hardly alone in Rhode Island in dealing with such companies that acquire a patent, often on a widely used technology, then threaten or sue many businesses for patent infringement.

"We are aware of 15 companies in Rhode Island that have been affected – who have had lawsuits filed against them – by patent trolls," said Kathie Shields, executive director of the Tech Collective, Rhode Island's technology-industry association. "Some have settled and some are in litigation.

"Patent trolls go out and patent open-source tools and once they have the patents, they go file lawsuits against big and small companies," said Shields.

"One example is if you go to a retail online site and put in a zip code to find the closest store, the zip code search tool is an open-source plug in," said Shields. "The open-source information is the coding."

Patent trolls have been around for about 10 years, but the frequency of their lawsuits has been escalating, said Shields.

These shell companies have found states where laws make it easier for them to exist, such as Delaware or Texas, so they establish entities there, then sue companies across the U.S., said Shields.

"The biggest imposition is on small companies. They don't have the money to fight or to settle," said Shields. "With small companies, it's a threat to the sustainability of their business."

The challenge for large companies is whether to spend large amounts of money and possibly years involved in litigation fighting the lawsuit by the patent troll, or to settle, said Shields.

"Those who settle end up funding the litigation by patent trolls," said senior counsel and patent attorney John L. Capone with Duffy & Sweeney in Providence. "Patent trolls acquire patents simply for the purpose of suing. They are not the inventors ... they are simply the owners of the technology."

An example of a patent troll is a company that has sued a number of businesses for using the technology for activating a debit card by phone, said Capone.

"They try to collect licensing fees for products they don't manufacture or services they don't supply," said Capone, who will speak Dec. 10 at a Tech Collective forum on patent trolls. "They're called Non-Practicing Entities, or NPEs."

"NPEs sued four times more defendants in 2011 compared to 2007," according to an article on opensource.com by Mark Bohannon, vice president of corporate affairs and global public policy at Red Hat, a Raleigh, N.C.-based international technology company whose mission is "to be the catalyst in communities of customers, contributors and partners creating better technology the open-source way."

The Rhode Island Retailers Association, along with many national retailers and technology organizations, is urging Congress to pass reforms to stop patent abuse.

In a Sept. 16 letter to Sen. Sheldon Whitehouse, D-R.I., Greater Providence Chamber of Commerce President Laurie White said, "I am writing to express concern about "patent trolls" and the threat they pose to the general business community. No longer just a problem for tech companies, patent trolls are now targeting banks, credit unions, retailers, hotels, restaurants and Main Street businesses with frivolous infringement claims."

White said the "highly dubious claims" include suits claiming infringement for using WiFi routers, scanning documents and for using online shopping cart features on a website."

In addition to small businesses being targets of patent trolls, White said, "several companies in Rhode Island, including [CVS Caremark Corp.], Citizens Bank, Stop & Shop, Home Depot and Rite Aid have been targets of patent trolls."

Citizens Bank is named as a defendant in a lawsuit with multiple defendants, DataTreasury Corporation v. Fiserv Inc., for patent infringements on automated sales and service systems and automated multimedia data-processing network, according to the website of Chicago-based patent trial attorney R. David Donoghue, who is with the intellectual-property group of the firm of Holland & Knight.

In an Oct. 11 letter to Whitehouse, urging him to support Senate Bill 866, "The Patent Quality Improvement Act" and H.B. 276, "Stopping the Offensive Use of Patents Act," Rite Aid Senior Counsel Ron S. Chima wrote "at Rite Aid, we have been the target of a number of these frivolous patent-troll threat letters and lawsuits. Faced with years of expensive litigation versus paying a license fee, we often settle. ... This is extremely frustrating and is diverting capital we could otherwise use.

Some patent issues are valid, of course, especially with the rapid developments in technology and increasingly complex issues related to intellectual property. But patent trolls are considered to be working outside that range of legitimate patent disputes.

Patents trolls are able to acquire patents for a variety of reasons.

"Sometimes an inventor gets a patent on technology but doesn't put it into practice. The company may have gone bankrupt," said Capone. "Sometimes patents are sold in bankruptcy. Sometimes when a company sells off its portfolio, it might include a group of patents."

In the letter to Whitehouse, White urged examination of potential resolutions of the patent-troll issue, include expanding the U.S. Patent Office's Covered Business Method Program, which would create an expedited method to invalidate bad patents, as well as passage of Senate Bill 866, the Patent Quality Improvement Act.

"Let's force patent trolls to take financial responsibility for their lawsuits by allowing defendants to recoup money spent to successfully defend themselves against junk lawsuits," White said. •

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OP-ED / LETTERS TO THE EDITOR

Patent trolls – ugly, taxing brake on U.S., innovation

Guest Column:
Charlie Kroll and Kathie Shields
12/2/13

Trolls – once devious, fearsome members of a mythical race – are now an unwelcomed reality in our modern innovation economy.

More politely referred to as patent-assertion entities, patent trolls do not develop or sell new technologies. Rather, they exist to deploy large patent portfolios against productive businesses, dragging down our economy, costing us jobs and putting a tax on our most innovative products and services.

Here in Rhode Island, we are building a vibrant cluster of entrepreneurial tech startups that are developing innovative new products and services, and most importantly, creating jobs for Rhode Islanders. The abusive tactics of patent trolls pose a very real threat to the growth of our own local innovation sector.

Our patent system was designed "to promote the progress of science and the useful arts" that would not otherwise occur. However, in the fast-moving Internet and software-driven economy, we are witnessing the opposite: patents are actually slowing innovation and serving the interests of exploitative trolls.

Many patent-infringement claims made by trolls are highly dubious, including suits claiming infringement for scanning documents, using WiFi routers, and for using store-locator and online shopping-cart features on websites. No longer just a problem for tech companies, patent trolls are now targeting banks, credit unions, retailers, hotels, restaurants and Main Street businesses that use these commonplace technologies.

Consider the case of one of the most audacious patent trolls, Innovatio IP Ventures. Innovatio owns a portfolio of patents that it claims covers any sort of WiFi implementation, and they have used this to sue coffee shops, grocery stores, hotels and many other business that offer WiFi to customers. What's more, Innovatio frequently targets individual franchisees (rather than the corporate parent) that have no idea how to deal with a patent-infringement lawsuit. Instead of getting involved in a costly legal battle, these small businesses almost always settle for a

few thousand dollars, which Innovatio gladly pockets and then moves on to the next target.

While the majority of such infringement claims are likely frivolous and would not stand a chance in court, they still managed to cost U.S. businesses $29 billion in direct payouts and $80 billion in indirect costs in 2011 alone. Why? Because tech startups and many other small to midsize businesses are forced to settle these challenges out of court, as they lack the time and significant financial resource needed to fight back against patent trolls' dubious infringement claims. That's billions of dollars every year that could go toward developing innovative, new products and services that is instead going to patent trolls.

This is clearly not how our patent system was intended to work.

Fortunately, both houses of Congress are now working to address the patent-troll problem. Reps. Darrell Issa, R-Calif., and Judy Chu, R-Calif., have introduced the bipartisan STOP Act in the House while Sen. Charles Schumer, D-N.Y., introduced the Patent Quality Improvement Act in the Senate. These proposals would give small businesses and startups a better, cheaper alternative to patent litigation by expanding the Covered Business Method Program, currently limited to only "financial services" business-method patents.

The CBM program gets to the root of the patent-troll problem, weeding out the bad patents that are the trolls' lifeblood. If broadened, the CBM program could be effective in helping businesses sued by patent trolls invalidate vague, obvious or overbroad patents in the PTO, rather than having to do so through expensive, multiyear litigation.

Prompt action on a number of fronts is needed if policymakers want to send an unequivocal message to patent trolls and help save productive businesses from their abuses. Congress must act quickly to keep these bad actors from further burdening our economy and negatively impacting innovation here in Rhode Island and across the country. •

Charlie Kroll is the founder and CEO of Andera Inc. and Kathie Shields is the executive director of the Tech Collective, Rhode Island's technology-industry association.

Alert Solutions, Inc. www.alertsolutions.com

Phone: (800) 929-1643 Fax: (877) 641-4788

September 26, 2013

U.S. Senator Sheldon Whitehouse
Hart Senate Office Bldg. Room 530
Washington, DC 20510

Dear Senator Whitehouse:

As the Founder and CEO of Alert Solutions -- a growing Cranston-based provider of cloud-based multi-channel messaging technology and communication solutions -- I write to urge you to address the important issue of patent trolls.

The patent troll problem in our country has reached outrageous proportions. In 2011 alone, suits brought by patent speculators cost American companies and innovators $29 billion in direct payouts and $80 billion in indirect costs. Many of these entities produce nothing and exist solely to sue or threaten to sue hardworking American businesses like mine with baseless claims of patent infringement. Indeed, Alert Systems has received a number of threat letters from patent trolls claiming infringements related to things as basic as sending emails and faxes.

Fortunately, there is a bipartisan solution in Congress right now. S.B. 866, *The Patent Quality Improvement Act,* introduced by Senator Charles Schumer and the *Stopping the Offensive Use of Patents Act (STOP Act)* H.B. 276 introduced by Representatives Daniel Issa and Judy Chu, will help businesses fight back against these unfounded lawsuits.

It will expand the Patent and Trademark Office's covered business method program (CBM), eliminating a generation of bad patents and helping local businesses bypass lengthy and expensive court proceedings. It will also improve the quality of patents being granted to prevent bad business method patents from being issued in the first place.

I urge you to support this legislation to help end the abusive practices of patent trolls and to ensure that our patent system performs as it was intended: to facilitate and safeguard real innovation that benefits our constituents, our local businesses, and our economy.

Sincerely,

David Baeder
Founder & CEO

Alert Solutions, Inc. *PO Box 20160 Cranston, RI 02920* Email:info@alertsolutions.com

Betaspring

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Providence, RI 02903

401.400.BETA

www.betaspring.com

September 25, 2013

U.S. Senator Sheldon Whitehouse
Hart Senate Office Bldg. Room 530
Washington, DC 20510

Dear Senator Whitehouse,

At Betaspring, we are devoted to helping promising technology startups transform into fundable, scalable companies. We have accelerated 72 companies and our alumni have raised some $30 million in follow-on funding. Through our accelerator program and the incredible work of our alumni, we are proud to be a part of Rhode Island's thriving tech startup cluster.

Unfortunately, the behavior of so-called "patent trolls" poses a significant threat to innovation in Rhode Island and across the country. Small businesses have been sued by patent trolls for using their printers to scan documents; retail merchants have faced lawsuits for placing a "shopping cart" feature on their website; and major city transit systems are under attack for developing public transit tracking apps.

These examples demonstrate just how egregious the patent troll problem has become. Most of these entities produce nothing and exist solely to threaten businesses with baseless claims of patent infringement. The majority of these claims are frivolous and would not stand a chance in court. Yet they still managed to cost U.S. businesses $29 billion in 2011 alone.

Why? Because small businesses, like the tech startups we work with, are forced to settle these challenges out of court as they lack the financial resource necessary to fight back against patent trolls' frivolous infringement claims. That's billions of dollars every year that could go towards developing innovative new products and services, that is instead going to patent trolls.

Fortunately, there is a bipartisan solution to this problem now in Congress. S.B. 866, The Patent Quality Improvement Act, introduced by Senator Chuck Schumer and the Stopping the Offensive Use of Patents Act (STOP Act) H.B. 276 introduced by Representatives Daniel Issa and Judy Chu, will help small businesses fight back against these unfounded lawsuits.

It will expand the Patent and Trademark Office's covered business method program (CBM), eliminating a generation of bad patents and helping small businesses bypass lengthy and expensive court proceedings. It will also improve the quality of patents being granted to prevent bad business method patents from being issued in the first place.

We urge you to support this important legislation to help ensure that the patent system performs as it was intended: to facilitate and safeguard real innovation that benefits consumers, our local businesses and our economy.

Sincerely,

Allan Tear

Founder & Managing Partner

The advocate for growing and protecting the business community in Rhode Island.

GREATER PROVIDENCE CHAMBER OF COMMERCE

30 Exchange Terrace, Providence, RI 02903
401.521.5000 fax 401.621.6109
providencechamber.com

September 16, 2013

Honorable Sheldon Whitehouse
U.S. Senate
Hart Senate Office Bldg. Room 530
Washington, DC 20510

Dear Senator Whitehouse:

I write today on behalf of the Greater Providence Chamber of Commerce to express concern about "Patent Trolls" and the threat they pose to the general business community. No longer just a problem for tech companies, patent trolls are now targeting banks, credit unions, retailers, hotels, restaurants and Main Street businesses with frivolous infringement claims.

As the President of the Greater Providence Chamber of Commerce, which represents member businesses in several of these sectors, I am dismayed by the seemingly abusive behavior of these patent trolls. Many infringement claims made by patent trolls are highly dubious, including suits claiming infringement for using WiFi routers, scanning documents, and for using online shopping cart features on a website.

In addition to small businesses, several Rhode Island companies including CVS, Citizens Bank, Stop & Shop, Home Depot, and Rite Aid have all been the targets of patent trolls. We have been advised that most of these lawsuits are frivolous. Yet faced with paying a licensing fee versus years of expensive litigation to invalidate the claimed patent, many businesses simply settle. Such behavior is taking money away from real innovation.

Fortunately, there are several proposed solutions. Among them, expand the Patent Office's Covered Business Method Program (CBM). This would create an expedited process in the Patent Office to invalidate bad patents. In addition, Senate Bill 866, *The Patent Quality Improvement Act*, introduced by Senator Schumer would expand the CBM program and also improve the quality of patents being granted to prevent bad business method patents from being issued in the first place.

Expanding the CBM program enjoys broad support from groups like the National Retail Federation, the National Restaurant Association, the Internet Association, and the Food Marketing Institute. Let's force patent trolls to take financial responsibility for their lawsuits by allowing defendants to recoup money spent to successfully defend themselves against junk lawsuits. Patent trolls would think twice about filing frivolous infringement claims if they knew they could be financially responsible for legal fees in a losing case.

