

**S.1137, THE “PATENT ACT”—FINDING  
EFFECTIVE SOLUTIONS TO ADDRESS  
ABUSIVE PATENT PRACTICES**

---

**HEARING**  
BEFORE THE  
**COMMITTEE ON THE JUDICIARY**  
**UNITED STATES SENATE**  
ONE HUNDRED FOURTEENTH CONGRESS

FIRST SESSION

MAY 7, 2015

**Serial No. J-114-16**

Printed for the use of the Committee on the Judiciary



*www.judiciary.senate.gov*  
*www.govinfo.gov*

U.S. GOVERNMENT PUBLISHING OFFICE

WASHINGTON : 2024

COMMITTEE ON THE JUDICIARY

CHARLES E. GRASSLEY, Iowa, *Chairman*

ORRIN G. HATCH, Utah	PATRICK J. LEAHY, Vermont, <i>Ranking</i>
JEFF SESSIONS, Alabama	<i>Member</i>
LINDSEY O. GRAHAM, South Carolina	DIANNE FEINSTEIN, California
JOHN CORNYN, Texas	CHARLES E. SCHUMER, New York
MICHAEL S. LEE, Utah	RICHARD J. DURBIN, Illinois
TED CRUZ, Texas	SHELDON WHITEHOUSE, Rhode Island
JEFF FLAKE, Arizona	AMY KLOBUCHAR, Minnesota
DAVID VITTER, Louisiana	AL FRANKEN, Minnesota
DAVID PERDUE, Georgia	CHRISTOPHER A. COONS, Delaware
THOM TILLIS, North Carolina	RICHARD BLUMENTHAL, Connecticut

KOLAN L. DAVIS, *Majority Staff Director*

KRISTINE LUCIUS, *Minority Staff Director*

# C O N T E N T S

**MAY 7, 2015, 9:34 A.M.**

## STATEMENTS OF COMMITTEE MEMBERS

	Page
Grassley, Hon. Charles E., a U.S. Senator from the State of Iowa .....	1
prepared statement .....	125
Leahy, Hon. Patrick J., a U.S. Senator from the State of Vermont .....	3
prepared statement .....	127

## WITNESSES

Witness List .....	47
Chandler, Mark, senior vice president and general counsel for Cisco .....	6
prepared statement .....	48
Hadad, Henry, senior vice president and deputy general counsel-intellectual property for Myers Squibb .....	11
prepared statement .....	63
Lettelleir, Diane, senior managing counsel of litigation at J.C. Penney .....	10
prepared statement .....	76
Rhodes, Kevin H., vice president and chief intellectual property counsel for 3M Company, St. Paul, Minnesota .....	8
prepared statement .....	82
Samuels, Julie, executive director and president of the board at Engine .....	13
prepared statement .....	116

## QUESTIONS

Questions submitted to Mark Chandler by:	
Senator Grassley .....	129
Questions submitted to Kevin Rhodes by:	
Senator Grassley .....	129
Questions submitted to Diane K. Lettelleir by:	
Senator Grassley .....	130
Questions submitted to Henry Hadad by:	
Senator Grassley .....	130
Questions submitted to Julie P. Samuels by:	
Senator Grassley .....	130
Questions submitted to Mark Chandler by:	
Senator Grassley .....	129

## ANSWERS

Responses of Mark Chandler to questions submitted by:	
Senator Grassley .....	131
Responses of Henry Hadad to questions submitted by:	
Senator Grassley .....	133
Responses of Diane Lettelleir to questions submitted by:	
Senator Grassley .....	135
Responses of Kevin Rhodes to questions submitted by:	
Senator Grassley .....	138

# IV

	Page
Responses of Julie Samuels to questions submitted by:	
Senator Grassley .....	144

## MISCELLANEOUS SUBMISSIONS FOR THE RECORD

### Submitted by Senator Grassley's Office:

Letter from Federal Circuit Bar Association dated April 13, 2015 .....	149
R Street letter dated April 29, 2015 .....	150
Google letter dated April 29, 2015 .....	151
JCPenny letter dated April 29, 2015 .....	153
The Latino Coalition letter dated April 29, 2015 .....	155
National Association of Realtors letter dated April 29, 2015 .....	157
National Council of Chain Restaurants (NCCR) letter dated April 29, 2015 .....	159
National Restaurant Association letter dated April 29, 2015 .....	161
NRF, The Voice of Retail letter dated April 29, 2015 .....	162
Oracle Letter dated April 29, 2015 .....	164
Redhat letter dated April 29, 2015 .....	166
Samsung Electronics America, Inc. letter dated April 29, 2015 .....	167
SAS, The Power to Know letter dated April 29, 2015 .....	168
Sprint letter dated April 29, 2015 .....	169
Verizon News Release dated April 29, 2015 .....	170
Adobe Letter from Dana Rao dated April 29, 2015 .....	172
American Gaming Association (AGA) letter dated April 29, 2015 .....	173
Application Developers Alliance from Sarah Elliot dated April 29, 2015 ....	174
Competitive Carriers Association (CCA) letter dated April 29, 2015 .....	175
Consumer Electronics Association (CEA) letter dated April 29, 2015 .....	176
Cisco letter dated April 29, 2015 .....	178
American Hotel and Lodging Association (AHLA) letter dated April 29, 2015 .....	179
Intuit letter dated April 29, 2015 .....	182
Coalition for Patent Fairness letter dated April 29, 2015 .....	183
Microsoft letter from Kathryn Stack dated April 29, 2015 .....	184
SAS Letter from John G. Howell dated April 29, 2015 .....	185
Computer & Communications Industry Association (ccia) letter dated April 29, 2015 .....	186
Biotechnology Industry Organization letter from George Goodno dated April 29, 2015 .....	187
The Coalition for 21 <sup>st</sup> Century Patent Reform letter from Brian Walsh dated April 29, 2015 .....	189
United for Patent Reform letter dated April 29, 2015 .....	191
America Trucking Association letter from Dave Osiecki dated April 30, 2015 .....	195
Tyco letter from Judith A. Reinsdorf dated April 30, 2015 .....	197
Food Marketing Institute letter dated April 30, 2015 .....	199
Global Automakers letter dated April 30, 2015 .....	200
Internet Association letter dated May 1, 2015 .....	202
Merick Sharp & Dohme Corp. letter from William Krovatin dated May 4, 2015 .....	203
National Association of Broadcasters (NAB) letter dated May 4, 2015 .....	204
International Trademark Association letter dated May 5, 2015 .....	205
Whataburger letter dated May 5, 2015 .....	206
National Association of Convenience Stores (NACS) letter dated May 6, 2015 .....	208
National Association of Home Builders letter dated May 6, 2015 .....	210
The Pharmaceutical Research and Manufacturers of America (PhRMA) letter from Charles M. Clapton dated May 6, 2015 .....	212
Rackspace letter dated May 7, 2015 .....	213
Sabre letter dated May 7, 2015 .....	214
SIIA letter dated May 7, 2015 .....	215
Statement for the Record by financial institutions dated May 7, 2015 .....	216
NRF, The Voice of Retail dated May 7, 2015 .....	224
Dell Applauds Senate PATENT Act .....	232
Engine Statement of Engine Executive Director Julie Samuels re: Introduction of the PATENT Act .....	233
ETA Electronic Transactions Association letter dated April 29, 2015 .....	234

# V

	Page
Submitted by Senator Grassley's Office—Continued	
Facebook Supports PATENT Act .....	235
Higher Education Asspcoatopm Statement dated April 30, 2015 .....	236
Letter from various institutions dated May 13, 2015 .....	237
Statement by Dick O'Brien .....	239
Submitted by Senator Coon's Office:	
Key Provisions Chart dated March 23, 2015 .....	146
National Venture Capital Association Letter dated May 7, 2015 .....	147



**S.1137, THE “PATENT ACT”—FINDING  
EFFECTIVE SOLUTIONS TO ADDRESS  
ABUSIVE PATENT PRACTICES**

---

**THURSDAY, MAY 7, 2015**

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

The Committee met, pursuant to notice, at 9:34 a.m., in room SD-226, Dirksen Senate Office Building, Hon. Charles E. Grassley, Chairman of the Committee, presiding.

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

**OPENING STATEMENT OF HON. CHARLES E. GRASSLEY, A U.S.  
SENATOR FROM THE STATE OF IOWA**

Chairman GRASSLEY. Before I and Senator Leahy give our opening statements, we have a vote at 10:30, and this is such an important hearing that I hope that we can keep the meeting going by people going over and voting. Even though I am not here and, in fact, even if just the Democrats here, I hope you would feel free to go ahead and take use of the time in your turn to ask questions if I am not here.

Senator SCHUMER. Can we move to change staff allocations?

[Laughter.]

Chairman GRASSLEY. I want to go even further than you. We want to make sure that that does not happen January 5, 2017.

[Laughter.]

Senator DURBIN. I understand your concern.

Senator LEAHY. I am staying out of this one.

Senator WHITEHOUSE. I would like to get involved.

Chairman GRASSLEY. Just on a gentleman's agreement, keep the questions going when we are voting.

Good morning. We are here to discuss the problem of abusive patent practices and the solutions offered by the PATENT Act. Abusive patent litigation is having a serious impact on small companies, innovators, manufacturers, Main Street businesses, high-tech firms, and consumers. The patent troll problem is being felt across every sector of the economy, from small town Iowa to Silicon Valley. It is critical that we enact reforms to prevent this from further stifling the innovation and entrepreneurship that our patent system is designed to protect.

The volume of abusive patent litigation has exploded in recent years. By some accounts it is costing the U.S. economy upwards of \$80 billion annually. Bad actors are exploiting the high costs of patent litigation and using deceptive tactics to prey on businesses.

Last week, several of us on the Judiciary Committee introduced the bipartisan PATENT Act. Since the process started in the last Congress, we have engaged stakeholders that have been targeted by patent abuse. In addition, we have sought to be responsive to concerns raised by other industries and constituencies. Because of this, we have made significant progress. As I have maintained from day one, patent holders have a very legitimate right to enforce their patents against infringement. Our efforts must strike the right balance.

As a result of these efforts, the PATENT Act has received a tremendous positive response. The bill has the support of groups as diverse as hotels, retailers, tech companies, realtors, automakers, broadcasters, homebuilders, and restaurants. Further, other stakeholders such as the associations representing higher education and universities, the Coalition for 21<sup>st</sup> Century Patent Reform, and Biotechnology Industry Organization have recognized our commitment to finding effective solutions that do not produce unintended consequences or impinge upon the ability of good-faith actors to enforce patent rights. I ask unanimous consent to put several letters and statements in the record in support of the bill.

[The letters follow as submissions for the record]

Chairman GRASSLEY. The PATENT Act deters abusive litigation through a series of targeted reforms. I would like to state briefly some of the key provisions. The PATENT Act establishes clear uniform pleading standards in patent infringement lawsuits and gives defendants clear notice of the claims against them. It increases transparency of the parties bringing lawsuits.

It places standards on demand letters and clarifies that the widespread sending of deceptive demand letters are covered by Section 5 of the FTC Act. The bill also allows manufacturers—rather than end users—to litigate cases in order to protect consumers—customers who are targeted for patent infringement just because they buy a product off the shelf.

Further, the bill deters frivolous suits and abusive litigation practices by allowing the award of attorney fees if a court determines that the position or conduct of a non-prevailing party that was not—was not objectively reasonable. It creates a mechanism for a court to recover fees where an abusive litigant is judgment-proof. Finally, in order to deal with the asymmetries in discovery burdens and litigation costs, the bill requires courts to stay discovery pending the resolution of certain preliminary motions such as dismissal or transfer venue.

Because of the wide-ranging positive reactions to the PATENT Act, I am comfortable with where we are on the language contained in the bill. However, I am also aware of concerns about processes at the Patent and Trademark Office that have been recently raised by patent holders. They worry that administrative proceedings created by the America Invents Act—the inter partes review and post-grant review proceedings—are being abused and are stacked against patent holders. Other stakeholders, however, are of the

view that these new proceedings have been very effective at weeding out weak patents.

I am committed to looking at these concerns, determining whether they are valid or not, and working with my colleagues, particularly all the cosponsors, to see what can be done to improve this process.

We will be hearing from witnesses on where they stand on these proceedings, so we will be able to evaluate what should and can be done to ensure that they are fair to all parties.

As we move forward with this legislation, it is important that we continue the collaborative process that has characterized its creation—creation and best represented by the cooperation of the cosponsors of the bill. Again, I thank my colleagues for their dedication and constructive engagement on this bill.

It is my friend Senator Leahy's turn.

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

Senator LEAHY. Thank you, Mr. Chairman.

Last week, we had seven bipartisan members of this Committee that came together, and we introduced legislation to address abusive [Video stopped as this point] conduct in our patent system. [Video started back up] We have been working on this issue for almost 2 years. Senator Lee and I introduced bipartisan legislation in the fall of 2013 that has been included in this package. Last Congress, Senators Cornyn and yourself and Senator Hatch and Senator Schumer and Senator Feinstein all had individual bills. Senator Klobuchar had her views. After long negotiations, we brought people together, and I think we have crafted a strong and fair compromise that will address abusive conduct while preserving the strength of our patent system, and I think legislation is needed.

I hear this—I am home a number of times every month, and we are a small State and everybody knows everybody else. Just walking around the small businesses in Vermont, I hear what they have been threatened with. It is the same every Senator has, how they have been threatened with patent suits simply for using equipment they purchased off-the-shelf. Website owners have faced costly litigation for using basic software in e-commerce. Predatory conduct that takes advantage of the complexity of patent law does not serve the important goal for which our patent system was intended. It was intended to advance science and the useful arts.

Writing legislation that involves our patent system requires care and balance. It can be a Rubik's Cube. Congress spent years and years developing what ultimately became the Leahy-Smith America Invents Act of 2011. Throughout our negotiations on this patent abuse bill—and I see a number of the people that we have worked with on the Leahy-Smith bill and now worked on this bill—I have emphasized the need to work with manufacturers, universities, and other patent holders to ensure we get the right balance. The administration—in fact, a number of those groups have written to this Committee to welcome the changes we made in the Senate bill. The administration has praised this legislation. Yesterday, the New York Times Editorial Board came out in support of the bill.

As the legislation heads to markup, we should continue to work on reasonable amendments—reasonable amendments—to improve the bill. Some have raised concerns about unfair practices that are taking place in the post-grant review proceedings at the Patent and Trademark Office. I think we should look at that. Those proceedings are an important tool to improve patent quality, but if they are being misused, then let us address it. We are already working on those ideas, and I think we will discuss them today.

Our patent system is a wonderful thing to have, and bad actors that use abusive practices, they discredit it. No one's interest that they continue. Let us act on behalf of Main Street and the patent system alike.

I welcome the witnesses that are here. Mr. Chairman, I thank you for having this hearing. I think it is extremely important.

Chairman GRASSLEY. I thank you for your cooperation through all the weeks of negotiation on this bill.

Senator LEAHY. There have been a lot of them.

Chairman GRASSLEY. Yes. I am going to call on Senator Klobuchar because we have a Minnesota person here, but remember, this Minnesota person was born in Iowa.

[Laughter.]

Senator KLOBUCHAR. All right. Let me begin. Mr. Kevin Rhodes was born in Iowa, but there is just a little bit more to his resume, but really maybe I need to say nothing else. He is actually the vice president and the chief intellectual property counsel of 3M Company. Senator Franken and I are very proud of that company, and I think that their work is very—

Senator FRANKEN. What do the three M's stand for?

Senator KLOBUCHAR. Minnesota Mining and Manufacturing. Thank you. It is a company that has so many patents that it actually has more patents than it has employees, and it has a lot of employees. We like to say that it has a patent for every employee. They care very much about the topic today.

Kevin is responsible for managing the global intellectual property assets of 3M Company and its worldwide affiliates. He serves as the chairman of the Steering Committee of the Coalition for 21<sup>st</sup> Century Patent Reform. He is a member of the Board of Directors of the American Intellectual Property Law Association. He also serves on the Executive Committee of the Association of Corporate Patent Counsel.