Please consider lending your voice to the growing chorus of business groups that are urging reform to the all-important patent protection process.

Sincerely,

Laurie White
President

Newport County Chamber of Commerce
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September 30, 2013

U.S. Senator Sheldon Whitehouse
Hart Senate Office Bldg. Room 530
Washington, DC 20510

Dear Senator Whitehouse:

I write today on behalf of the Newport County Chamber of Commerce to express concern about "patent trolls" and the threat they pose to the general business community. No longer just a problem for tech companies, patent trolls are now targeting banks, credit unions, retailers, hotels, restaurants, and Main Street businesses with frivolous infringement claims.

As the Executive Director of the Newport County Chamber of Commerce, which represents member businesses in several of these sectors, I am dismayed by the abusive behavior of these patent trolls. Many infringement claims made by patent trolls are highly dubious, including suits claiming infringement for using WiFi routers, scanning documents, and for using online shopping cart features on a website.

In addition to small businesses, several prominent Rhode Island companies including CVS, Citizens Bank, Stop & Shop, Home Depot, and Rite Aid have all been the targets of patent trolls. While the majority of these lawsuits are frivolous, when faced with paying a licensing fee versus years of expensive litigation to invalidate the claimed patent, many businesses simply settle. It is estimated that these patent troll intimidation tactics cost U.S. businesses $29 billion in 2011 alone.

This is clearly not how our patent system was intended to work.

Fortunately, there is a bipartisan solution to the problem of patent trolls in Congress right now. I am writing to urge you to support S.B. 866, *The Patent Quality Improvement Act,* introduced by Senator Charles Schumer and H.B. 276, the *Stopping the Offensive Use of Patents Act (STOP Act)*, introduced by Representatives Daniel Issa and Judy Chu. This legislation will help businesses fight back against these unfounded lawsuits.

It will expand the Patent and Trademark Office's covered business method program (CBM),

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eliminating a generation of bad patents and helping local businesses bypass lengthy court proceedings. It will also improve the quality of patents being granted to prevent bad business method patents from being issued in the first place.

This legislation will provide important relief for business in Rhode Island and around the country, and will help ensure that our patent system performs as it was intended: to facilitate and safeguard real innovation that benefits our constituents, our local businesses, and our economy.

Sincerely,

Jody Sullivan
Executive Director

LEGAL DEPARTMENT

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October 11, 2013

U.S. Senator Sheldon Whitehouse
Hart Senate Office Bldg. Room 530
Washington, DC 20510

Dear Senator Whitehouse:

As the Senior Counsel of Rite Aid, which proudly serves our Rhode Island customers with 42 local stores, I write to urge you to address the important issue of patent trolls.

In recent years, Rite Aid and retailers across the country have been, or are currently, the target of patent trolls' abusive practices. The threat typically comes from firms whose business model is buying obscure patents which are about to expire and then either licensing the patents to retailers through the threat of litigation or filing lawsuits in an effort to force a settlement. Often retailers choose to pay the licensing fee as patent litigation is prohibitively expensive. In other words, patent trolls are stealing precious capital resources that retailers would otherwise use to invest in their businesses, including jobs, innovation, and refurbishing stores.

Patent trolls frequently file claims that are based on broad concepts and a general way of doing something rather than specific software innovations. This enables trolls to assert infringement claims covering the use of technology in virtually every area of e-commerce and mobile retailing (for example, providing store-locator functionality on a website; clicking on an item on a website to obtain further product information; sending electronic notifications to customers that their packages have been shipped). Moreover, patent trolls' claims are not limited to e-commerce applications, but also affect the operations of traditional "brick and mortar" retail stores as well (for example, claims that purport to cover the printing of receipts at cash registers, the sale of gift cards, and the use of QR-code readers to scan coupons).

On the rare occasions these cases go to trial, it has been reported that trolls lose 92 percent of the time, but this is small comfort to retailers who lack the resources to see these cases through to a resolution. Often the damage claims are so exorbitant and the prospect of relief through litigation so time-consuming, that retailers make a business decision to settle rather than litigate.

At Rite Aid, we have been the target of a number of these frivolous patent troll threat letters and lawsuits. Faced with years of expensive litigation versus paying a license fee, we often settle. Some require lengthy litigation to get the extorted demand down to nuisance value. This is extremely frustrating and is diverting capital we could otherwise use to better serve our customers. Recently, Rite Aid has been pursued by the following patent trolls: Ronald Katz, NeoMedia, Landmark, Alliacense, Card Activation Technologies, Cronos, Helferich, Innovatio, Lodsys, SFA, TQP, CreateAds, Express Card Systems, ArrivalStar and GeoTag. These patent trolls, and their frivolous claims, have cost millions of dollar in legal fees.

Fortunately, there is a bipartisan solution to the problem of patent trolls in Congress right now. Senate Bill 866, *The Patent Quality Improvement Act*, introduced by Senator Charles Schumer and the *Stopping the Offensive Use of Patents Act (STOP Act)* H.B. 276 introduced by Representatives Daniel Issa and Judy Chu, will help businesses fight back against these unfounded lawsuits.

It will expand the Patent and Trademark Office's covered business method program (CBM), eliminating a generation of bad patents and helping businesses bypass lengthy and expensive court proceedings. It will also improve the quality of patents being granted to prevent bad business method patents from being issued in the first place.

Rite Aid Pharmacy urges you to support this legislation to help end the abusive practices of patent trolls.

Sincerely,

Ron S. Chima
Senior Counsel

October 10, 2013

U.S. Senator Sheldon Whitehouse
Hart Senate Office Bldg. Room 530
Washington, DC, 20510

Dear Senator Whitehouse:

As the Executive Director of Tech-Collective, the technology industry association of Rhode Island, I write to urge you to address the abusive practices of patent assertion entities, otherwise known as "patent trolls."

Patent trolls do not innovate or add any value to our economy. They buy patents solely for the purpose of pressuring companies in the technology, banking, retail, hospitality, and several other sectors to pay nuisance royalty fees.

While the majority of patent troll infringement claims are frivolous and would not stand a chance in court, they still managed to cost U.S. businesses $29 billion in direct payouts and $80 billion in indirect costs in 2011 alone. Why? Because small to midsize businesses, like the many Rhode Island technology companies we represent, are forced to settle these challenges out of court as they lack the time and financial resource necessary to fight back against patent trolls' dubious infringement claims. That's billions of dollars every year that could go towards developing innovative new products and services, that is instead going to patent trolls.

This is clearly not how our patent system was intended to function.

Fortunately, there is a bipartisan solution to this problem now in Congress. Senate Bill 866, *The Patent Quality Improvement Act,* introduced by Senator Charles Schumer and the *Stopping the Offensive Use of Patents Act (STOP Act)* H.B. 276 introduced by Representatives Daniel Issa and Judy Chu, will help businesses fight back against these unfounded lawsuits.

It will expand the Patent and Trademark Office's covered business method program (CBM), eliminating a generation of bad patents and helping businesses bypass lengthy and expensive court proceedings. It will also improve the quality of patents being granted to prevent bad business method patents from being issued in the first place.

On behalf of the members of Tech-Collective, I urge you to support this needed legislation to end the abusive practices of patent trolls.

Sincerely,

Kathie Shields
Executive Director

industry partner: information technology | bioscience
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October 3, 2013

The Honorable Charles Grassley
United States Senate
135 Hart
Washington, D.C 20510

The Honorable Bruce Braley
United States Congress
2263 Rayburn
Washington, D.C. 20515

The Honorable Dave Loebsack
United States Congress
1527 Longworth
Washington D.C. 20515

The Honorable Tom Harkin
United States Senate
731 Hart
Washington, D.C. 20510

The Honorable Tom Latham
United States Congress
2217 Rayburn
Washington, D.C. 20515

The Honorable Steve King
United States Congress
2210 Rayburn
Washington, D.C. 20515

Dear Senator Grassley, Senator Harkin, Congressman Braley, Congressman Loebsack, Congressman Latham and Congressman King:

We, the undersigned Iowa associations, organizations, and businesses, strongly encourage Congressional efforts yet this year to address abuses of the legal system by patent assertion entities, commonly referred to as patent trolls.

Fighting frivolous and burdensome patent lawsuits threatened and filed by patent trolls is an expensive distraction for a large cross-section of Iowa businesses. Rather than focus their efforts on important economic development catalysts such as innovation, job creation, and business growth, entrepreneurs and business owners from all industries and sizes are more frequently finding themselves diverting valuable attention and limited resources to defending expensive and unnecessary legal threats by patent trolls. Indeed, businesses, everyday Iowans, and Iowa's economy as a whole are adversely affected by the trolls' seemingly endless barrage of legal threats and frivolous suits. The trolls' misguided and unbridled mischief unnecessarily drives up costs that are, in part, passed on to Iowa's hardworking families and consumers.

Unfortunately, patent troll activity is growing at alarming rates and costing our economy billions. In fact, patent infringement lawsuits have tripled in the last two years, rising from 29 percent of all infringement lawsuits to 62 percent. According to the White House, estimates suggest that last year alone patent trolls threatened over 100,000 companies with patent infringement suits. Further, according to widely-publicized figures, patent trolls cost the U.S. economy half a trillion dollars in the last 20 years, with more than $320 billion occurring in only the last four (4) years.

There is a growing, bi-partisan consensus that the time to address the patent trolls' abuses is now. We are pleased to see President Obama support patent troll reform and we are encouraged by the active roles that prominent Senate and House Judiciary Committee members are playing to bring forward legislative solutions. Meaningful reforms that make it difficult for patent trolls to continue their destructive business models, improve patent quality, and streamline patent infringement disputes will drastically reduce costs for Iowa businesses.

We are encouraged by the bi-partisan work happening on this issue and we ask for the House and Senate to continue to work across the aisle and across chambers on this important industry-wide issue.

As Iowans, we look forward to working with you and your colleagues to pass needed legislation yet this year.

Sincerely,

Hy-Vee Food Stores	Technology Association of Iowa	Iowa Biotechnology Association
Iowa Association of Business & Industry	Iowa Restaurant Association	Iowa Bankers Association
Iowa Lodging Association	Iowa Credit Union League	Independent Insurance Agents of Iowa
Motion Picture Association of Iowa	Iowa Association of Realtors	Iowa Retail Federation
Iowa Grocery Industry Association	Iowa Telecommunications Association	

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December 10, 2013

The Honorable Chuck Grassley
U.S. Senate
135 Hart Senate Office Building
Washington, D.C. 20510

Dear Senator Grassley:

The Iowa Bankers Association appreciates your willingness to meet with us in Council Bluffs and listen to bankers and other small businesses share their concern regarding abuse of the legal system by non-practicing entities (NPEs), commonly referred to as patent trolls.

As you heard during the meeting in Council Bluffs, we along with many of our customers have been impacted and feel strongly that legislation is needed to curtail the risk of abusive litigation and disingenuous license fee demands by "patent trolls". Although it is a good first step, the bill recently passed by the House does not go far enough in dealing with the tactics patent trolls use against banks and other types of businesses. In particular, stronger action must be taken to make it harder for trolls to send abusive "demand" letters that contain very little information about what is allegedly being infringed and whether the patent is in fact valid and who is the real owner. The legislation also should include stronger language to protect end-users from the threat of infringement actions. Banks are mainly end users because we buy products and services from vendors. It is abusive for trolls to threaten end users because there is no intent to infringe or any technical knowledge about the possibility of infringement simply from purchasing a product from a vendor.

Your role as the Ranking Member of the Senate Judiciary Committee is crucial to the well-being of Iowa businesses and we appreciate your efforts to resolve the issue. First and foremost, a business that purchases or license products or services in good faith from reputable vendors and technology companies to support their business and customers should not be held hostage by a patent troll. For little more than the cost of a postage stamp, these trolls are managing to stifle innovation and competition.

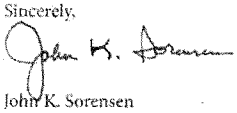
One example of recent activity in our area include a suit filed in June of this year against First National Bank of Omaha by a NPE known as Intellectual Ventures.. Their suit argues that First National's systems infringe upon the patents it allegedly owns on matters related to computer security for electronic transactions. The suit also cites firewalls, cryptography and distribution of digital property as areas which its patents have been infringed upon. Another example occurred a few months later, where a lawsuit was filed against Lincoln-based Pinnacle Bank by Activision TV saying the bank operates digital display signs that infringe on its patents. The Pinnacle suit is one of a series of patent actions brought this year against businesses that are end users of digital display signs. Both of these cases show how NPEs utilize overly broad patents to make claims of infringement against banks that are either simply engaging in normal business practices or have simply bought a technology product or service from a vendor.

Despite much-needed reforms put in place by the America Invents Act, NPEs continue to manipulate the patent law, threatening litigation accompanied by licensing fee demands designed to extract a "tax" on the very innovation created to support and benefit consumers and the economy.

Since banks of all sizes license innovation and technology to support consumer use, they are frequent NPE targets. In fact, banks are now one of the top ten industries targeted by NPEs and like many industries, when faced with threats of expensive patent litigation (estimated to cost between $500K and$3.5M) many banks - especially smaller institutions- find that their only option is to settle these questionable claims rather than face paying even higher litigation costs to defend themselves against frivolous claims of patent infringement.

Senator Grassley, you have always championed efforts to defend business and individuals against frivolous and abusive lawsuits and your support for moving forward with legislation to prevent abuse of the patent system is critical. We thank you for your continued interest and appreciate your support of reforms that would prevent the abuse of the patent system, including abusive demand letters and threats to end users from NPEs.

Sincerely,



John K. Sorensen
President & CEO
Iowa Bankers Association

December 10, 2013

From: Robert R. Rees, Jr.

To: U.S. Senator Charles Grassley

Subject: Patent Reform

Good and Bad provisions in the "Innovation Act." (H.R. 3309)

Loser-Pay
Good Law

A rebuttable loser-pay is healthy for the patent system. This will cause both sides to consider the implications of escalating litigation, which will likely reduce assertion of bad patents and drive settlements on good patents.