He has used his expertise as well as the expertise of all of the patent holder companies that are involved in 21<sup>st</sup> Century Patent Reform to make significant and constructive changes to this bill, and I just want to thank Senator Grassley, Senator Leahy, Senator Cornyn, Senator Schumer, Senator Hatch, and Senator Lee. We have all worked together to make this bill a balance—and we know that people will have different views on it, but a balance of not only going after the patent trolls and the lawsuits, but also making sure that we have made some changes to the bill that allow companies like 3M that have to assert their rights to protect patents to be able to continue to do that.

I want to thank him for his constructive work, and thank you, Mr. Chairman.

Chairman GRASSLEY. I am glad to do it.

Before I introduce the other people, I want to inform my colleagues from Minnesota that one of the reasons I am voting for Trade Promotion Authority is because the Knoxville plant of 3M exports about 40 percent of their product.

Our first witness is Mark Chandler, senior vice president and general counsel, Cisco. Mr. Chandler joined Cisco in 1996 upon acquisition of StrataCom, Inc., where he had been general counsel. Prior to working at StrataCom, he worked as vice president of corporate development and general counsel of Maxtor Corporate, a manufacturer of hard disk drives. In 2010, the National Law Journal named Mr. Chandler one of the 40 Most Influential Lawyers of the Decade. In 2013, American Lawyer numbered him among the “Top 50 Big Law Innovators of the Last 50 Years.” Mr. Chandler holds a bachelor’s degree in economics summa cum laude from Harvard College and a juris doctor from Stanford Law School.

I am going to pass over for obvious reasons Mr. Rhodes.

Third on our panel is Diane Lettelleir, who is senior managing counsel—litigation at J.C. Penney, where she is responsible for all patent litigation matters. Prior to joining J.C. Penney, Ms. Lettelleir was a shareholder at Winstead PC, Dallas, and a member of the Intellectual Property and Commercial Litigation Practice Group. Ms. Lettelleir’s litigation experience includes complex patent, copyright, and trademark matters, including patent infringement, patent invalidity, copyright infringement, copyright in violation of technical—technology licensing agreements. She holds a bachelor’s degree from Indiana State University magna cum laude and a juris doctorate from Southern Methodist Dedman School of Law.

Henry Hadad is senior vice president and deputy general counsel intellectual property, Bristol Squibb-Myers Squibb, where he is responsible for all aspects of patent and trademark procurement, counseling, litigation, and even policy. Mr. Hadad previously held positions as vice president and associate general counsel at Schering-Plough Corporation where he was chief IP counsel until 2009. Immediately prior to joining BMS in 2011, he was associate patent counsel at Johnson & Johnson. He is a member of the Board of Directors of the Intellectual Property Owners Association, American Intellectual Property Law Association Education Foundation. He holds a bachelor of science in biology from Haverford College and a juris doctor cum laude from American University Washington College of Law.

Our fifth witness is Julie Samuels who is executive director and president of the board at Engine, a nonprofit focused on technology entrepreneurship and giving startups a seat at the table of policy debates. Ms. Samuels is a frequent commentator on technology and policy issues for national media, particularly the intellectual property space, and she has filed briefs with the Supreme Court and has testified before Congress. Ms. Samuels came to Engine by way of the Electronic Frontier Foundation, where she was senior staff attorney and Mark Cuban Chair to Eliminate Stupid Patents. That is what it says here.

[Laughter.]

Chairman GRASSLEY. I think I will stop there.

[Laughter.]

Senator LEAHY. Tell us what is really on your mind.

Chairman GRASSLEY. We will go left to right here. Start, Mr. Chandler. Then we will wait until everybody has testified before we have questions.

**STATEMENT OF MARK CHANDLER, SENIOR VICE PRESIDENT  
AND GENERAL COUNSEL, CISCO SYSTEMS INC., WASH-  
INGTON, DC.**

Mr. CHANDLER. Mr. Chairman, Ranking Member Leahy, and members of the Committee, at Cisco we have over 25,000 engineers who have obtained over 12,000 U.S. patents——

Senator LEAHY. Is his microphone on?

Chairman GRASSLEY. Is your microphone on? Is the red light on?

Mr. CHANDLER. I have a red-green——

[Laughter.]

Mr. CHANDLER. There we go. OK. Thank you. Sorry about that.

Senator LEAHY. We get things done technically here. [Laughter.]

With our low-tech machines.

Senator KLOBUCHAR. Yes, just a little 3M technology over there.

[Laughter.]

Mr. CHANDLER. Chairman Grassley, Ranking Member Leahy, members of the Committee, at Cisco we have over 25,000 engineers who have obtained over 12,000 U.S. patents who are working hard to extend and secure the Internet. Our coalition, United for Patent Reform, includes thousands of companies in the automotive, retail, hospitality, and other industries.

Mr. Chairman, Ranking Member Leahy, Senators Hatch, Klobuchar, and Lee—and I would like to thank Senator Cornyn and Senator Schumer as well—thank you for introducing the PATENT Act. You are addressing a fundamental systemic imbalance that is simple to illustrate. Last year, over 4,400 patent suits were filed, the third highest in history, and almost double the number 10 years ago, with the pace rising this year. Sixty-three percent of those, or about 3,000, came from entities who do not make any product but seek only the reward of litigation gamesmanship, compared to only 20 percent of suits 10 years ago, a rate of about 400 or 500 a year 10 years ago up to about 3,000 now. An astounding 40 percent of the suits last year were filed in only two judicial districts, where less than 1.5 percent of Americans live.

When plaintiffs and defendants pervasively believe, rightly or wrongly, that judicial results depend on where an action is brought, fundamental precepts of legal integrity and consistency of legal application are endangered.

Behind these dry statistics, of course, are stories of abuse. In one recent case, a lawyer bought semiconductor patents related to Wi-Fi that were close to expiration and set up a company he cynically called “Innovatio.” These standard-essential patents had previously been heavily licensed to other chip companies, so the majority of Wi-Fi devices did not need any new license at all. Innovatio and the Niro law firm sent over 14,000 letters to small businesses ranging from cafes to bakeries to children’s health clinics, anyone they thought might use Wi-Fi. They did not tell them that most devices were already licensed but demanded \$2,000 to \$3,000 per location. They did not tell the victims that Cisco had intervened to protect

its customers but, rather, told them that equipment manufacturers had not stepped in.

They planned to extract \$4 billion from the productive part of the American economy. Before we stopped them, they collected several million. We, with other companies, litigated aggressively, and a judge determined that the patents were, in fact, worth 3.2 cents per chip for the ones that were not licensed already. We got the right result, but we had to pay \$13 million in legal fees to get there.

This issue is hard because, while our cause is just—and who comes here to testify without saying that—the concerns of those who do not yet support the PATENT Act are also understandable. Both sides suffer from abuse. Yes, I am outraged by those who game the patent litigation system, forcing Cisco alone to spend a quarter of a billion dollars in the last decade on legal fees for cases that never should have been brought, or who shake down small businesses with misleading demand letters. I am equally outraged by the activity of hedge funds, often the same people who bring the suits against us, who use the inter partes review system to throw doubt on the legitimacy of innovative companies' hard-won patents in order to short the stocks and make a quick buck.

How do we get to yes? We can fix the problem by ensuring that patents that never should have been granted are invalidated by giving more transparency to the process and by limiting extortion litigation games that artificially raise costs.

As to bad patents, while everyone supports patent quality, few raise their hands to have their own bad patents invalidated. Patent rights are not inalienable natural rights endowed by the Creator like life, liberty, and pursuit of happiness. They are a Government-created tool designed, as our Constitution says, for an industrial policy purpose, to promote progress in science and the useful arts. They allow the patent holder to exclude from the market even those who innocently and independently arrive at similar results. For every entrepreneur who is given a monopoly right in order to promote innovation, others are precluded from exercising their God-given talents.

I do urge you to directly address, such as through securities laws, the issue of the hedge funds I referred to. This legitimate issue should not be used to justify unrelated steps making it harder to invalidate bad patents like the misguided STRONG Act proposes to do. The IPR and covered business method programs, while limited in scope, are effective because they provide a consistent mechanism for review.