Enhanced Pleadings and Limiting Discovery
Bad Law

The Innovation Act has a provision that dictates enhanced pleadings requiring that the plaintiff produce substantially more information, and a provision limiting discovery prior to claim construction.

The trial court, with its firsthand knowledge of the case at hand, is best positioned to deal with courtroom procedure especially given the breadth of variables in a patent lawsuit. Legislating courtroom procedure paints with a broad brush and will likely damage the trial court's ability to bring a fair solution in many situations.

Enhanced discover will likely increase litigation costs, risk and complexity. It could lock the plaintiff to a specific theory of infringement long before the plaintiff has the necessary information to know which theory is most appropriate when other theories are possible. This will likely complicate litigation later, potentially putting the plaintiff at a disadvantage as more information is made available later in discovery. In addition, limiting discovery could allow defendants to hide information critical to claim construction thereby placing the plaintiff at a strong disadvantage.

If loser-pay is made law these changes will not be necessary because both sides will drive for closure to reduce exposure to the risk of losing and paying the other side's legal costs.

Collecting fees from non-plaintiffs.
Bad Law

The Innovation Act has a provision that allows prevailing accused infringers to collect fees from non-plaintiffs who have an interest in the case.

This provision goes to the very foundation of American business. In any business, the personal risk of investors and executives is insulated by the use of a corporate entity – the risk is limited to the assets of the business. Patent business is a risky business. Any money invested in a patent can be lost completely in a multitude of ways. It is all or nothing with little in between. This provision enhances this high business risk by transferring additional risk to the personal assets of investors and executives. No doubt, this will have a chilling effect on patent enforcement activities across the board. Few investors are willing to bear this risk and many will no longer invest in patents.

Shrinking Post-Grant-Review Estoppel.
Bad law.

Under the current law, a post-grant review proceeding prohibits the petitioner from later arguing in other forums "any ground that the petitioner raised or reasonably could have raised during that post-grant review." The new law would narrow that estoppel only to grounds actually raised, thereby allowing a petitioner to argue the grounds that could have been raised, but were not in other post-grant review proceedings and in court.

A post-grant review is certainly the easiest way to invalidate a patent. If the accused infringer argues invalidity on one ground but chooses not to argue other available grounds, the infringer should be bound to the results for all. If not, the infringer could argue the other grounds in future post-grant reviews and in court, thus tying up the patent in litigation for years. Not only is this grossly unfair, it degrades the investment value of a patent by increasing risk and uncertainty, as well as adding unnecessary costs and delay.

Covered Business Method Patent Review.
Bad law. (I understand this provision has been removed in the current version)

The AIA creates an option for third parties to attack patents covering non-technological "covered business method" innovations through the use of a new post-grant review proceeding. The new law would somewhat restrict the scope of CBM review to only cover first-to-invent patents (rather than pre-AIA patents) as defined in Section 3(n)(1) of the AIA. The new law would also, inter alia, codify the USPTO's somewhat broad definition of "financial product or service" described in the Versata case.

SAP vs Versata is a classic case illustrating the problem of the "Covered Business Method" review. Patents classified as a CMB patent are degraded substantially. This PGR must be eliminated, not codified further.

Patent Term Adjustment.
Bad law.

The new law would eliminate any patent term adjustment for "B delay" occurring after an applicant files a request for continued examination (RCE) or an appeal. This change would have a significant impact on the patent term of a large number of issued patents.

For years, the PTO did not follow the law and refused to extend patent duration for their own delays. Recently the courts fixed this problem, but this provision would resurrect it.

Premise underlying "good law/bad law" categories.

A patent is an agreement between society and an inventor. An inventor teaches a new and useful invention to society so others can freely build upon it, thereby advancing innovation and our economy. In return, our government grants the inventor a short-term *exclusive right* to the invention and legally protects it.

In today's patent system, our government is failing to provide that protection. This failure is degrading a patent's ability to attract capital investment. With no investment, most inventors cannot protect or practice their inventions. Thus, infringement is encouraged, litigation is escalated, and the inventor's ability to generate value from the patent is debased. To make matters worse, infringers turn the tables, unjustly distorting this created chaos to drive reforms that further damage the investment qualities of patents. This weakens our economy by reducing economic output historically created by our patent system, which is contributing to low job growth and the economic malaise we are currently experiencing.

A patent is an *exclusive right* to an invention, which is a high cost for society. For the patent system to work, society must be repaid with significant value. Returning value to society generally requires that someone practice the invention because once practiced, others see it, use it and advance it. When working properly, as it did until recently, society is repaid with high levels of innovation creating high levels of job growth and economic output.

However, the Founders intentionally opened the U.S. patent system to all people regardless of their means or social class. Mass accessibility differentiated the U.S. patent system from other systems. Notably, mass accessibility was a primary characteristic that made our system much more successful than other systems, which were accessible only to the moneyed and the powerful.

Whether an inventor practices the invention or licenses it for others to practice, an invention requires capital. People with limited means seldom have the necessary capital. It did not take long for the government to learn that the patent itself must be capable of attracting investment. The Patent Act of 1836, created an *investment grade asset* by establishing a strong presumption of validity and one clear path to prove invalidity.

Since 1836, the results speak for themselves. The U.S. patent system has returned greater innovation and economic value to society than any patent system in history. This has been the foundation of our great economy for almost 200 years... until recently.

My premise is one single thing – a patent must be an *investment grade asset* for the U.S. patent system to return value to society. Today a patent is not that asset and that weakness alone is destroying our system of mass accessibility by transforming it back to a system only accessible to the moneyed and the powerful, which was, ironically, what existed before the U.S. patent system.

Capabilities Required for an Investment Grade Asset:

1. **Exclusive Right:** A patent is an *exclusive right* defined in the U.S. Constitution, law and 400 years of precedent, which when exercised must exclude others from making, selling, using or importing the patented invention. This capability creates a known benefit mapping directly to the *market value* of the invention, which strongly supports the investment qualities of patents.

   The absence of the *exclusive right* encourages infringement, because a patent cannot exclude infringers from the market the patent created. Once widely infringed, the patent may be incapable of attracting investment necessary to practice the invention due to that infringing competition. Thus, a patent may only remain capable of being licensed. With no injunctive relief, infringers do not license a non-practiced patent without litigation and courts award damages at a *percentage of revenue* - far below a *market value*.

2. **Presumption of Validity:** A patent must be presumed valid. There must be only one well-known and well-understood path to invalidate a patent. The bar to invalidate a patent must be high, using the highest form of evidence with the burden of proof on the party seeking to invalidate the patent. This capability creates a known and durable asset with defined and understandable risks, which strongly supports the investment qualities of patents.

   The absence of the *presumption of validity* increases risk that the patent's value could go to zero, as is the case now with Post Grant Review and undefined Subject Matter Eligibility. The absence also increases costs with extended litigation as infringers work to invalidate the patent using multiple avenues in the courts and in the administrative branch. Therefore, the asset becomes impossible to reasonably value for investment purposes, as is the case today.

3. **Independence:** The capabilities of a patent must be independent of its use. Whether it is practiced or licensed, its presumption of validity, exclusive right and transferability must not change. Independence creates a marketable asset of stable value regardless of its use, strongly supporting the investment qualities of patents.

   If a patent's capabilities are dependent of the type of use (practiced or non-practicing), its ability to attract investment is substantially degraded, as it is today. For example, many cutting-edge companies are commonly valued at *multiples of revenue* even if they are losing money. This is because there is a difference between *market value* and *revenue*. Market value is assessed by looking to the future of the market. Revenue value is assessed by what sold to date. In cutting-edge markets, such as those created by many patented technologies, that difference is substantial. The value created by a patent is the market that the invention creates, not the revenue.

   In today's legal landscape, a practiced patent earns *market value* because it can exclude others from the market and those excluded are willing to pay a high price to enter the market. Conversely, a non-practiced patent earns a *percentage of revenue* because the infringer is already in the market and cannot be excluded.

   Treating an asset differently solely based on its use, as it is today, (see *eBay vs MercExchange*) degrades the investment value of the asset from a *multiple of its revenue* value (market value) to a *percentage of its revenue* value. There are magnitudes of difference in potential return on investment solely based on usage, which substantially devalues a patent. This difference can make the patent unmarketable on its own.

4. **Transferability**: A patent must fully transfer all capabilities enjoyed by one owner to any subsequently owner. This creates a marketable asset that maintains its value regardless of the ownership.

   The failure to transfer all of a patent's capabilities, such that the subsequent owner cannot enforce it using the same capabilities, significantly devalues the asset. For example, if a patent provides a greater value to an inventor than it can to a purchaser, as is becoming the case now, the sale value of the patent is degraded to the level of value that it can provide to the purchaser.

   The government is failing to provide this capability transfer as the courts and congress attack patent investors, sometimes pejoratively called Patent Trolls or Non-Practicing Entities, with legislation designed to damage their businesses.

If any of these patent attributes fail, a patent does not function as an investment grade asset causing the patent system to fail.

Legislation Needed to Return a Patent to an Investment Grade Asset

Eliminate Post Grant Reviews

Ex Parte Reexamination, Post Grant Review, Inter Partes Review, and Covered Business Method (CBM) Patent Review (collectively PGR) eliminate the presumption of validity, which degrades investment value of the patent.

PGR's enable anyone (named or anonymous) to ask the PTO to reexamine a patent to double check that it was prosecuted correctly in the first place. A PGR does not necessarily invalidate a patent. It instead corrects an alleged error in issuing the patent, which in effect invalidates the patent.

Courts use a standard of "*clear and convincing evidence*", the highest form of evidence, and place the burden to prove invalidity on the infringer. A PGR circumvents the courts by opening a path through the administrative branch, which uses a "*more likely than not*" standard of evidence, the lowest form of evidence, and places the burden on the inventor to prove patentability all over again. These paths conflict with each other, have different standards of evidence and opposite burdens of proof, and they obfuscate the line between two coequal branches of government. The PGR problem is clearly illustrated in *SAP v. Versata*.

PGR's should be eliminated because PGR's remove the presumption of validity and degrade the investment value of a patent.

Reinstate the "*Exclusive Right*"

eBay v. MercExchange destroyed the "*exclusive right*" for non-practiced patents only. The loss of the "*exclusive right*" has significantly and fundamentally degraded patent's investment value making patents an asset of arbitrary value.

New law must uphold the *exclusive right* regardless of use.

Rebuttable Loser Pays

Many inventors sue unjustly based on questionable patents or on unsound legal theories causing damage to companies who do not infringe in an effort to extort a settlement.

Conversely, many infringers engage in excessive and hostile litigation as a strategy to clock out the inventor.

A simple and effective solution is to default patent infringement suits to a rebuttable loser pay system. Some cases are a close call, especially when the case involves highly complicated technology. In close cases, the loser should be allowed to rebut the default loser pay law, and then a judge or jury can determine who pays what based on the specifics of the case. A court is certainly in the best place to make this call. It is my experience that infringers drive the cost of litigation far more than inventors do.

Rebuttable Loser Pay will improve pleadings because it is incentivizes information sharing to reduce cost. It will also incentivize both sides to reduce litigation activities rather than increase them as is the case for infringers now.

This will improve the value of patents by reducing the cost of litigation, drive settlements, and improve the quality of patents being asserted.

Fund and Fix the PTO

It often takes the PTO over a decade to allow a patent. The causes of these delays are simple. The examiners do not read the patent applications, they do not read the prior art, and they throw up frivolous and ridiculous rejections based on what they did not read and do not understand. These delays are PTO generated by irresponsible patent examiners and their equally irresponsible management. One examiner told my attorney that his group *"is just not granting any patents so you have to appeal."* Appeal I did, and making the same arguments I made to the examiner, I won the appeal – three years later. The PTO regularly violates law when filing rejections and appeal briefs with the effect, and I believe the intent, of delaying the grant. The bullheaded, irrational entrenchment of patent examiners drives up the risk, extends prosecution time, encourages infringement and devalues patents.

PTO created delays enable potential infringers to strip inventions right off the PTO website, incorporate those inventions into their existing products, and saturate the market long before the inventor has an allowed patent that can protect against the infringers who just stole it.

If there is a Patent Troll problem, the PTO is creating it by causing excessively long delays. It takes so long to get a patent allowed that infringers fearlessly steal it, make millions (or billions) of dollars on it, and then loudly proclaim that the inventor is abusing them when the inventor seeks some redress for the theft. These adrenalized complaints have driven most of the recent anti-patent reforms and are driving the current round of proposed legislation. Just the fact that Congress is seriously considering changes hostile to patent protection creates uncertainty and degrades the investment value of patents.

The problem sits within the PTO and must be corrected

First, the PTO is not funded with all of the fees it generates. The PTO cannot hire enough examiners and those on staff are overworked. The PTO must be funded with 100% of the fees it generates so it can hire enough examiners.

Second, while the appearance of PTO hostility may be, in reality, driven by a lack of funding and resources, the PTO needs a cultural change. No group can simply declare that they are not allowing patents. Any patent reform must include PTO reform and training on their own laws.

Comments on Other Current Proposed Legislation:

Patent Abuse Reduction Act of 2013 (S. 1013) (Senators Cornyn and Grassley)
Bad Law

Smaller version of the Innovation Act that would focus on
(1) raising pleading requirements
(2) limiting discovery costs (especially pre-claim-construction); and
(3) awarding attorney fees for the prevailing party.

This bill cuts out the most egregious parts of the Innovation Act. Loser pay will correct the pleadings and discovery issues being addressed by these provisions, so these provisions are not necessary.

Patent Litigation and Innovation Act of 2013 (H.R. 2639)
Bad Law

Includes many provisions in parallel to the Innovation Act, but also includes a "sanction for abusive litigation" with mandatory review of each case by the court to ensure that no Rule 11(b) violations occurred.

Currently, a damaged party must file a Rule 11 complaint. If a party does not think it has been damaged, the courts should not presume it. This will damage patent values because it will increase litigation for no purpose.

STOP Act (H.R. 2766)
Bad Law

Expanding the covered-business-method post-grant-review to also cover non-financial business methods and removal of the sunset provision. This is roughly parallel to the Patent Quality Improvement Act of 2013 (S. 866).

SAP vs Versata is a classic case illustrating the problem of the "Covered Business Method" review. Patents classified as a CMB patent are already degraded substantially. Expanding this review to all patents will degrade the investment quality of all patents.

PATENT Jobs Act (H.R. 2582)
Good Law

Proposed elimination of the PTO from the sequestration rules.

I support this. In addition, the PTO should keep 100% of its fees. This will help eliminate the problems in the PTO

End Anonymous Patents Act (H.R. 2024)
No Opinion

Requirement that the patent owner regularly update ownership information in the public record, including the "ultimate parent entity."

No opinion.

PACES Act (S. 1478) (Senator Cardin)
No Opinion

The Bill would remove certain patent infringement actions from Federal District Courts to the Court of Federal Claims. In particular, the bill focuses on causes of action against the unlicensed use patented inventions in the provision of 9-1-1, enhanced 9-1-1, or other emergency services. The CFC tends to favor the accused infringer both in terms of procedure and remedies available.

No opinion.

Manufacturing Innovation in America Act of 2013 (H.R. 2605)
No Opinion

Tax deduction carryover for patent development expenditures where profit is made years later.

No opinion.

MODDERN Cures Act of 2013 (H.R. 3091)
No Opinion

Extension of patent term for four to seven years for diagnostic medical tests. The program would be run through the FDA.

No opinion

PARTS Act (S.780)
No Opinion

Act would prevent design patent owners from using those patents to prevent the use unauthorized spare-parts in the auto industry.

No opinion.

Medical Innovation Prize Fund Act (S. 627) (S. Sanders)
No Opinion

The bill would seemingly end drug patents with the text "no person shall have the right to exclusively manufacture, distribute, sell, or use a drug, a biological product, or a manufacturing process for a drug or biological product in interstate commerce."

No opinion.

Submitted by: Bob Rees, Jr.

December 10, 2013

From: Robert R. Rees, Jr.

To: U.S. Senator Charles Grassley

Subject: Current State of Patents from the Perspective of an Inventor

I am an individual inventor and entrepreneur. I write to explain how the patent system has collapsed, and to ask for your help.

The invention of the patent has driven innovation like no other invention in history. For over 400 years, the patent system has fueled the longest period of continual innovation in human history. We have inherited a proud history from folks like Whitney, Bell, Howe, Wright, Tesla and Edison who inspire generations of inventors and entrepreneurs. And, it's an amazingly simple invention: society's legalized trade of a limited duration monopoly in return for sharing a valuable idea for society to freely advance.

The key to the patent system's success, however, is not what a patent is. It's what a patent *does*. A patent acts as an asset that can be leveraged for investment, which, in turn, enables further innovation. In actuality, it is a vehicle for a marriage of people, ideas and capital that propels innovation, creates jobs and provides the bedrock of our great economy.

For a patent to act as that vehicle, it must have enough value to attract investment. It must be an investment grade asset.

Today, patent values have plummeted and that is killing the US patent system.

My inventions cover many different product channels; Toys, Tailgating items, Solar Charged Laptops, Tablets, Mobile phones and other handheld devices and a new Operating System which ties in many different components. While I have more ideas, which I have researched how big the market it and what problems it will help solve, I am remiss to file any more patents/provisional patents until I know as an individual inventor that my ideas will be protected.

When I invented my first invention, trademarked as the Bubble-Worm, I bet my career, my financial stability and much more on it. However, I knew I was on to something and I wanted to build my own company based on my own inventions. I also believed that the US patent system would protect me. That is, after all, what the American dream is all about.

I needed to establish a market fast. To do that, I needed money. I quickly learned that investors do not invest for charity. They invest for profit and they manage their risks. They told me that I needed a patent to put up as security, so I filed for one in mid 2009. Among other benefits, the patent would return value to the investors in the event my business failed. Patent protection also meant that I could secure an "*exclusive right*" to my invention for 20 years in exchange for disclosing it to the public so that others could build upon it. The "*exclusive right*" would allow me to hold competition at bay long enough to establish my

Here's why:

Since the decision in *eBay v. MercExchange*, I no longer have the "*exclusive right*" – the right to exclude others from using, making, importing or selling my inventions. This is true despite the fact that the "*exclusive right*" is guaranteed in the US Constitution, black letter law and 400 years of precedent. The "*exclusive right*" is the foundational principle of the patent system and the primary driver of a patent's value. The threat of injunction secures the market created by a patented invention for the inventor and protects it from those who would steal it. Once a patented invention has been stolen, exercising the "*exclusive right*" with the threat of injunctive relief decreases litigation and drives settlements that map closely to the market value of the invention.

Conversely, the inability to exercise the "*exclusive right*" drives unnecessary litigation and arbitrary settlements at much lower levels than the market value of the invention. Infringers have a strong advantage over inventors because they are generally wealthier and set up for litigation. Most inventors are neither. Without an injunctive threat, infringers embrace a strategy of escalating litigation to wear the inventor down with piles of paperwork, unnecessary expenses, and extended delays. After all, they cannot lose the market; they get to keep the golden goose no matter what happens. In the end, for an infringer, it's all about writing a check. If you can clock out the inventor, you may never have to write that check, or at least it will be only for the nuisance value of the suit.

The loss of the "*exclusive right*" has significantly and fundamentally damaged the value of my patents and all other patents in general.

Only a few years ago patentable subject matter meant that "*anything under the sun and made by man*" was eligible to be patented as long as it was not a law of nature, an abstract idea, or mathematical concept. Subject matter eligibility acts as a gate. Once the patent application is found to be of patentable subject matter, the gate is opened, and then the invention is examined under the statutory conditions of patentability.

However, the courts radically changed the definition of patentable subject matter in *Bilski v. Kappos*. The lower courts determined that in order for an invention to be patentable, it must either be a machine or it must transform matter – the Machine or Transformation test (MOT). The Supreme Court upheld the MOT test, but expanded it by saying "*it is not the only test*". However, that expansive language does not play out in the lower courts or the USPTO as both tend to use MOT exclusively.

Software is necessarily tied to a machine in that software does nothing without running on computing hardware – the opposite is also true. However surprising it may be, software running on computing hardware is not the machine prong of a MOT test. The software must (perhaps) control some part of the machine, like an interface or a device. This definition excludes a majority of software from patent protection. For example, most of the apps that you download on your iPhone cannot be protected by patents, or in another example, enterprise software protecting your laptop against hackers and crooks cannot be patent protected.

Bilski caused inventors to change how they worded patent claims by adding the words "in a computer system" or some other innocuous phrase that did not substantively change the meaning of the claims. However prior to Bilski, patent claims lacked that superfluous wording, and because Bilski was effectively retroactive to all patents, many patents were rendered unenforceable. This lowered the value of potentially thousands of patents to near zero, and thousands of others lost

years in prosecution as the claims were rewritten thus damaging their value. I lost three years in one of my patent families.

Because of confusion created by Bilski, infringers routinely challenge the subject matter eligibility of any software patent. The courts use different interpretations of Bilski and other cases producing a scrambled set of conflicting rulings depending on the court. Today, there is not even a sliver of clarity making it impossible to predict the outcome of a subject matter eligibility test. Due to this confusion, most software cases are settled for nuisance value in order to avoid the impossible to comprehend risk of the patent being invalidated. Those that do not settle are appealed by one or the other party, and often by both. To make matters worse, the appeals court also rules in unpredictable conflicting ways depending on which three of the ten judges are drawn. *CLS Bank v. Alice Corporation* makes this abundantly clear. Since almost every district court ruling is appealed, nothing in litigation makes much difference until the appeal, when the judges are drawn. You will win or lose solely based on which judges you get. It has nothing to do with law. It has nothing to do with legal precedent. The only relevant factor is luck – whether you have good or bad luck depends wholly on personal opinions of those judges drawn. It is complete chaos.

The risk inherent in a subject matter eligibility case is much higher for me, the inventor, than it is for the infringer. If the infringer loses, they lose the cost of litigation but still keep the golden goose. If I lose, I lose the patent altogether – my goose dies. Because the playing field is so radically unfair and risky, my patents are significantly devalued as are all other software patents. The chaos surrounding what is and isn't subject matter eligible is a primary factor of devaluing even market creating inventions to nuisance value.

A second foundational principle of our patent system is that an allowed patent is *"presumed valid"*, and that overcoming that presumption requires *"clear and convincing evidence"*, the highest standard of evidence, presented to a court. The burden to show proof of invalidity is on the challenger, which is normally the infringer. This is black letter law and has been a pillar of the patent system since the Patent Act of 1836. Establishing a strong presumption of validity came about because, prior to 1836, no infringer would settle an infringement lawsuit without litigating the validity of a patent, which escalated litigation, brought inconsistent court decisions and delayed settlement – much like today. This problem is well illustrated in the story of Eli Whitney and his cotton gin.

While validity is presumed in current law, in actual practice there is no presumption of validity at all due to post grant review procedures (PGR). Eli Whitney is rolling in his grave.

I group all possible PGR's into a single class for the sake of brevity. There are four distinct PGR's that enable anyone (named or anonymous) to ask the USPTO to reexamine a patent to double check that it was prosecuted correctly in the first place. A PGR does not necessarily invalidate a patent. It instead corrects an alleged error in issuing the patent, which in effect invalidates the patent. The standard of evidence for granting a PRG is simply *"more likely than not"*, the lowest evidentiary standard in federal litigation, presented to the administrative branch of government. Once the patent is admitted into a PGR, the patentee has the burden to once again prove the invention is indeed patentable.

PGR removes all presumption of validity by providing a clear path around the judicial branch of government and the statutory requirement of *"clear and convincing evidence"* by opening a path through the administrative branch of government using a *"more likely than not"* standard of

evidence. These paths conflict with each other, have different standards of evidence and different burdens of proof, and they obfuscate the line between two coequal branches of government.

SAP v. Versata is a classic example of the PGR problem. Versata sued SAP for infringement. The court determined that Versata's patent was valid and infringed, and damages were awarded; Versata won. During the case, SAP filed for PGR with the USPTO. After the case was won by Versata, the USPTO invalidated Versata's patent. Two coequal branches of government using different standards came to opposite rulings on the validity of the same patent. This creates enormous uncertainty in the patent system. Which branch of the government is responsible for invalidating a patent? What is the level of evidence required to invalidate a patent? Is a patent at all presumed valid? If two decisions are made that contradict each other, which one is right and how are they reconciled.

Nobody can value a patent with this level of confusion.

Nevertheless, that's not all that's wrong with the PGR system. On average, a PGR consumes three years of a patent's life. It is customary to stay litigation during a PGR and infringers normally refuse to settle until it is decided. A patent is a time sensitive, wasting asset; it is only enforceable for 17 years or less. The time lost during a PGR is not added to the end of the patent's term. It is just lost altogether. When calculated, a PGR cuts 3 years off the 17 year term or about an 18% reduction in the patent's value.

The America Invents Act (AIA) created a new class of PGR, which is even more hostile to patents. This class is directed toward what are known as "*business method*" patents, whatever that means. This procedure has a lower pleading threshold and extends the period for challenging a patent. New laws proposed in the House wish to extend this new AIA PGR to all patents. This change will provide an even easier path to invalidate patents, which of course, further devalues patents.

In the last few years, courts regularly reassign patent cases to the court in a jurisdiction located closest to the headquarters of the infringer. Also, under the AIA, patent suits can no longer be filed in a single suit against a group of similar infringers. They must instead each be filed individually. This means that there is high likelihood that when multiple infringement suits are filed in a single court, they will be moved to multiple different courts potentially all across the country each in a different state. As previously discussed, each court makes its own decisions and it is likely those decisions will contradict each other. Contradicting decisions can domino across cases causing even more uncertainty. Costs for the inventor can be driven to stratospheric levels as the inventor manages separate cases in multiple jurisdictions, likely in different states, and has to hire local counsel to manage each case. These changes have increased patent litigation complexity, risk, and cost, which devalues my patents and everyone else's patents as well.

As discussed previously, infringers often engage in excessive and hostile litigation as a strategy to clock out the inventor. Conversely, many inventors sue unjustly based on questionable patents or on unsound legal theories causing damage to companies who do not infringe in an effort to extort a settlement. A simple and effective solution is to default patent infringement suits to a rebuttable loser pay system. Some cases are a close call, especially when the case involves highly complicated technology. In those close cases, the loser should be allowed to rebut the default loser pay law, and then a judge or jury can determine who pays what based on the specifics of the case. A court is certainly in the best place to make this call. It is my experience that infringers drive the cost of

litigation far more than inventors do. This change will improve the value of patents and improve the quality of patents being asserted.

The USPTO takes an extraordinarily long time to allow patents. In my case, my first patent took over 3 years, and my second patent took approximately 4 and ½ years. The causes of these delays are simple. The examiners do not read the patent applications, they do not read the prior art, and they throw up frivolous and ridiculous rejections based on what they did not read and do not understand. After the second nonsensical rejection, inventors are forced to either file a Request for Continued Examination (RCE) or file an appeal. These delays are USPTO generated by irresponsible patent examiners and their management.

The USPTO regularly violates black letter law and their own administrative procedures when filing rejections and appeal briefs with the effect, and I believe the intent, of delaying the grant. The failure of examiners to follow their own laws devalues patents.

The USPTO for several years did not follow the law and refused to extend patent duration for their own delays. Recently the courts have fixed this problem, but it appears that the currently proposed patent laws in Congress are about to end that, as they will effectively subtract time from the patent term for filing an RCE or an appeal. This punishes the inventor for time squandered by the USPTO and adds uncertainty and devalues patents.