Second, we support transparency efforts reflected in the heightened pleading standards and disclosure of true interests behind litigation, and we support ensuring that those benefiting from patent litigation cannot hide behind shell entities in egregious cases where attorneys' fees are imposed.

Third, the PATENT Act helps address procedural abuse. Provisions on pleading, customer stay, and fee shifting are strong steps in the right direction. We would prefer to have an absolute stay of discovery before the Markman ruling, understand the concerns of other industries, but we think tightening the venue rules and the

transfer rules and limiting discovery further prior to transfer would ameliorate our concerns.

Thank you again for the opportunity to appear today and for your efforts to fix a national problem that each year sucks billions of dollars from the inventive and productive parts of our economy.

[The prepared statement of Mr. Chandler follows as a submission for the record]

Chairman GRASSLEY. Thank you, Mr. Chandler, for keeping within the time limit.

Now, Mr. Rhodes.

**STATEMENT OF KEVIN H. RHODES, VICE PRESIDENT AND CHIEF INTELLECTUAL PROPERTY COUNSEL, 3M COMPANY, ST. PAUL, MINNESOTA**

Mr. RHODES. Chairman Grassley, Ranking Member Leahy, members of the Committee, thank you for the opportunity to testify here this morning, and thank you, Senator Klobuchar, for that very kind introduction this morning.

Because of the longstanding importance of the patent system to 3M and other member companies of the Coalition for 21<sup>st</sup> Century Patent Reform, we have been engaged with members of this Committee and your terrific staffs and many other stakeholders for years in discussions of patent law and policy. We bring a balanced perspective to these issues as 3M, like other 21C member companies, has diverse business interests in several industry segments, and we litigate patent disputes as both a plaintiff and as a defendant. We thus support measure reforms to curb the patent litigation abuses that undeniably do exist today, but balanced against the need to ensure that the ability of all patent owners to enforce their rights against infringers is not unduly undermined by unbalanced or overly broad reactions to litigation abuses by some patent owners. That is the elusive balance that we have been seeking in the patent reform legislation that was proposed last year and in this Congress, and we very much appreciate the opportunity to continue this dialog today.

21C congratulates Chairman Grassley, Ranking Member Leahy, and the other cosponsors—Senators Cornyn, Schumer, Hatch, Klobuchar, and Lee—on the introduction of the PATENT Act. We do believe that the bill represents a significant, thoughtful, and constructive contribution to the patent reform effort.

I will be pleased to explain further this morning, we appreciate that the language of the bill reflects a number of welcome compromises on such litigation issues as the way it balances pleadings and early disclosures, the customer stay, the stay of discovery pending early motion practice, calling upon the expertise of the Judicial Conference to develop in-court discovery and case management procedures for patent cases, and fee shifting and making sure that fees are recoverable against parties who ought to be paying them, as well as non-parties.

21C does not believe that the PATENT ACT is ready to be reported out of this Committee just yet. The job of patent reform is not yet done. In our view, meaningful patent reform legislation must also include provisions to ensure that the so-called AIA review proceedings, the IPR and PGR proceedings that were ref-

erenced in Senators Grassley' and Leahy's opening remarks, are balanced and fair to patent challengers and patent owners alike. We ask this Committee to prioritize reforms of these AIA review proceedings equally with litigation reforms.

Let me be clear: AIA reviews are critical elements in the overall framework of a properly functioning patent system. They serve an essential role in providing faster and less expensive alternatives to litigation to determine the validity of issued patents. That is why we supported their creation in the first place in the Leahy-Smith America Invents Act. They should be conducted in a manner that is equitable to all participants, not so skewed against patent owners that they invite gamesmanship and abuse, which regrettably is the case today. I look forward to discussing this morning some common-sense changes to the way AIA reviews are handled that will address the concerns without undermining their effectiveness.

It is a Rubik's Cube, as Senator Leahy said this morning. There are a lot of moving parts. What we would propose is a comprehensive set of reforms that gets at these issues:

First, reforming the procedures used when the PTO is considering petitions to institute reviews, to level the playing field in that process.

Second, allowing patent owners to have issues raised in review proceedings first considered in reissue or reexamination proceedings where they can amend the claim and BRI is appropriate in that examination, and that would take place prior to IPR or PGR review.

Third, applying the same standards in reviews that do take place then as are applied in court, including claim construction, burden of proof, and presumptions.

As Mr. Chandler said just a minute ago, the validity of patents ought not to—or how patents are litigated ought not to depend on the court. The validity of patents ought not to depend on where it is determined either. These are intended to be faster, cheaper alternatives to district court litigation. They ought to apply the same standards and get generally the same results.

These reforms will achieve increased fairness, balance, and consistency in adjudications of patent validity in PTO and in the courts. By addressing the questions and uncertainty that now exist concerning these reviews, Congress can reassure the innovation community that our patents can be relied upon to protect and support the investments in research, development, commercialization, technology transfer, and collaboration that are so essential to future innovation.

As always, I, 3M, and 21C remain committed to working with members of this Committee, their staffs, and other stakeholders to couple the provisions in the PATENT Act as introduced with provisions to restore balance and fairness in AIA reviews. We look forward to lending our strong support for a bill that addresses both patent litigation and AIA review proceedings in an effective, balanced, and comprehensive fashion.

I will be pleased to answer any questions or supply any additional information for the record today. Thank you very much.

[The prepared statement of Mr. Rhodes follows as a submission for the record]

Chairman GRASSLEY. Thank you, Mr. Rhodes.  
Now, Ms. Lettelleir.

**STATEMENT OF DIANE K. LETTELLEIR, SENIOR MANAGING  
COUNSEL-LITIGATION, J.C. PENNEY CORPORATION, INC.,  
PLANO, TEXAS**

Ms. LETTELLEIR. Chairman Grassley, Ranking Member Leahy, and members of the Judiciary Committee, I am Diane Lettelleir, senior managing counsel of litigation for J.C. Penney Corporation. I want to thank you for the opportunity to testify today about the devastating impact of abusive patent litigation on J.C. Penney. It is an honor to present the company's perspective, and I can assure you that our views are shared by many other Main Street businesses around the country, including other retailers, grocers, homebuilders, convenience stores, advertisers, restaurants, realtors, and hoteliers.

On behalf of J.C. Penney, I also want to thank the bipartisan sponsors of the PATENT Act for their commitment to tackling this very important issue. This legislation will make great strides toward addressing the abusive patent litigation facing J.C. Penney and other Main Street businesses.

In 1902, James Cash Penney opened his first store in Wyoming. Since that humble beginning, J.C. Penney has grown to be one of the Nation's largest retailers. Today J.C. Penney has over 1,000 stores employing approximately 114,000 associates across 49 States and Puerto Rico.

J.C. Penney's business model is simple, but we use a complex array of technologies to enhance our customers' shopping experience. J.C. Penney, like countless other Main Street businesses, has been ravaged by the exponential growth and aggressiveness of patent troll industries.

While abusive patents initially targeted the high-tech industry, they expanded their focus to include Main Street businesses. In fact, in 2012, for the first time, non-practicing entities reportedly sued more Main Street companies than technology companies. The motivation for this strategy is easy to understand. Main Street businesses that only use technology are easy prey because they often lack the technical or legal expertise to fight patent infringement claims. Abusive patentees take advantage of these weaknesses and strategically offer settlements at a level set below the cost of defense. Faced with this calculus, many Main Street businesses have little choice but to pay.

J.C. Penney's experience provides a framework for understanding why this legislation is so important to Main Street businesses. J.C. Penney has been a defendant in 30 non-practicing entity lawsuits just in the last 6 years. In addition, J.C. Penney received countless threatening demand letters demanding settlements for what we consider to be very weak patents or invalid patents. None of these NPE lawsuits or demand letters relates to items we sell; every claim relates to the technology we use to operate. NPEs frequently seek tens of millions of dollars in damages in these cases.