USPTO created delays enable potential infringers to strip inventions right off the USPTO website, incorporate those inventions into their existing products, and saturate the market long before the inventor has an allowed patent that can protect against the infringers who just stole it. If in fact there is a Patent Troll problem (the recent GAO report required by the AIA shows there isn't), the USPTO is creating it by their excessively long delays. It takes so long to get a patent allowed that infringers fearlessly steal it. Careers are made in less time. Companies startup and are acquired or go public in less time. They simply steal inventions, make millions (or billions) of dollars on them, and then loudly proclaim that the inventor is abusing them when the inventor seeks some redress for the theft. These adrenalized complaints have driven most of the recent anti-patent reforms and are driving the current round of proposed legislation. Just the fact that Congress is seriously considering changes hostile to patent protections creates uncertainty and devalues patents.

For many inventors, a so-called "Patent Troll" is the sole resource available to convert the patent into some sort of value. In my situation, that is certainly the case. Yet somehow, investors are wrongly portrayed as the evil Patent Troll taking advantage of inventors and infringers, and stifling innovation with added costs. This cannot be further from the truth, and is indeed exactly opposite the truth.

The part investor's play is essential to drive patent value and therefore, drive investment in innovation and startup companies. Their core contribution is converting assets into cash, thus adding value in many situations. For example, existing businesses often develop ancillary technologies not core to their business and they need capital to expand into markets that are their core businesses. Selling unused ancillary patent portfolios to investors to convert to cash plays a highly valuable role of providing capital used to expand products, markets and further innovation. In another example, failed companies sell patent portfolios to investors to convert to cash, which thereby recoups losses for the investors of the failed company. This particular function, recouping losses, indirectly supports the valuation of other patent holding businesses as they attempt to get funding to build new products or expand into new markets. Another example is my particular

case. An investor is converting one of my widely infringed patent portfolios into cash, which is funding the development of my software company and further innovation.

Patent Trolls (aka investors) are being actionably attacked in the courts, in the media and in Congress. My government is papering them with subpoenas for a variety information in an obvious effort to harass, intimidate and beat them into submission. Stunningly, investors are treated differently in courts than practicing entities. If in an investor hands, a patent is less enforceable than that same patent in the inventor's hands, the patent can't be sold by the inventor without experiencing a loss. This differentiated treatment of patent rights depending on who owns the patent knocks the bottom right out of the value of the patent.

As previously stated, investors do not invest for charity. They invest for profit. If they can't convert a patent into profit, they will not invest. Patents have been so dramatically devalued at this point, it is difficult to find an investor. What's more, my government is attempting to further devalue patents in an effort to stop these fictitiously evil "Patent Trolls" with even more new laws.

It's a simple supply and demand question. If the supply for patents is damaged further by devaluing patents, the demand for them will evaporate because no one can make a profit and therefore no one will invest. And conversely, if the demand for them is damaged further by damaging so called Patent Trolls, the value of patents will go to zero because there will be no one to buy them. Once that happens, no inventor will take on the financial and personal risk to file for a patent or much less to work to innovate at all. They'll just go fishing and the rest of us will revert to the feudal system of trade guilds and trade secrets that existed prior to the patent system some 400 years ago.

Today under the current patent system, my patents, while potentially worth hundreds of millions or billions of dollars, may only generate a fraction of that value. While mine are exceptional in value, lesser software patents have been rendered completely worthless. Unbelievably, my government is killing patents - said differently, killing innovation. Our courts, Congress, and the Administration are eliminating patent protection for software, an entire field of human endeavor - a field that integrates with virtually every industry on the planet and is one of the last industries that is almost completely owned by US companies.

The Administration, Congress and the Courts must take proactive measures to define subject matter eligibility, to restore my Constitutional right to an injunction, to eliminate post grant reviews, to put in place rebuttable loser pays, and to speed up the USPTO.

In a Nutshell: Nothing short of these changes will restore patents to the investment grade assets that they were just a short time ago. Nothing short of these changes will save the American Dream and American innovation in general. Our nation, the United States of America is on a threshold..the momentum of the individual states "Inventor Congress" concept is starting..let's keep it going. Without ideas, where do the new jobs come from? Where does desperately needed tax revenue come from? From new products invented by inventors.

Sincerely,

Bob Rees, Jr., Inventor

December 11, 2013

The Honorable Charles E. Grassley
United States Senate
135 Hart Senate Office Building
Washington, D.C. 20510

Dear Senator Grassley:

I believe Patent Trolls are costing the U.S. millions, possibly billions, of dollars in unwarranted costs which impacts not only individual companies, but also the American economy.

Having personally owned several technology companies, I have fallen victim to this practice that is now completely out of control. In my experience, I have seen these patent lawyers prey on smaller companies that they know don't have the means to litigate or appear in court. This leaves companies with no choice but to settle at a reduced cost without a fight, and through no fault of their own, end up further endorsing the practice or face costing their company several million dollars.

Aside from the damage being caused to small companies, large organizations are also impacted. Patent Trolls know most companies will not go to the expense of going to court. These lawyers know this and collect substantial dollars based on trickery and little legal evidence.

This type of litigation causes organizations, both large and small, to invest time, resources, and significant dollars, which distracts from time that could and should be spent growing their business, essentially taking money away from the company and the overall business community.

Personally, I have had three different patent lawyers attack my last organization, an electronic health record company (EHR). There were 20 companies in one lawsuit (over half of which were smaller businesses) and there were thousands of hours of legal fees tied up in that lawsuit. In addition, two other lawsuits were brought against my company which included other EHR companies as well. In all of these cases we settled out of court to avoid additional litigation costs, however, in all the cases I do not believe any patents were infringed upon, but I didn't have the resources or money to invest in a lengthily court battle, so these patent lawyers ultimately cost my company over one million dollars over a two-year period of time.

The bigger issue at hand is that in the majority of cases with Patent Trolls, there is only a potential for infringement and there is no significant impact on anyone's business. There is no true harm, and the Patent Trolls are unethically targeting businesses they know will settle to make money. We must find a way to strengthen the requirements around patent infringement so unscrupulous lawyers can't work through loopholes to take resources and dollars from companies that are trying to make a positive impact on businesses in their community and the overall economy.

Sincerely,

Don Schoen
CEO
BettrLife Corporation

BettrLife Corporation 6200 Aurora Avenue, Suite 405E Urbandale, IA 50322 515.421.8021 info@bettrlife.com

December 11, 2013

The Honorable Chuck Grassley
United States Senate
135 Hart Senate Office Building
Washington, D.C. 20510

Dear Senator Grassley:

Patent troll abuse is an increasingly burdensome issue for businesses across Iowa. I am grateful the Senate Judiciary Committee will convene a hearing to examine how to protect businesses from this abusive practice.

Kum & Go, LC has been a target of patent trolls. Most recently, we received correspondence from U.S. Ethernet Innovations, LLC (USEI) claiming infringement with ethernet technologies utilized in many of Kum & Go's day-to-day business activities. These activities include internet connections, security cameras, point of sale and inventory management systems, to name a few. In their letter, USEI stated that they had retained Robbins, Geller, Rudman & Dowd, LLP, "the largest and most successful plaintiff's law firm in the world" to assist in patent enforcement efforts. They claim to have filed a patent infringement lawsuit against 23 major corporations believed to infringing on ethernet patents. In the interest of "avoiding protracted litigation," USEI offers to sell Kum & Go a Retail Operator License Agreement at a discounted pre-litigation fixed fee basis.

An additional letter was sent from Niro, Haller & Niro, Ltd. on behalf of their client Innovatio IP Ventures, LLC, claiming "likely" infringement with wireless local area network (WLAN) or "Wi-Fi" technology and wireless "mesh" networking. The Niro firm claims that Innovatio's portfolio includes 31 United States patents. Further, their letter directs Kum & Go obtain copies of and review the referenced patents. Innovatio suggest the "likely" areas of infringement are similar to those referenced by USEI. Additionally the letter claims that any "hotspot" provided by Kum & Go to its customers or associates would constitute a violation of their patents. Similarly, Innovatio offers a discounted license fee if the parties are able to finalize an agreement within a specified window.

These claims have cost Kum & Go thousands of dollars in legal fees and corporate counsel has wasted numerous hours dealing with these frivolous claims – time and money that should have been spent on core business functions.

Again, I thank you for your attention to this matter. I look forward to a productive hearing, and the passage of much needed legislation to protect Iowa and the nation's businesses.

Sincerely,

Charley W. Campbell
General Counsel and Corporate Secretary

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202 Blue Creek Drive
Urbana, Iowa 52345

December 12, 2013

The Honorable Charles E. Grassley
United States Senate
135 Hart Senate Office Building
Washington, D.C. 20510

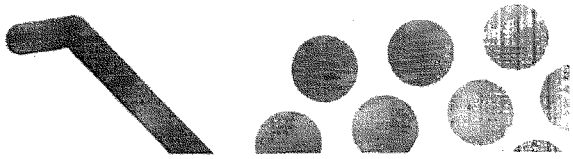
Dear Senator Grassley:

We were first contacted by a patent troll in October of 2012 when they presented us with an "opportunity" to license a patent that we may have interest in. That quickly escalated to what the troll referred to as a "situation" because of our unwillingness to respond. The patent presented was complicated, but in no way were we infringing on this patent. The covered business method would have covered us in this instance, and would likely limit the trolls ability to have success using this patent to harass small businesses like ours. We received multiple emails, had a few short phone calls, and spent about 20-30 hours of our Senior Leaderships time as well as 8 hours of our attorney's time to effectively encourage the troll that we were not a good target. Our concern now is that it has been 2 months since they have contacted us, but since they threatened to include us with the next group of companies they plan to sue, all we can do is wait. So far this has been not much more than a distraction, but it also places some uncertainty. If this escalates, I can only imagine the threat it will pose to our company.

Sincerely,

Tim Guenther

Tim Guenther
Clickstop, Inc.
202 Blue Creek Drive
Urbana, Iowa 52345



December 13, 2013

The Honorable Charles E. Grassley
United States Senate
135 Hart Senate Office Building
Washington, D.C. 20510

RE: S. 1720 - Patent Transparency and Improvements Act of 2013

Dear Senator Grassley:

Kinze Manufacturing strongly supports efforts to stop Patent Trolls from abusing the patent system and hurting American businesses. Founded and headquartered in Iowa, Kinze employs nearly 1000 Iowans who work hard every day to provide thousands of American farmers with the planters and grain carts they need to help feed the world. Time and again, Kinze innovations have changed the way farmers plant—increasing their efficiency and yields. A strong and healthy patent system helps Kinze maintain its market leadership and deliver these innovations to the farmers.

Unfortunately, the actions of Patent Trolls threaten the health of the system. Kinze has experienced the impact of patent assertion entities first hand. Recently, Clear with Computers sued Kinze alleging the Kinze website infringed two patents. Clear with Computers makes no products and has filed over 60 patent lawsuits since 2008. This suit cost us many hours of time and resulted in significant legal fees before we were able to resolve Clear with Computers' allegations.

That experience has left a lasting impact on Kinze. Contract negotiations with suppliers and service providers now routinely include allocation of liability in the event of Patent Trolling. These negotiations require additional resources and delay research, development and production of new products. This slows farmer's access to the latest technology. Technology which will help them get more out of every acre while reducing their costs and protecting their soil.

To help, something must be done to restore balance to the patent system. As you consider legislation to address the threat posed by Patent Trolls, we strongly encourage you to consult representatives from all industries, including agricultural manufacturing. Kinze supports efforts to increase the pleading requirements for filing suit, reduce the burden of discovery and increase transparency of ownership in patent litigation. At the same time, we urge caution on provisions which could create significant hurdles for all inventors seeking to enforce their patent rights, such as blanket cost shifting provisions.

Kinze Manufacturing, Inc.
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Williamsburg, Iowa 52361-0806
Phone: 319-668-1300 · Fax: 319-668-3013
www.kinze.com

Kinze is more than happy to provide additional information or answer any questions you may have concerning the serious impact of Patent Trolls within our industry. Please feel free to address any inquiries to me using the contact information below.

Sincerely,

Brad Powers
Corporate Counsel
Kinze Manufacturing Inc.

Kinze Manufacturing, Inc.
I-80 at Exit 216 · 2172 M Avenue · P.O. Box 806
Williamsburg, Iowa 52361-0806
Phone: 319-668-1300 · Fax: 319-668-3013
www.kinze.com

Date: December 13, 2013

To: Senator Grassley

Subject: Patent Reform

My name is Paul Morinville. I am an individual inventor and entrepreneur. I ask for your time to understand the patent system from the perspective of a prolific inventor, and I ask for your help.

My premise is a single thing. A patent, standing on its own, must be an investment grade asset in order for the patent system to work. A patent must be capable of attracting capital so that an inventor can practice and protect the invention.

In today's patent system, our government is failing to support the value of patents. This failure is degrading a patent's ability to attract capital investment. With no investment, most inventors cannot protect or practice their inventions. If a patent is incapable of attracting investment, no person will disclose their ideas because there will be no return on the investment required to patent an idea. They will instead keep them secret.

Several government actions have caused this situation. *eBay v. MercExchange* eliminated injunctive threat. *KSR* and *Bilski* made it easier to invalidate patents. The AIA added new *Post-Issuance Procedures* (PIP) in the executive branch of government (separate and distinct from existing procedures in the judicial branch) using different rules of evidence, different standards of review, and opposite burdens of proof. PIP's destroy the presumption of validity that is the core principle of our patent system. The Federal Circuit produces conflicting and confusing decisions and appears at times to legislate from the bench (*Soverain v. Newegg*). Today, these issues have aggregated to radically increase the risk that a patent will be invalidated in one way or another, and to ensure that litigation will go on for years and years. (I refer you to the letter by Robert Rees of Milo, IA to Senator Grassley dated December 10, 2013).

This situation does not go unnoticed by infringers. If infringers stand no chance of injunction, they cannot lose the market, so they only risk money. Large infringers normally are well capitalized and set up for litigation. Inventors are neither. An inventor can easily be litigated into oblivion. Therefore, a weak patent system acts to encourage infringement and to escalate litigation. All of issues above combine to devalue the investment qualities of a patent to the point that inventors can scarcely attract investment to practice or protect their invention.

In short, our government is killing the patent system for inventors and small businesses.

Weak patents act to create so called patent trolls. As an inventor with dozens of patents and pending patents, I have sat in many discussions with multiple law firms and industry experts related to licensing my patents. All of these discussions wrap around risk management. If you go after a large company, you run the risk of daisy-chained perpetual litigation and a high probability of invalidation. Conversely, if you sue smaller companies or end users, that risk is substantially lower because they do not have the resources or sophistication to carry on an extended suit. They are much more likely to settle. This is the primary reason for the recent spree of demand letters and suits against small companies. Thus, we have a so called patent troll problem.

I am sickened that the shrill and unfounded arguments made by large multi-national infringers has been able to affect law and influence courts to weaken patents to this point. Now the same multi-

nationals leverage the chaos they've created to twist the knife one last time in an attempt to pass legislation fatal to inventors. And, many of the provisions in the current legislation will be fatal.

Today, only the most significant inventions remain investment grade assets. If an invention has less than several hundred million dollars of infringing revenue, it will be very difficult to find a contingency law firm or an investor (otherwise known as a patent troll). A major contingency law firm recently told me that they are no longer taking any software patent cases because of this chaos.

If there is a so-called patent troll problem (a recent GAO report required by the AIA shows there isn't), it is also created by the PTO. My first patent took 7 years to be allowed. During that time, the largest multi-national enterprise software companies on the planet built products infringing on my inventions and the market become saturated with those infringing products. I have patents still pending in the PTO after 12 years.

The current proposed laws fix none of these problems. They instead make these problems worse. (I again refer to the letter by Robert Rees of Milo, IA to Senator Grassley dated December 10, 2013).

In order to fix the patent system, we must move in the opposite direction that we are currently moving - we must strengthen the investment value patents – not weaken it. This will enable inventors to get the capital they need to practice and protect their inventions. It will drive early settlements and reduce costly and often perpetual litigation. It will enable the PTO to speed the allowance of patents and improve quality. In the end, it will eliminate most of the perceived patent troll problem.

Four things must be done to fix the patent system:

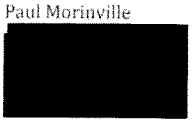
1. We must reinstate the "exclusive right" guaranteed in the Constitution, black letter law and 400 years of precedent, which was judicially eliminated in *eBay v. MercExchange*.
2. We must eliminate the judicially created "*abstract idea*" category of subject matter eligibility and instead invalidate junk patents on the other statutory conditions of patentability.
3. We must eliminate all Post-Issuance Procedures.
4. And finally, we must fully fund the PTO with all of the fees it earns.

None of the proposed new laws deal with any of these issues. If Congress makes even small changes damaging to the value of patents further while patents are as weak as they are now, there will be no patent system except that which remains for large multi-national companies to attack smaller companies.

Our current patent system weakens our economy by reducing economic output historically created by our patent system. This weakness is contributing to low job growth and the economic malaise we are currently experiencing. Fixing it will reverse that.

I pray my point is understood and clear. Please contact me if you have any questions or require more information. Thank you for taking the time to hear me out.

Paul Morinville



The Internet Association

VIA Electronic Delivery

December 16, 2013

Ranking Member Chuck Grassley
135 Hart Senate Office Building
Washington, DC 20510

Dear Ranking Member Grassley:

The Internet Association thanks the Senate Judiciary Committee for convening tomorrow's hearing on "Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse." Since its inception, The Internet Association has promoted legislation to combat abuses of the patent system by certain patent assertion entities ("PAEs"), otherwise known as patent trolls. Legislation to combat the patent troll problem is vital as our industry and our customers have become primary targets of patent trolls.

Due to the exorbitant costs of challenging an infringement claim in court, many alleged infringers settle claims even when that patent is likely invalid or not infringed. PAEs increase the likelihood of favorable settlement outcomes by targeting small or mid-sized companies that do not have in-house patent expertise and are mere end users of an allegedly infringing product or service. The asymmetrical costs and risks of patent litigation have turned patent assertion into a booming industry. The direct costs for defendants in patent assertion cases by PAEs and other non-practicing entities rose from $7 billion in 2005 to $29 billion in 2011. The total business costs to defendants of assertions by PAEs may be twice that amount.

PAEs do not face commensurate costs or risks because they have no operating business other than patent assertion. Further, some operating businesses engage in "privateering," assigning their patents to PAEs in order to shield themselves from cross-licensing obligations or countersuits. PAEs also insulate themselves from risk by operating through shell companies with little or no assets.

The disproportionate costs and risks of litigation harm the entire patent system. The heavy burdens and risks that lead many companies to settle keep in circulation low-quality patents that likely would not survive adversarial testing. The increased patent assertion activity by patent trolls armed with low-quality patents creates risks and disincentives for entities to engage in the very innovation that the patent system was designed to encourage. Resources that would have been devoted to innovation and job creation are instead diverted to fending off or settling with patent trolls. It is for this reason that the White House has repeatedly called for legislation "to protect innovators from frivolous litigation and ensure the highest-quality patents."

The Internet Association is encouraged by the legislative proposals in the Senate that address abusive litigation by patent trolls and that improve patent quality. Senator Cornyn's "Patent Abuse Reduction Act" would make litigation more efficient and less costly by requiring better

information in the initial complaint, staying discovery until claim construction, and requiring parties to pay for discovery that goes beyond core documents. Senator Hatch's "Patent Litigation Integrity Act" would curb frivolous patent claims by clarifying the standard for fee shifting. Chairman Leahy and Senator Lee's "Patent Transparency and Improvements Act" includes a customer stay and measures aimed at bad-faith demand letters to address some of the concerns of end users. Finally, Senator Schumer's "Patent Quality Improvement Act" would expand and extend the Patent & Trademark Office's review program for covered business method patents to reduce the amount of litigation driven by low-quality patents.

The legislative response to abusive practices of patent trolls must be comprehensive and include elements of each above-mentioned proposal. It must change the incentives in patent litigation and also ensure that there is an effective way to challenge low-quality patents. The Internet Association is encouraged by the progress that has been made on this issue to date and looks forward to working with you as the Senate progresses toward legislation that stops patent trolls, protects small businesses and promotes innovation.

Sincerely,

Michael Beckerman
President &CEO

Illinois Tool Works Inc.
Corporate Headquarters
3600 West Lake Avenue
Glenview, IL 60026-1215
Telephone: 847.724.7500

December 16, 2013

The Honorable Charles Grassley
United States Senate
135 Hart Senate Office Building
Washington, DC 20510

Dear Senator Grassley:

Illinois Tool Works (ITW), a $14 billion global manufacturer, was founded more than 100 years ago based on a single patent. Today, ITW has its global headquarters in Glenview, IL and employs nearly 100 Iowans. We have more than 12,000 active patents worldwide, and on average we are issued more than 1000 new patents each year. In fact, ITW is consistently among the top 150 companies annually for patents issued in the U.S. Once characterized by Fortune Magazine as "the ultimate nuts-and-bolts company", many products we invented and patented decades ago are still used in commerce, produced by us or by others who have improved on our original patents over time and received patents of their own.

ITW owes its very existence and its continued global success to innovation and the ability to protect that innovation through a strong patent system. We have participated in numerous public policy debates on intellectual property rights throughout our history, including being actively involved in the development and ultimate passage of the Leahy-Smith America Invents Act (AIA) during the last Congress. We appreciated your involvement and support of that legislation, which brought about significant reform of our patent system for the first time in 50 years.

Legislation to reform our patent system is again being considered in Congress, this time in response to allegations of litigation abuse by so-called "non-practicing entities" (NPEs), or "patent trolls". Many believe such abuse could cause significant damage to our system if left unchecked. The House of Representatives has already passed legislation on this subject, HR 3309 by Rep. Goodlatte (R-VA), and similar (though narrower) legislation, S 1720 by Sens. Patrick Leahy (D-VT) and Mike Lee (R-NE), is pending in the Senate. S 1720 is scheduled for a hearing in the Senate Judiciary Committee on December 17.

We agree that litigation abuse does occur in the patent arena, and we support curbing such abuse in theory. However, we are concerned that some suggested methods for discouraging abusive litigation by patent trolls, if not carefully crafted, will have unintended consequences and could actually limit the ability of legitimate innovators and patent holders to protect their intellectual property. We therefore urge you and the Senate to proceed with caution in considering additional changes to the patent system. The first principle of any proposed legislation in this area should be to do no harm to the current system.

We should note that there are some positive aspects to both HR 3309 and S 1720. For example, both contain language that would correct an inadvertent "scrivener's error" that found its way into the AIA involving judicial estoppel in the Post-Grant Review process. Another improvement to the AIA involves a clarification regarding the use of District Court Claim Construction rulings in Post-Grant and Inter Partes Reviews.

However, we do want to highlight several areas of concern that we hope will be addressed before the bill reaches the Senate floor.

TRANSPARENCY OF PATENT OWNERSHIP

Requiring disclosure of patent ownership may deter patent trolls from abusive behavior, but for companies like ITW, with significant patent portfolios, complex organizations and global operations, requiring the disclosure of all parties with a tangential relationship to the patent will prove administratively burdensome, costly, and require the public disclosure of sensitive or business-proprietary information. Care should be taken in this area to avoid inadvertently requiring disclosure of sensitive information that does not address the real problem of obscured ownership by trolls, and S 1720 as currently drafted does a much better job at this than H 3309.

STAY OF DISCOVERY

A favorite tactic of patent trolls is to file litigation against alleged infringers, then request massive volumes of information through discovery, in hopes that the defendant will settle rather than incur the costs of providing the requested information. To curb that behavior, HR 3309 contains a provision automatically staying discovery in all patent cases for up to one year or until the claim construction has been determined by the Court. While this could provide a disincentive for patent trolls to use this tactic, it would also prevent the resolution of many cases between competitors where the issues can be easily defined or where the defendant can prove through discovery that no infringement occurred. If discovery is automatically stayed in all cases, the cost of litigation will increase unnecessarily.

S 1720 as introduced does not contain such a provision, and we would urge that it not be included. However, if the issue is addressed by the Senate, flexibility is needed to allow cases to be resolved expeditiously when warranted. Our solution is to exempt cases between competitors from the automatic stay.

BAD-FAITH DEMAND LETTERS

S 1720 takes a narrow approach to curbing abusive behavior by patent trolls through a provision that would make it a violation of the Federal Trade Commission Act to send so-called "bad-faith" demand letters. While this approach may be preferable to that taken in HR 3309, we suggest that careful attention be paid to the definition of the practices that would be considered "bad faith" in order to avoid impacting legitimate actions taken by patent holders to protect their rights.

In summary, we appreciate the opportunity to express our views on this important legislation, and we look forward to working with you and your staff as it moves through the process. Please let us know if you have questions or need additional information.

Sincerely,

Mark W. Croll

Mark Croll
Vice President, Intellectual Property

December 17, 2013

The Honorable Orrin Hatch
U.S. Senate
104 Hart Senate Office Building
Washington, DC 20510

Dear Senator Hatch,

We are writing to express our support for S. 1612, the "Patent Litigation Integrity Act of 2013." This legislation would enable fee shifting in unsuccessful patent infringement lawsuits. The risk of fee-shifting would help to discourage Patent Assertion Entities (PAEs) from filing frivolous lawsuits.

To deter abusive patent litigation we must reverse the economic incentives that fuel frivolous patent infringement lawsuits. Fee shifting, or the ability of the court to award the prevailing party reasonable fess and other expenses, is a critical component to discourage meritless lawsuits. We applaud legislative efforts to provide the courts this critical tool.

Importantly, S.1612 goes further. The legislation ensures that fee shifting will be effective by empowering the court, on a motion from the defendant, to order the party alleging infringement to post bond to cover the other party's expenses. Too often PAEs find ways to escape accountability. Were PAEs subject to fee shifting, many would seek to avoid payment, including using various corporate entities and subsidiaries that can hold few assets and be wound down without being held accountable. S.1612 would effectively block the quest to avoid accountability by ensuring PAEs post bond in advance, ultimately ensuring they are subject to downside risk when they lose frivolous lawsuits.

We support your efforts to reverse the existing asymmetrical litigation risk. We believe S. 1612 will hold PAEs financially accountable and ultimately deter them from filing frivolous lawsuits that unnecessarily harm financial services providers and the consumers they serve.

We look forward to working with you on this important legislation.

Sincerely,

American Bankers Association
American Insurance Association
The Clearing House
Credit Union National Association
Financial Services Roundtable
Independent Community Bankers of America
NACHA—The Electronic Payments Association
National Association of Federal Credit Unions
National Association of Mutual Insurance Companies

How The New Patent Abuse Reduction Act Levels The Playing Field

Filed in Cloud Industry Insights by Alan Schoenbaum | May 23, 2013 8:50 am

The patent abuse fight is picking up momentum, and we have new ammunition. Yesterday, the senior Senator from Texas, John Cornyn, introduced the Patent Abuse Reduction Act of 2013 (the "PAR Act"). My home state U.S. Senator has just taken a huge step to solve the patent troll epidemic. This bill is a breath of fresh air in the battle against patent trolls and their brazen abuse of the patent system. The PAR Act is designed to "deter patent litigation abusers without prejudicing the rights of responsible intellectual property holders," Cornyn said in a statement[1].