J.C. Penney agrees that innovation and the U.S. patent system are important to the U.S. economy, and J.C. Penney respects the intellectual property rights of others. While patent protection and

the right of enforcement are important components of the innovation ecosystem, so, too, is the adoption of innovation. Innovation without the opportunity for commercial adoption does not lead to economic growth or further innovation. The current patent infringement litigation environment is undercutting the opportunity for Main Street businesses to adopt innovation.

In parallel to the direct costs of patent infringement allegations, the steady stream of claims has disrupted J.C. Penney's adoption of innovation offered by small businesses. The disruption manifests itself in two ways. First, J.C. Penney knows that by adopting new technology, it becomes a target for abusive patent litigation. Second, the small technology company itself becomes a target by virtue of its efforts to commercialize its innovation. In both instances, J.C. Penney knows that the small company will not have the financial strength to defend itself or J.C. Penney against these threats.

This dynamic has caused a shift in how J.C. Penney and many other Main Street businesses approach the adoption of innovation. J.C. Penney's shift away from small companies has not been driven by concerns that the new technology actually infringes any patent. In most cases, the small companies themselves own patents covering the technologies they offered to J.C. Penney. Instead, J.C. Penney's shift away from small technology companies is driven by the cost of defense of patent litigation.

J.C. Penney and Main Street businesses fully support the rights inventors and patent holders to market their products and to bring claims to enforce their intellectual property rights. We believe that the thoughtful and balanced patent litigation reforms set forth in the PATENT Act will preserve these rights while curbing abusive patent litigation.

Thank you once again, Chairman Grassley, Ranking Member Leahy, and members of the Committee, for holding this critical hearing. We urge this Congress to pass meaningful reform without delay.

Thank you.

[The prepared statement of Ms. Lettelleir follows as a submission for the record]

Chairman GRASSLEY. Thank you, Ms. Lettelleir.

Mr. Hadad.

**STATEMENT OF HENRY HADAD, SENIOR VICE PRESIDENT AND  
DEPUTY GENERAL COUNSEL-INTELLECTUAL PROPERTY,  
BRISTOL-MYERS SQUIBB, NEW YORK, NEW YORK**

Mr. HADAD. Chairman Grassley, Ranking Member Leahy, and members of the Committee, thank you for the opportunity to appear on this panel.

Bristol-Myers Squibb is a global biopharmaceutical company with over 25,000 employees focused on our mission to discover, develop, and deliver innovative medicines that help millions of patients prevail over serious disease. In 2014 alone, BMS spent over \$4.5 billion in research and development. BMS leads the industry with our ground-breaking immuno-oncology therapies and pipeline which harness the body's own immune system to target and detect cancer cells. Given the extraordinary challenges, expense, and time it

takes to discover and develop a new drug, BMS depends on strong and predictable IP protection to justify this investment.

BMS acknowledges the patent litigation concerns expressed by other members of this panel and appreciates the significant efforts by the bill's sponsors and their staffs to strike a balance between curbing abuses of the patent litigation process and promoting innovation.

Provisions around early disclosure of ownership information, Judicial Conference involvement in discovery and case management, and customer stay should improve the litigation process overall. Provisions around fee shifting appropriate focus on objectively unreasonable behavior by a non-prevailing party, while the fee recovery provisions reflect a balanced and improved approach. And the discovery stay and pleadings provisions include important concepts that should reduce potential abuse.

Despite this significant progress, however, BMS strongly urges the Committee to strengthen the bill by addressing abusive litigation practices not only in the district courts but also in the context of IPR and PGR proceedings before the USPTO. We commend the USPTO and the PTAB for their efforts in professionally and diligently managing nearly 3,000 IPR filings. Unfortunately, in an effort to timely address the deluge of filings, these proceedings have been implemented in a manner that lacks due process protections and unfairly prejudices patent owners.

Recent statistics show that the PTAB grants IPR petitions and finds at least some of the challenged claims invalid over 75 percent of the time. Moreover, 80 percent of the patents challenged in IPRs are also asserted in parallel district court proceedings. Given this data, it is not surprising to see increasing abuse of these proceedings, including IPR petitions filed by hedge funds that are short-selling stock based largely on investor anxiety around these proceedings, by parties primarily seeking to extract a financial settlement from patent holders, and by litigants presenting the same or substantially the same arguments that were presented in Federal court.

The same challenges and serial harassment that confront other members of this panel regarding patent assertion entities are mirrored in the abuses of the IPR-PGR system. The stakes are high. If there is a reduced confidence in the patent system, the biopharmaceutical industry will innovate less, invest less, and employ fewer. To that end, there will be fewer ground-breaking therapies for patients.

There are three procedural changes that, if enacted together, would more fairly balance these proceedings, aid in their efficient adjudication to the benefit of patent owners and challenges alike, and provide faith and predictability in the patent system.

First, in IPR and PGR proceedings, the PTAB apply the same "correct" claim construction standard as district courts rather than the "broadest reasonable" interpretation.

Second, the PTAB also should respect the presumption of validity for granted patents and apply the same "clear and convincing" evidentiary standard as applied in district courts for establishing invalidity of the patent. By doing so, this would minimize incon-

sistent results and duplicative proceedings between the courts and the PTAB and ultimately increase fairness and predictability.

The second proposal would be that patent owners should be permitted to make minor amendments to claims during the proceeding and more substantial amendments through the filing of a reissue or reexamination application prior to the institution of any IPR or PGR.

My third and last proposal is that the procedural rules governing IPR and PGR should be revised to ensure fairness and due process for patent owners, including equal opportunity to submit evidence, reducing potential bias by having someone other than the PTAB Merits Panel decide whether to institute the petition, and by permitting live testimony on key issues.

I would be pleased to address these proposals in more detail if there are any questions. The PATENT Act, with the suggested modifications to USPTO post-grant proceedings, is a productive step that will curb abusive practices and minimize unintended consequences for legitimate patent owners.

I thank you for the opportunity to appear today and look forward to answering any questions you may have. Thank you.

[The prepared statement of Mr. Hadad follows as a submission for the record]

Chairman GRASSLEY. Before I ask questions, I just got notice from the floor that the 10:30 vote will probably be now around 1:30. If you have got any other information, let me know.

I will start, and we are going to have 5-minute rounds—I screwed up your introduction, so I might as well do that. Go ahead.

[Laughter.]

Ms. SAMUELS. No problem.

**STATEMENT OF JULIE P. SAMUELS, EXECUTIVE DIRECTOR  
AND PRESIDENT OF THE BOARD, ENGINE, NEW YORK, NEW  
YORK**

Ms. SAMUELS. Chairman Grassley, Ranking Member Leahy, and members of the Committee, I am Julie Samuels, executive director of Engine, an organization started several years ago to help advocate for high-tech, high-growth entrepreneurship. Using policy analysis and economic research, we represent startups nationwide. I am also a recovering patent lawyer. It is an honor to be here today, and I look forward to discussing effective solutions to the patent troll problem, especially because this problem disproportionately harms the community of high-tech, high-growth startups I represent.

Today I am going to tell you about what the startup community needs from a functioning patent system—fairness and balance—and why the PATENT Act would help ensure those things.

Patent trolls are armed with two weapons: low-quality, impossible-to-understand patents, on the one hand, and the outrageous costs, both in time and money, of patent litigation, on the other. Imagine you are a small startup, cash-strapped and hungry, and you get a patent demand from a company you have never heard of, claiming to own some basic technology. Your choices are: hire a lawyer and spend valuable time and limited resources fighting

back, or simply pay the troll to go away, which is why I want to talk today about fairness and balance.

Right now we have a system that across the board favors patent holders who want to abuse that system. Those parties have exclusive access to all of the relevant information surrounding the patent, basic things such as who owns it, who else has rights to it, along with the ability to singlehandedly drive up the costs of litigation with motion practice and discovery. It is a system that essentially allows for legalized extortion, and that leaves startups nearly powerless to fight back without great personal risk and expense.

Take the experience of Jump Rope, a Chicago startup founded by Peter Braxton. An Air Force veteran and former combat pilot, Peter found himself facing a troll suit less than 1 month after he launched Jump Rope. Peter's lawyers advised him to settle, but he instead decided to fund the litigation himself. Ultimately the court found no infringement and that the plaintiff failed to conduct even due diligence before filing suit, but not before Peter was forced to spend more than \$250,000 on his defense.

Or take Life360, an app keeps over 55 million families safe and connected. After raising \$50 million in capital early last year, the company was hit with a troll suit that it decided to fight. In spite of a jury finding the troll's claims meritless, Life360 still had to spend over \$1.5 million to defend itself, with no reasonable recourse to recover that money.

Many of the startups—and this is incredibly important, I think. Many of the startups who support reform are also patent holders themselves, like Foursquare, which currently faces four rolls. This year's legal budget set aside enough money for these cases alone that could otherwise have been enough to hire between six and ten engineers—good jobs that now do not exist.

There are countless other companies in our network, too, who invest in the patent system, yet still support strong reform. Many asked that I not use their names because they are afraid of attracting more troll suits.

One startup general counsel told me, and I quote, "The system is set up in such a way that it pretty much guarantees that the troll gets paid. It has nothing to do with the patent's claims, but with the litigation fees. We were bombarded with letters, emails, discovery requests, and motions. It was all meaningless paper, but we still had to spend time and money to respond."

In each case, startups divert resources from innovating, growing their business, and creating new jobs to fight what are often meritless claims. To make matters worse, the bulk of this money never finds its way back to inventors or R&D departments.

For a small startup, even one troll suit can ruin its business, and the mere threat can cause significant disruption. No small business owner should be forced to put her company at risk to defend what she knows is right, which is why we need the kind of comprehensive set of reforms that is the PATENT Act. The PATENT Act would bring much needed transparency to the system through heightened pleading and demand letter reform, giving startups tools to understand the scope of the threat they face, helping them decide how to respond. The bill creates the appropriate incentives for startups facing meritless suits to fight back. By shifting fees

and allowing for real recovery and by reforming discovery, the PATENT Act allows parties a fighting chance in court.

Right now, a startup worried about its bottom line has almost no choice but to pay a troll to go away. The PATENT Act would dramatically change this calculation and keep the courthouse doors open to everyone. Taken together with the strong post-grant review procedures from the America Invents Act, the PATENT Act represents an important package of incentives that would rebalance and restore faith in a broken system.

To be clear, no single reform in the bill can accomplish this task alone. It is only when they are all taken together that we can find the missing balance and fairness.

Opponents of reform argue that proposed changes in the law would have the unintended consequence of making it harder to assert valid claims. In fact, nothing in the PATENT Act would hinder an inventor from monetizing, asserting, or enforcing valid patents, or making claims that are substantially justified or objectively reasonable.

The freedom to innovate has always been a central part of the American dream. For the sake of our economy and our identity, we must not let innovation become a legal liability. A patent should be valued for what it covers and how it incentivizes innovation, not for its litigation value. The PATENT Act would go a long way to making that the case.

Thank you, and I look forward to your questions.

[The prepared statement of Ms. Samuels follows as a submission for the record]

Chairman GRASSLEY. We will have 5-minute rounds.

I am going to start with Mr. Chandler. We have heard concerns that the PATENT Act could have the unintended effect of undermining patent property rights. In your opinion, because Cisco, I have been told, has 12,000 patents, are you concerned that this bill would devalue your company's extensive patent portfolio?

Mr. CHANDLER. Not at all. Our portfolio is used to stop others when they are infringing our patents. We also cross-license freely with other companies so that each of us can be empowered by each other's patents when that makes sense for us to do so with other companies.

The PATENT Act is a series of changes that will bring litigation fairness, that will allow for removing artificially imposed costs in the system that do not produce useful results.

You know, the IPR process has been discussed a little bit this morning, and the IPR process is good for Cisco because it is good for the integrity of the patent system. We recently brought litigation against a company which systematically used our patented technology as well as word-for-word copying of our copyrighted materials. They have asked for IPR review at the Patent Office of our patents in the case.

Of course, I do not want my patents invalidated, and I believe our patents are strong. If I do not like the result of the IPR, there is an appeal process. But at the end of the day, the patents need to be more than just a blank and unexamined check to bring litigation. It really needs to stand for true innovation. If some of my patents are invalidated after getting a closer look under the rules that

exist before I am able to enforce them, so be it. We will have a stronger, more credible patent system as a result, even if I do not like a particular short-run result.

We strongly support the PATENT Act, and we do not buy the need to undermine the ability of the Patent Office to undertake the reviews that were created in the America Invents Act.

Chairman GRASSLEY. I would have questions for Chandler, Samuels, and Lettelleir, hopefully a short answer: Do you believe that the PATENT Act is effective in addressing the patent troll problem? Would you in a short way say what you think is the most important reform in the bill? I will start with Chandler.

Mr. CHANDLER. I think the most—the answer is yes, and the most important reform in the bill is the fee-shifting, fee recovery provisions that ensure that people with weak lawsuits and weak patents think twice before bringing them.

Chairman GRASSLEY. Ms. Samuels.

Ms. SAMUELS. I would also answer yes to the first—sorry. Sorry about that. Yes, I think it is effective, and I actually have a hard time saying that there is one most effective provision. I think the most effective characteristic of the bill is that it is comprehensive and that, when taken together, we have a package of incentives that can rebalance the system.

Chairman GRASSLEY. Ms. Lettelleir.

Ms. LETTELLEIR. I agree with Ms. Samuels. I think that it is a very important piece of legislation and will be a powerful tool for those that are the victims of abusive patent litigation tactics. I feel like the most important attribute of the PATENT Act is the fact that the provisions complement each other, and one provision makes another provision more effective, more meaningful, as it is applied to individual scenarios. I think the fact that they work together, they complement each other, and they strengthen each other—if you start picking apart one aspect, one provision, it weakens another provision. It is a very carefully crafted piece of legislation, and we think that has been very well crafted, and we support all the provisions as they work together.

Chairman GRASSLEY. A short question for Mr. Rhodes. Do you believe that the PATENT Act's litigation provisions strike the right balance between patent holders and petitioners?

Mr. RHODES. Yes, thank you for the question, Chairman Grassley. Yes, we think a lot of very welcome compromises have been made to the provisions that get it to that balance and really address the concerns that we have heard about on the panel this morning, while still providing balance and for the ability of patent owners to assert their rights against true infringement and to attain effective and prompt and expeditious relief. We think that the improvements that I mentioned in my opening statement are welcome advances in that regard.

Chairman GRASSLEY. I am skipping over a question here because my time is running out. For Ms. Samuels, as you note in your testimony, patent abuse is a problem that disproportionately targets startups and small businesses, so legislation trying to put a stop to these predatory practices is something that companies should welcome. However, at the same time, concerns have been expressed that some of the proposed patent reform bills will negatively im-

pact the ability of these same startups and small businesses to attract investment.

Since you are someone that deals with startups on a daily basis, do you believe that the PATENT Act will have an adverse impact on venture capital investment for small companies and startups?

Ms. SAMUELS. Thank you for the question, Chairman Grassley. I absolutely do not think this will have any impact on the venture capital as opposed to startups.

Chairman GRASSLEY. OK. Senator Leahy?

Senator LEAHY. Thank you, Mr. Chairman.

Mr. Rhodes, you are a chief of intellectual property counsel for 3M, but you also wear another hat, the chair of 21C. Let me ask you, you have been involved in this. An important part of the PATENT Act was the customer stay provision. Those who are not familiar with that, it allows end users and retailers to stay a lawsuit against them when the manufacturer is available to litigate the case instead.

Some have criticized this for not focusing on end users. They have said, and I believe incorrectly, that the provision would leave patent owners without redress for infringement by foreign manufacturers outside of the jurisdiction of U.S. courts.

Senator Lee and I authored this provision in our original bill last Congress. I hate to think of the number of hours and months we spent reworking it to address those exact concerns. As a patent holder and a manufacturer, can you share your views of the concerns that have been raised?

Mr. RHODES. Yes, thank you for the question, Ranking Member Leahy. I have heard those concerns. I do not share them. I think the customer stay provision is a very carefully crafted compromise among many different stakeholder groups, some of whom are sitting at this table this morning. We are really talking, with respect to customer stay, about a three-part negotiation balancing the interests of the patent holder, the manufacturer, and the customer. I will assure you that we looked very carefully at the issues that you talked about in reaching those compromises.