We encourage you to read the PAR Act – we have linked it at the bottom of the page. For everyone out there who is not a lawyer, though, we want to take a minute to explain what this bill means and why it is so important:

- Patent trolls are notorious for hiding their claims behind flimsy lawsuit pleadings. The current standards for making an accusation of patent infringement do not require plaintiffs to explain what they allege to be infringing or how the defendant infringes. This lack of clarity forces anyone accused of patent infringement into an endless (and expensive) guessing game. Section 281A of the Patent Abuse Reduction Act forces patent assertion entities (PAEs) to spell out their claims and be specific about their complaints. These specifics include how the patent is being abused; the names, model numbers and other information of the products or services alleged to infringe the claim and where the infringement occurs; and a host of other factors most patent trolls can currently omit from their suits.
- Patent trolls usually hide their actual owners behind shell companies. These patent trolls don't want publicity because they don't want to be known for who and what they are. Section 281A of the bill removes the anonymity of patent trolls and forces them out of hiding, by requiring them to identify not only themselves, but any other businesses or individuals who are co-owners, assignees, licensees or have a legal right to enforce the patents in question, along with exposing any person or business with a financial interest in the patent infringement case.
- Another common tactic of patent trolls is to find a first patent, sue people on that patent with a first shell company, and settle… only to find and sue the same people again on a second patent with a second shell company. This bill makes it possible to expose the money machine behind patent trolls, and to make them come to the table and take part in the case.
- One of the most expensive parts of a patent lawsuit is something called "discovery" – where companies are forced to organize and hand over mountains of internal documentation to the patent trolls so that they can introduce "evidence" of patent infringement. Trolls use discovery to drive up the cost of the lawsuit, making it cheaper to settle, and to fish for more ways in which they can apply their claims. Section 300 of the PAR Act adds fairness to the discovery process by limiting discovery until after the meaning of the patent (called "claim construction") has occurred, and shifting much of the cost of unreasonable discovery back to the patent troll.

- Finally, section 285 institutes a "loser pays" rule for unreasonable litigation. This is the ultimate tool for balancing litigation, freeing businesses and individuals from having to shoulder the massive financial burden of fighting a frivolous patent infringement claim.

The Patent Abuse Reduction Act beams necessary sunlight onto these all-too-frequent proceedings and is a major step toward fixing the problem of patent abuse. It has a fitting acronym – the "PAR" Act – because it helps put companies "at par" and on an even playing field with those who would abuse the system.

At Rackspace, we've been on the front line of the problem; patent trolls have become our most pressing legal issue. We have seen a 500 percent spike since 2010 in our legal spend combating patent trolls. And we're not alone. We hear almost daily about companies and developers that have been impacted by patent infringement suits filed for no other reason than to extort money.

We've stood up and fought back. Just recently we fought a troll in court, and won[2]; we turned the tables on another, suing them in Federal Court[3]; and we filed a challenge with the patent office against a third[4].

An army is now forming to fight patent trolls[5], and, if passed, Sen. Cornyn's Patent Abuse Reduction Act of 2013 will be a very powerful weapon with which to battle them.

Read the full Patent Abuse Reduction Act of 2013[6] here.

Endnotes:

1. statement: http://www.cornyn.senate.gov/public/index.cfm?p=InNews&ContentRecord_id=082eaec-1983-41a7-b656-156c1b4b77cb&ContentType_id=b94acc28-404a-4fc6-b143-a9e15bf92da4&f6c645c7-9e4a-4947-8464-a94cacb4ca65&Group_id=bf378025-1557-49c1-8f08-c5df1c4313a4
2. we fought a troll in court, and won: http://www.rackspace.com/blog/mathematics-cannot-be-patented-case-dismissed/
3. we turned the tables on another, suing them in Federal Court: http://www.rackspace.com/blog/why-rackspace-sued-the-most-notorious-patent-troll-in-america/
4. we filed a challenge with the patent office against a third: http://www.rackspace.com/blog/abolish-the-patent-vanquish-the-troll/
5. An army is now forming to fight patent trolls: http://www.rackspace.com/blog/an-army-is-forming-to-battle-patent-trolls/
6. Patent Abuse Reduction Act of 2013: http://a3ba8a9e733f0f48e083-34c21d0cbf24e519af797fddd23e1832.r18.cf1.rackcdn.com/Documents/Patent%20Abuse%20Reduction%20Act.pdf

Source URL: http://www.rackspace.com/blog/how-the-new-patent-abuse-reduction-act-levels-the-playing-field

Contact:
Courtney Lamie
276-492-4248 (mobile)
202-250-3006 (desk)

Application Developers Alliance Applauds Cornyn Patent Reform Legislation

Bill Would Help Disarm Patent Trolls, Promote Innovation

Washington, D.C. (May 22, 2013) – Today the Application Developers Alliance applauded Senator Cornyn (R-TX) for introducing legislation that will help protect developers from patent trolls.

"We welcome Senator Cornyn's thoughtful, multi-faceted effort to substantially reduce job-killing abusive patent litigation," said Jon Potter, President of the Application Developers Alliance. "Along with Chairman Leahy, Senator Schumer, Chairman Goodlatte and others, Senator Cornyn's support of software patent reform demonstrates a commitment to the entrepreneurs who are driving the country's economic recovery. The bill would help disarm patent trolls of some of their most potent weapons."

The Application Developers Alliance is currently hosting Developer Patent Summits nationwide, including a summit tonight in New York, convening app developers, entrepreneurs, patent experts, and policymakers to discuss software patent challenges, trolls, and ideas for reform. Learn more at: http://devsbuild.it/devpatentsummit.

About the Application Developers Alliance

The Application Developers Alliance is an industry association dedicated to meeting the unique needs of application developers as creators, innovators, and entrepreneurs. Alliance members include more than 20,000 individual application developers and more than 120 companies, investors, and stakeholders in the apps ecosystem.

-###-

From the Austin Business Journal :http://www.bizjournals.com/austin/print-edition/2013/06/21/patent-trolls-threaten-tech-companies.html

SUBSCRIBER CONTENT: Jun 21, 2013, 5:00am CDT

Op-Ed: Patent trolls threaten tech companies and Austin's vibrancy

Emil Sayegh, Guest Columnist

The Internet is the fuel that powers our current economy — ever growing, and allowing new industries and ideas to emerge every day. And a lot of that is happening here in Texas.

According to the TechAmerica Foundation's Cyberstates 2013 report, the Internet and high tech jobs provided a whopping 486,600 careers for Texans in 2012.

This month, the biggest names in the Internet industry will gather in Austin for HostingCon. Many of these companies, including Codero Hosting, are also members of the Internet Infrastructure Coalition, an organization founded to support the growth of the $46 billion Internet infrastructure industry. As the CEO of Codero, I look forward to joining with other Texas-based tech companies to welcome the industry to Austin.

Our capital is a great place for a national event like HostingCon. I have been part of this wonderful city since 1986. I have seen it grow and evolve into a true center of gravity for information technology. Internet infrastructure leaders and proud members of the i2Coalition such as SoftLayer, cPanel, Data Foundry Inc., Rackspace and Codero have established their headquarters and main offices in Texas, helping the Lone Star State obtain Cyberstates' second ranking nationally for industry jobs in Internet, telecommunication and engineering services as well as semiconductor manufacturing.

At the same time, Texas universities are producing tech-savvy graduates and advancements in the technological sector.

As Texas grows and matures in the high tech industry, it's imperative that it protects the ideas, innovation and new technology that are being developed by businesses.

At HostingCon, the i2Coalition is sponsoring a number of panels that examine some of the greatest threats to our industry, including a panel called "Money Stealing Trolls." Of particular concern when it comes to threats to innovation are attacks by patent assertion entities, or "patent trolls," who seek to undermine technological progress for quick financial gain. These trolls have taken advantage of a broken patent system, allowing them to bring up patent infringement cases on small and large businesses. These lawsuits can cost a company millions of dollars in litigation alone. For this reason, many of the larger companies settle out of court. However, smaller companies like Codero attempting to grow in our economy also face these

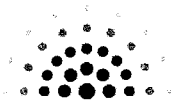
frivolous lawsuits. Patent trolls can cause small- to medium-sized companies to lose revenue, forcing them to cut salaries and jobs — and in extreme cases file for bankruptcy. The tactics of the trolls are stifling innovation. Because of their actions many companies hesitate to produce new products for fear of violating an unknown frivolous patent.

One of the i2Coalition's top priorities is to bring about patent reform, and both the i2Coalition and Codero applaud Texas Sen. John Cornyn for introducing a bill known as the Patent Abuse Reduction Act of 2013.

This will bring fairness to the discovery process, Cornyn says. The bill will also shift responsibility for the cost of litigation to the losing party. This will relieve small business from hefty litigation cost and punish patent trolls. The act also calls for transparency in enforcement, meaning all parties that have direct financial interest in the outcome of the lawsuit must be revealed.

Sen. Cornyn is attempting to put an end to the chaos and economic stagnation these money stealing trolls create. We must stand up and support his efforts and the efforts of Texans as a whole to grow and develop in the technological world.

Emil Sayegh is the CEO of Codero Hosting.



Austin Technology Council

The Honorable John Cornyn
517 Hart Senate Office Bldg.
Washington, DC 20510

July 1, 2013

Dear Senator Cornyn:

Thank you for joining the Austin Technology Council (ATC) and members of the Central Texas innovation community for the Patent Abuse Reduction Act (PARA) panel on May 30. We appreciate your leadership in combatting patent trolls and look forward to supporting your efforts to develop meaningful patent reform in the 113th Congress.

Over the last two decades, the Innovation Economy provided 100% of net job growth in the United States. PARA's focus on patent litigation reform is an important cornerstone of congressional support for continuing that success. Comprehensive intellectual property and patent reform – alongside talent, capital, data, and infrastructure innovation policy priorities – would enhance U.S. competitiveness, job creation, and economic stability.

As a leading innovation hub, Austin technology, innovators and related businesses deliver $21 billion and global visibility to our region each year. ATC and its members serve as a resource for all stakeholders interested in efforts to strengthen tech, foster innovation and sustain the benefits that both bring to our community.

ATC respectfully offers the following observations on PARA. Given the scope of technology and innovation interests in Central Texas, these observations reflect a community perspective on the impact of policy on innovation fundamentals. Individual community members may have additional policy priorities.

I. Overall, PARA provides an important step forward in addressing existing patent code's greatest threat to established and early-stage innovators.

II. PARA provisions we consider to be innovation priorities and will support implementation of:
   a. SEC. 2. PLEADING REQUIREMENTS. Requires more detailed infringement complaints so that trolls can't get away with targeting an entire industry with unsupported boilerplate complaint letters.
   b. SEC. 4. DISCOVERY LIMITS. Corrects the huge imbalance in discovery costs that trolls use to pressure businesses into settling.

III. We encourage and will support your efforts to strengthen these PARA provisions:
   a. SEC. 5. COSTS AND EXPENSES. Fee-shifting strengthened with a bonding requirement. Many trolls are "judgment-proof" shell companies with no assets. A plaintiff bonding requirement will give businesses a real chance to recoup the millions spent defending against an egregious, meritless lawsuit.

Austin Technology Council

Because of the complexity of this problem, it will take a number of reforms complementary to PARA to balance the one-sided advantage that patent trolls currently enjoy. Several bipartisan bills and discussion drafts are circulating in Washington, some of which are simple, viable, and would enhance legitimate patent holders' ability to enforce their rights and protect consumers and small businesses from becoming targets. We support your efforts to lead the development of a comprehensive package of litigation reforms that will help technology companies and America's innovators defend themselves against frivolous litigation.

Thank you again for allowing us the opportunity to outline our support for your efforts on behalf of Texas and U.S. innovation.

Joel Trammel
Chairman
Austin Technology Council

Julie Huls
President and CEO
Austin Technology Council

David Altounian
Founder and former CEO
Motion Computing

John Arrow
CEO and President
Mutual Mobile

Gene Austin
President
Bazaarvoice

Joshua Baer
Founder and Managing Director
Capitol Factory
Chief Innovation Officer
Return Path

Tony Befi
Vice President
IBM Systems & Technology Group
Texas Senior State Executive

Chris Boyd
Founder and CTO
Midas Green Tech

Kevin Callahan
Co-Founder and VP-Innovation
MapMyFitness

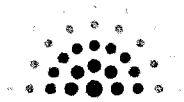
Bijoy Goswami
Founder
Bootstrap Austin

Derek Hall
Founder and CEO
Dortz Media

Gerardo A. Interiano
Public Affairs Manager
Google, Inc.

Andy Macfarlane
Manager, Business Development
Director, Governmental Affairs
Data Foundry

Jay Manickam
Co-Founder
Vice President, Strategy and Operations
uShip



Austin Technology Council

Michael McGeary
Co-Founder
Engine

Shraven Parsi
Founder and CEO
Pharmaceutical Specialties, Inc.

Anthony Peterman
Executive Director, Patents and Chief Patent Counsel
Dell

Josh Rabinowitz
Co-Founder
Articulate Labs

Gary Sabins
President and CEO
Spinal Restaration

Alan Schoenbaum
Senior Vice President and General Counsel
Rackspace

Larry Warnock
President and CEO
Gozzang

Lawrence Waugh
Founder and COO
Calavista Software

Derek Willis
General Counsel and Secretary
Volusion

Rick Wittenbraker
VP, Market Development
uShip

Computer & Communications Industry Association

1972-2012: 40 YEARS OF TECH ADVOCACY

May 22, 2013

The Honorable John Cornyn
U.S. Senate
517 Hart Senate Office Building
Washington, DC 20510

Dear Senator Cornyn:

CCIA applauds your introduction today of the Patent Abuse Reduction Act of 2013. American industry needs leadership such as yours to help curtail the flood of abusive patent litigation. Patent assertion entities (or PAEs) are harming the American economy. PAEs have recently branched out from suing large businesses to suing everyone from retailers to grocers to individual software developers. PAEs rely on the enormous cost of defending against patent infringement to obtain settlements, taking advantage of legal rules intended to protect research investments as their means of extortion.

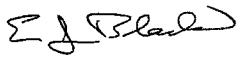
A particular problem in patent infringement suits filed by PAEs is that the complaints give the accused infringer no idea what it is actually accused of doing. We believe that Section 2 of the Patent Abuse Reduction Act would be a strong step forward in providing accused infringers the information they need in order to defend themselves. We also believe that revising Civil Form 18, as the Act does, is critical to forcing PAEs to plead their claims with specificity. As you know, the Federal Circuit recently decided that the current Civil Form 18 allows vague pleading of patent infringement.