In particular, with respect to retailers and end users, we did define “covered customer” to only encompass those entities, not entities who either manufacture products or who modify the products in a way that gives rise to the charge of infringement. Those are the parties that should be defending against the infringement charge.

As to foreign, if you would like me to answer that question, the stay is only available if the manufacturer is either a party to the case in U.S. court with the covered customer or a party to another case in U.S. Federal district court. We added that language into the bill to address the exact concern you mentioned, so it is just not possible that a manufacturer beyond the jurisdiction of U.S. courts could—its customer could avail itself of the stay. That is just not possible.

Senator LEAHY. I assumed that was going to be your answer, but after all the time that Senator Lee and I spent on that, I am glad to have that answer.

Mr. Hadad, you raised concerns about abuses of post-grant review programs created by the America Invents Act, and I am trou-

bled by the behavior you described. It is vital, I think we would all agree, that PTO programs remain a strong tool for patents to be reviewed in an efficient setting. Of the reforms you are suggesting, what is most important? Can you assure us that those reforms would not undermine the law as it is now, the America Invents Act?

Mr. HADAD. Thank you for the question, Ranking Member Leahy. I think the three proposals I set out are somewhat interconnected, and I think they all serve to make it a fair, more balanced proceeding. I think—

Senator LEAHY. You would make them of equal importance?

Mr. HADAD. I do, but I would say the first one, though, I think really sets the tone for the rest, which is the standards that the claims are reviewed by, whether it is a claim construction standard that is used in district court, which takes into account the extensive examination record of the patent that took place before the USPTO; whether it is the clear and convincing evidentiary standard for establishing invalidity; or the presumption of validity.

What those things do, when you think about it, is make a patent the property right that it is. When you diminish that, it undermines the strength and, frankly, the predictability of whether that patent right can be invested in in the future.

I think that piece of it, coupled with if the standards were the same, you would actually have decreased duplicative proceedings because then the courts and the USPTO would acknowledge each other's determinations as being of equal weight.

Senator LEAHY. My time is almost up, and if anybody wants to add anything for the record, either in agreement or disagreement to what Mr. Hadad said, please do so. I did want to ask Ms. Samuels, you talked about the abusive letters, and, man, I hear that all the time in Vermont. We address it by making clear that it is a deceptive trade practice to send misleading demand letters and the power of the FTC to give civil penalties. Does that make sense? And do you have examples from your own experience why we have got to have Federal legislation here?

Ms. SAMUELS. Thank you for the question, Senator Leahy. I think that definitely makes sense, and I applaud what this bill, this piece of legislation does to address the demand letter problem. The demand letter problem is such a big problem, and we cannot even know the scope because it is all pre-complaint, right? There is no public record. I think when you empower the FTC, what you do is you really get at the worst actors, and those are the people who are sending the abusive demand letters. I think that that is a great step in the right direction.

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

Chairman GRASSLEY. Thank you, Senator Leahy.

Now, Senator Hatch.

Senator HATCH. We are happy to have all of you here. This is a really, really important hearing. All of us have worked for a long time to try and get a patent bill that had pretty much great success.

Let me ask you this, Ms. Samuels: As you know, especially over the past year, I have been working on a fee recovery provision to

ensure that those who defend against abusive patent litigation and are awarded fees will actually get paid for them, and I am pleased that the PATENT Act includes this provision.

From the small inventor startup point of view, can you explain how important the recovery provision would be in stopping patent trolls from litigating and dashing?

Ms. SAMUELS. Yes, thank you, Senator Hatch, and thank you so much for making sure that recovery language was in the bill, because as you say, if we are going to have any kind of fee shifting, without an effective way to actually recover those fees, the fee shifting would be meaningless. We think that fee shifting is a core principle that is so important for small startups and for anyone facing abusive patent litigation, because right now, when you are a startup facing a patent demand, facing a lawsuit, you are looking at years of litigation and millions—potentially millions of dollars in legal fees. That is untenable. When there is no real expectation that you might see some of that money back, there is no incentive to fight back. If there is no incentive to fight back, then we are just, you know, emboldening the trolls' continued behavior.

What you are doing is you are giving these tools to these small companies to really push back, and there are really important safeguards in the recovery language. I am not worried about any abuse. I mean, it has to be objectively reasonable, the case that is brought. I think we are in really good shape with the language as it is.

Senator HATCH. Thank you.

Mr. Chandler, the PATENT Act includes a provision to stay discovery if the defendant files certain motions like a motion to transfer venue. The provision also allows courts to order the exchange of information such as infringement intentions.

What type discovery is typically required to create infringement contentions? With respect to motions to transfer venue, do you think that infringement contentions and any subsequent discovery should be postponed until the case is actually transferred to the appropriate court?

Mr. CHANDLER. Yes, Senator, we do believe that the—all discovery should be stayed pending the resolution of the transfer motion, and there should be pressure on the judges to rule quickly on the transfer motion. Infringement and invalidity contentions can involve voluminous discovery. In fact, the invalidity contentions could end up implicating the majority of the discovery that would happen in the case. Costs typically can exceed \$1 million to proceed with that discovery. The proposed legislation refers to the district court or local rules in terms of what would be required for discovery, and we see no reason to permit that discovery to proceed pending a transfer motion. The judge should rule quickly on the transfer motion. There should be an interlocutory appeal available on that, and the case should get going as quickly as possible in the appropriate court.

Senator HATCH. Well, thank you.

Mr. Rhodes, for several months now I have heard a great deal about what many stakeholders argue is an unanticipated abuse of the inter partes review process we established in the America Invents Act. I am committed to working to address any illegitimate

instances of what some now refer to as “reverse trolling.” I was looking for realistic reforms that address the problem, but also ensure that the IPR process remains an effective option for ridding the system of invalid patents.

Do you have any thoughts on what might fit that description?

Mr. RHODES. Yes, thank you very much for the question, Senator Hatch. The patent system is a Rubik’s Cube. The patent ecosystem is very complex. We have heard here this morning the proponents for litigation reform saying it is interlocking, you know, multiple provisions are needed. We have heard those concerns. We have worked in good faith and constructively to address them on the litigation side. We think the mirror, the reverse, the converse is true with respect to PGR and IPR reforms in the Patent Office.

I listed to three big buckets in my opening statement, and I think, you know, more fairness in reviewing petitions so both parties can submit the same evidence, different bodies consider it initially within the PTAB, and then at the end of the day, there is an obligation to disclose evidence at the outset. We think the hybrid approach which will make the right to amend real and put BRI in its proper place in the reexamination and reissue of claims, and then the fairness in burdens and presumptions that Mr. Hadad mentioned.

We think just as the litigation reforms that we have listened to and responded to are interlocking, so, too, are our reforms that we are asking for in IPR and PGR interrelated and interlocking.

Senator HATCH. Mr. Chairman, my time is up. I will submit the rest of my questions.

Chairman GRASSLEY. Yes.

[The questions of Senator Hatch follow as a submission for the record]

Chairman GRASSLEY. Senator Schumer—well, she came after—yes, Senator Schumer, and then Senator Durbin.

Senator FEINSTEIN. He came after me.

Senator SCHUMER. No. I was here earlier.

Chairman GRASSLEY. No. He was here at—

Senator WHITEHOUSE. Ladies first.

Senator FEINSTEIN. OK.

Senator SCHUMER. Would you like to go?

Senator FEINSTEIN. No.

Senator HATCH. Typical of—

Senator SCHUMER. Chauvinism is dead.

Chairman GRASSLEY. We are wasting—

Senator KLOBUCHAR. Senator Grassley says you are wasting—

Chairman GRASSLEY. We are wasting time. Go ahead.

Senator SCHUMER. Excuse me. Do you want to go?

Senator FEINSTEIN. No. You go.

Senator SCHUMER. OK. She was busy showing me the terrible thing that ISIS puts out, which people should look at, called “Inspire.”

Senator DURBIN. Another patent troll.

Senator SCHUMER. They could be.