Discovery costs are also a major problem in PAE suits, because a PAE typically has very few documents to produce; an accused infringer may have to spend millions of dollars on discovery. This asymmetry forces accused infringers into larger settlements. Section 4 of the Patent Abuse Reduction Act brings needed balance to this process, and should help to end costly fishing expeditions. At the same time, the definition of "core documentary evidence" helps ensure that the purpose of discovery is still satisfied.

This is a strong bill that takes important steps towards addressing the problem of patent assertion entities, also known as patent trolls. We look forward to working with you on the Act as it moves through the Senate.

Thank you for your efforts on curbing patent abuse.

Sincerely,



Ed Black
President & CEO
Computer & Communications Industry Association

CPF Statement Supporting the "Patent Abuse Reduction Act of 2013"

FOR IMMEDIATE RELEASE: May 22, 2013

WASHINGTON, D.C. – The Coalition for Patent Fairness (CPF) thanks Senator Cornyn for his leadership in confronting the problem of abusive patent litigation through the introduction of the "Patent Abuse Reduction Act of 2013." This legislation represents an important step forward in improving the patent system in such a way that allows America's innovative industries to flourish.

Patent assertion entities (or patent trolls), which prey on companies to profit off of their innovation, cost the American economy more than $29 billion in 2011 alone – and this estimate does not even begin to measure the indirect costs of lost innovation. It is likely that this figure will only increase as patent trolls set their sights on a growing range of industries, as has happened in recent months.

That's why it is imperative that members of Congress join Senator Cornyn in updating the patent system with common-sense reform before patent trolls can do more damage to America's economy. By addressing important patent litigation problems through heightened pleading standards, early claim interpretation, and discovery cost-sharing, Senator Cornyn has injected some important issues into the current debate. These items would help to avert the threat of abusive patent litigation, by providing a more fair and balanced litigation process in patent cases.

The Coalition for Patent Fairness has long advocated for reforms that will thwart abuses of the patent system, and Senator Cornyn's legislation will help advance that effort. We look forward to working with Senator Cornyn and his fellow Senate Judiciary Committee members to improve the patent system through patent litigation reform legislation this year.

*****

The Coalition for Patent Fairness is a diverse group of companies and industry associations dedicated to enhancing U.S. innovation, job creation, and competitiveness in the global market by modernizing and strengthening our nation's patent system.

Contact: Kate Connors, Kate.Connors@StoryPartnersDC.com

For more information, visit http://www.patentfairness.org.

Follow us on Twitter at @FairPatents

CEA Thanks Sen. Cornyn for Taking On Patent Trolls

Arlington, VA – 05/22/2013 – The following statement is attributable to Gary Shapiro, president and CEO of the Consumer Electronics Association (CEA) ®, in response to today's introduction of the Patent Abuse Reduction Act, introduced by Sen. John Cornyn (R-Texas):

"We commend Sen. Cornyn for introducing the Patent Abuse Reduction Act, which will help curb abusive patent litigation practices.

"Patent litigation abuse has reached epidemic proportions and not only impacts the tech industry, but also ensnares legitimate retailers and end users. Patent Assertion Entities'(also known as PAEs or patent trolls) lawsuits now account for a majority of all patent litigation in the U.S., up from just 19 percent in 2006. Studies indicate that abuses in the patent litigation industry are costing innovators more than $80 billion annually in direct and indirect costs. More, a majority of these suits are brought against small businesses that lack the resources and expertise to devote to the costly and complex patent litigation process.

"The Patent Abuse Reduction Act contains a number of provisions that will help put the growing patent troll industry out of business. First, it would require trolls to provide more specific information about the substance of their infringement assertions and clearly identify the plaintiff. Second, it puts reasonable limitations on discovery and requires the patent trolls to pay for additional discovery requests. Third, the 'loser pays' provisions will lessen patent trolls' incentives to go to court with weak or flimsy claims.

"We thank Sen. Cornyn for addressing this very critical issue, and we look forward to working with Congress on smart, effective patent reform."

About CEA

The Consumer Electronics Association (CEA) is the preeminent trade association promoting growth in the $209 billion U.S. consumer electronics industry. More than 2,000 companies enjoy the benefits of CEA membership, including legislative advocacy, market research, technical training and education, industry promotion, standards development and the fostering of business and strategic relationships. CEA also owns and produces the International CES – The Global Stage for Innovation. All profits from CES are reinvested into CEA's industry services. Find CEA online at www.CE.org, www.DeclareInnovation.com and through social media:

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The Internet Association

FOR IMMEDIATE RELEASE
CONTACT: Betsy Barrett 202.997.3266 / betsy@internetassociation.org
DATE: Thursday, May 23, 2013

The Internet Association Applauds Senator Cornyn's Patent Abuse Reduction Bill

Washington D.C. – The Internet Association President & CEO Michael Beckerman issued the following statement in response to Senator Cornyn's introduction of the Patent Abuse Reduction Act of 2013 (S.1013):

"The Internet Association applauds Senator Cornyn's introduction of the Patent Abuse Reduction Act of 2013. Internet companies are targeted daily by patent assertion entities far more interested in exploiting litigation costs than in promoting innovation. Senator Cornyn's bill appreciates the need to reform a system made unacceptably inefficient by vague accusations of patent infringement, imbalanced and excessive litigation costs, and a lack of even basic transparency. With thoughtful proposals on pleading requirements, joinder, and other issues, the bill makes a valuable contribution to the ongoing discussion about how best to put an end to abusive patent litigation practices and to promote, rather than burden, real innovation in today's Internet economy."

About The Internet Association: *The Internet Association is the unified voice of the online economy representing the interests of the leading Internet companies including Airbnb, Amazon.com, AOL, eBay, Expedia, Facebook, Google, IAC, LinkedIn, Monster Worldwide, Rackspace, salesforce.com, SurveyMonkey, TripAdvisor, Yahoo!, and Zynga. The Internet Association is dedicated to advancing public policy solutions to strengthen and protect Internet freedom, foster innovation and economic development, and empower users. The Internet Association is headquartered in Washington, D.C. www.InternetAssociation.org.*

May 23, 2013

The Honorable John Cornyn
U.S. Senate
517 Hart Senate Office Building
Washington, D.C. 20510

Dear Senator Cornyn:

On behalf of jcpenney, I want to thank you for introducing the *Patent Abuse Reduction Act of 2013,* which targets the abusive lawsuits filed by an ever growing group of sophisticated and well financed patent trolls. This legislation will help stem these damaging lawsuits and allow companies like jcpenney to focus resources on growth, serving customers and creating jobs.

jcpenney is a 111-year old company. We have over 1,100 stores in 49 states and employ over 100,000 associates. Our business model is straightforward. We sell quality apparel, footwear, jewelry and home products to the American consumer. However, in recent years we have become a target of patent trolls. These frivolous lawsuits divert valuable resources away from our business and the communities we serve.

According to recent studies these troll lawsuits can cost retailers up to $5 million per case. The average settlement cost is around $1.3 million. And the exponential growth of these lawsuits is having a real and damaging impact on retailers, small businesses, and entrepreneurs. In 2007, patent trolls filed 22% of patent cases but in 2012 that number skyrocketed to 60%. These cases are filed for only one reason – so the trolls can enrich themselves and their investors. Unlike retailers, patent trolls do not manufacture or sell products. They don't build stores, contribute to local charities or create jobs. The patent trolls' business is to buy junk patents, file lawsuit after lawsuit and leverage the high cost of defending those suits to negotiate expensive settlements.

That is why we are supportive of your legislation. It is time for Congress to act and stop this lawsuit abuse. We can't thank you enough for your interest and leadership on this very important issue.

Sincerely,

Janet Dhillon
Executive Vice President
General Counsel
jcpenney

June 5, 2013

The Honorable John Cornyn
United States Senate
517 Hart Senate Office Building
Washington, DC 20510

Dear Senator Cornyn:

On behalf of the members of the National Retail Federation, thank you for introducing the Patent Abuse Reduction Act. Abusive patent litigation is a significant and growing problem for retailers, and we strongly support reform.

In recent years, over 200 retailers have contacted NRF about patent litigation because they have been, or are currently, the target of patent trolls' abusive practices. Patent trolls take away resources that retailers would rather use towards investment in their businesses, including furthering innovation, refurbishing their stores, and providing more jobs.

Retail, and e-commerce specifically, plays an important role in the recovery of the economy. Managing frivolous suits is an expensive distraction many retailers cannot afford, nor do they have the resources to adequately fight these suits. The Patent Abuse Reduction Act addresses reforms which would curb trolls' ability to extort settlement demands from retailers, technology companies and others who are the targets of their outrageous claims.

As the world's largest retail trade association and the voice of retail worldwide, NRF represents retailers of all types and sizes, including chain restaurants and industry partners, from the United States and more than 45 countries abroad. Retailers operate more than 3.6 million U.S. establishments that support one in four U.S. jobs – 42 million working Americans. Contributing $2.5 trillion to annual GDP, retail is a daily barometer for the nation's economy. Retailers create opportunities for life-long careers, strengthen communities at home and abroad, and play a leading role in driving innovation. Learn more at www.nrf.com.

We appreciate your commitment to addressing the harmful impact patent trolls have on our global economy, and we look forward to continuing our work together on this issue.

Sincerely,

David French
Senior Vice President
Government Relations

cc: Members of the Senate Judiciary Committee

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SIIA Welcomes Increased Congressional Focus on Patent Trolls; Applauds Sen. Cornyn's Bill Introduced Today

WASHINGTON, D.C. (May 22, 2013) – The Software & Information Industry Association (SIIA), the principal trade association for the software and digital content industries, today commended Senator John Cornyn (R-TX) for introducing S__, The Patent Abuse Reduction Act, and for his leadership on efforts to curtail patent troll activity. The bill, which is one of a growing number of legislative efforts aimed at attacking the problem of abusive patent litigation, calls for several steps that SIIA supports, including: a heightened pleading requirement for plaintiffs; increased transparency for determining the parties that are actually behind a lawsuit, and; requirements that parties pay for any discovery that is beyond "core" materials.

SIIA President Ken Wasch commented, "The economic harm being caused by patent trolls is receiving increased attention in Congress, and we commend Senator Cornyn for his leadership on this issue. We applaud his introduction of strong thoughtful legislation that would implement several needed patent litigation reforms. It is a crucial step toward an effective legislative response to the plague of patent trolls damaging American innovation and our economy. As we seek to enact effective, comprehensive patent troll reform legislation this year, we look forward to working closely with Senator Cornyn, the leadership and members of the Senate and House Judiciary Committees and other stakeholders."

About SIIA
SIIA is the leading association representing the software and digital content industries. SIIA represents approximately 700 member companies worldwide that develop software and digital information content. Information technology (IT) and software security are critical issues to SIIA's members, many of whom strive to develop safe, secure and state-of the-art products that effectively serve their commercial and government customers alike, while protecting their intellectual property. For further information, visit www.siia.net.

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SIA Statement on Legislation to Curb Abusive Patent Litigation
August 1, 2013

The Semiconductor Industry Association (SIA) supports the efforts of Congress, the White House, and courts on reducing abusive patent litigation. While judicial and administrative reforms to address this issue can play an important role and need to continue, SIA believes it is time for Congress to adopt legislation to prevent abusive conduct and to address the cost asymmetry in patent litigation, while at the same time preserving the ability of patent owners to protect their intellectual property and their investments in research and innovation, and ensuring that U.S. companies are not placed at a disadvantage to foreign competitors.

In this regard, SIA thanks and applauds Senator Cornyn for his leadership in the introduction of the "Patent Abuse Reduction Act of 2013" (S.1013). Abusive practices in patent litigation have a substantial negative impact on the U.S. economy and on U.S. innovation. The semiconductor industry believes that some of the concepts outlined in this bill, such as heightened pleading standards in cases where such information is reasonably accessible to patent holders, fee-shifting for non-prevailing parties, and early claim interpretation, will be useful in addressing abusive litigation practices. We encourage members of Congress to join Senator Cornyn in advancing these concepts and similar initiatives.

As Congress moves forward on the Cornyn bill and other proposals that include these principles, SIA urges Congress to proceed carefully and listen to stakeholders to ensure that legislation does not result in unintended negative consequences to patent owners and U.S companies.

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The Semiconductor Industry Association (SIA), representing the leading U.S. semiconductor companies, supports policies that encourage innovation, including the protection of intellectual property. The semiconductor industry is research intensive—members invest, on average, 18 percent of revenues to research and development. Nearly half of the top 15 American patent recipients are semiconductor companies, and semiconductors are one of the country's top exports. The continued success of our industry and continued American leadership in semiconductor design and manufacturing depends on a strong and balanced patent system, including sensible and efficient rules to resolve patent disputes.

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TAB Supports Senator Cornyn's Patent Lawsuit Reform Bill

Date: 5/22/2013
Category: Press Release

FOR IMMEDIATE RELEASE

May 22, 2013

Contact: Bill Hammond

Phone: (512) 637-7701

TAB Supports Senator Cornyn's Patent Lawsuit Reform Bill

AUSTIN, TX— U.S. Senator John Cornyn is introducing the Patent Abuse Reduction Act, which will modernize the patent litigation system and better protect innovators who are being targeted by so called "patent trolls."

"These 'trolls' are responsible for the majority of patent litigation and are simply trying to obtain fast settlements," said Bill Hammond, President and CEO of the Texas Association of Business (TAB). "This practice stifles innovation and discourages the creation and expansion of small businesses."

Hammond said that TAB fully supports the effort to reform the patent litigation system. "We welcome the news that Senator Cornyn has taken the initiative and introduced this legislation aimed at addressing, and ending, this abusive practice."

Two things that Senator Cornyn's bill does is to require the people filing these claims to identify themselves, and it requires the losing party to pay for the cost of the litigation. "Adding transparency and this kind of financial responsibility will deter many of these people, who are simply looking to make a quick buck from filing this sort of frivolous litigation in the first place," said Hammond.

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Founded in 1922, the Texas Association of Business is a broad-based, bipartisan organization representing more than 3,000 small and large Texas employers and 200 local chambers of commerce.