I want to thank Chairman Grassley and Ranking Member Leahy for organizing this hearing and for your leadership and partnership on this issue. I really want to thank Senator Cornyn, whom we

have worked closely with on this, as well as Senators Klobuchar, Lee, and Hatch, our cosponsors who have done a great job on this legislation.

I am grateful that the Committee has the opportunity to hear today about the incredible strides we have been crafting in coming to a meaningful solution to the scourge of patent trolls without damaging the rights of legitimate patent holders.

It is clear, based on what we are hearing today, that this is not yesterday's patent bill. This bill is different, and we are going to get it done. There will be patent legislation along the lines of what we proposed on the President's desk this year. I truly believe that. I think the panel, which last year, if all of you came, there would have been a much wider disparity. The consensus is growing around this bill, and we thank you for that, particularly our 21C friends who are helping us and being very constructive. Thank you.

I want to make sure everyone watching this hearing understands what a breakthrough we have before us. Today's hearing marks the first time Congress is hearing a unified chorus that legislation we have drafted balances the interests of traditional patent holders and businesses that are only on the receiving end of infringement accusations.

Have we made everybody happy? Of course not. That is literally impossible in the patent space, as we learned during the debate over the AIA. But I feel confident we have taken tremendous steps toward the goal that my colleagues and I all identified: solve the problem of frivolous, expensive lawsuits without damaging the legitimate claimants. I am committed to working with those who have opposed previous iterations of reform, especially those in the life science industry, to identify workable solutions to the problems they perceive in the PTO system.

I do want to sound a note of caution. Just as we have said for years that it is important that patent litigation reform not undermine the legitimate rights of patent holders, it is similarly critical that the reforms to the post-grant system not undermine the ability of the PTO to provide cost-effective, efficient alternatives to litigation for the consideration of poor-quality patents.

I have said many times, my lodestars in this debate are the small New York startups. These are the seed corn of New York's economy and similar companies throughout the country of America's economy. These are the companies, the future Googles and the future Facebooks and the future Oracles, that are going to create thousands and thousands of jobs and export so much materials. They are snuffed out by these parasitic trolls, and we cannot allow that to happen.

The post-grant proceedings at the PTO are particularly important to those companies who simply do not have the resources to litigate or who benefit from the collective efforts of others who have been hit by the same troll to invalidate bad patents.

I will not be able to support any deal on post-grant that does not preserve the viability of the process for these little startups. I do have to say that, again, we are making good progress here. There are ways we can all come together.

My questions: First, to Mr. Samuels—Ms. Samuels, you represent exactly the kind of startup companies I care about in New

York and elsewhere. Do you think that this bill solves their problems? You can give a short answer?

Ms. SAMUELS. I will be very short. I think, yes, it mostly does. Obviously, there are some things we can discuss, but it is a good compromise bill, and it will allow those companies to do what they do, which is innovate and create jobs, in New York and all across the country.

Senator SCHUMER. I know Mr. Chandler and Ms. Lettelleir, because Senator Grassley asked the question, feel the same about problems faced by Cisco and J.C. Penney. It is amazing. One of the reasons we are gaining support is Main Street is being hit by these trolls. A restaurant owner said to me in New York that, "They are going to sue me because they say they patented the spoon."

OK. Now, to Mr. Rhodes, last question, to Mr. Rhodes and Mr. Hadad. Both of you represent companies that have had substantial concerns about previous versions of patent reform legislation. Do you feel like the sponsors of this bill have listened to you, been responsive to the concerns you have raised? You may answer any way you choose. Mr. Rhodes?

Mr. RHODES. Yes, I am happy to go first. Thank you, Senator Schumer. We do think we have been listened to. We think many of our concerns have been addressed, and that is why in the context of an overall bill that addresses our additional concerns about IPR and PGR, we would look forward to supporting the bill as a whole moving forward.

Senator SCHUMER. We have been mindful of your concerns, because you have a lot of expertise in your organization.

Mr. Hadad, who represents retailers who have just all of a sudden been right in the cross hairs of these horrible trolls.

Mr. HADAD. I represent Bristol-Myers Squibb, and I agree with—

Senator SCHUMER. Sorry. Represents pharmaceuticals.

[Laughter.]

They retail pharmaceutical drugs.

Mr. HADAD. In the interest of time, I agree with Mr. Rhodes' characterization.

Senator SCHUMER. Right. J.C. Penney, a retailer, agrees as well. That is who I was referring to.

OK, Mr. Chairman. My time has expired.

Chairman GRASSLEY. Senator Lee.

Senator LEE. Thank you, Mr. Chairman, and thanks to all of you for your help and for your insight today.

I would like to thank all of the other original cosponsors—Senators Leahy, Cornyn, Schumer, Hatch, and Klobuchar—for their work in putting together this really important legislation.

In the last Congress, Senator Leahy and I proposed legislation to deal with abusive patent practices directed at small businesses: sending demand letters, extorting money, and filing expensive patent infringement lawsuits filed against retailers and other end users of products instead of against the manufacturers of those products. We are pleased to report that in the PATENT Act, with the support of a bipartisan array of cosponsors, we will finally be able to enact these reforms. It has been a pleasure working with

this great bipartisan group and with so many people in the industry who have provided such valuable insight.

I would like to start with you, Ms. Lettelleir. You said in your testimony that you support a statutory customer stay. I just want to make sure that everyone understands why that is important. J.C. Penney is in the retail sales business. You all do not manufacture technology or design complex software for a living, right? You sell clothing and you sell other merchandise. You do not know anything about the microprocessors in the bar code reader or some other technology that you use in order to get on with your business. When you get slapped with a patent infringement lawsuit over some product that you did not design, that you did not manufacture, you are not going to be able to evaluate the merits of that suit. The manufacturer has to do that. Yet, according to your testimony, district courts are currently somewhat reluctant to stay litigation against retailers or against end users, even when the manufacturer is already defending its patent litigation.

Can you tell us a little bit more about that and about how you think the customer stay language in this bill will help in the industry?

Ms. LETTELLEIR. Yes, thank you for your question, Senator Lee. We have been called upon to defend various aspects of technology we have acquired from other companies, companies like Cisco, companies like Oracle, intel processors, the whole array of technology that you can imagine we have been called upon to try and defend. You can imagine when J.C. Penney is sued on the premise that an intel chip that resides in its point-of-sale terminal in its store, that we are at a severe disadvantage in terms of even beginning to defend that technology. We do not have access to the evidence that would even be required to defend that.

A customer stay is very important to us with respect to those particular types of suits. It is not all the suits that we see, but it is a good percentage of them. I think the customer stay provision is really geared toward getting to the truth. Does the chip infringe? It addresses the issue of who is the best party to defend that issue, and we feel it is the manufacturer, and we think that the language that has been carefully crafted to balance all the different interests of the different stakeholders is the best way to get to that result. It does not absolve us of liability, but it does shift the burden of proving and addressing the infringement allegations to the manufacturer who actually supplied the technology.

Senator LEE. Thank you.

Mr. Rhodes, you have been focused, and appropriately so, on ensuring balance in our litigation reform proposals. You have been an honest broker in this process, and I hope you know how much we appreciate that.

Are you satisfied that under our proposal eligibility for a customer stay is sufficiently far down the chain of distribution?

Mr. RHODES. Yes, thank you for the question, Senator Lee. I do think that we took careful pains, as I mentioned earlier, in the definition of who a "covered customer" is to limit it to retailers and end users who are reselling products from covered customers who are in a position to defend the case. They have not manufactured, they have not modified the product in a way that gives rise to the

charge of infringement. They are well positioned if they have done that to defend based on their modifications.

I think with those protections in place, we are not talking about absolving people of liability. I think that is an important principle on which I agree. We are talking about, in the first instance at least, having the parties well positioned to defend the case have the first and foremost role in defending it.

Senator LEE. Thank you very much.

I see my time has expired. Thank you, Mr. Chairman.

Chairman GRASSLEY. Thank you.

Senator Durbin.

Senator DURBIN. Thank you, Mr. Chairman.

Chairman GRASSLEY. Senator Durbin, and then it will be Senator Perdue. I am going to go to Agriculture for a few minutes.

Senator DURBIN. Thank you, Senator. Let me thank the panel.

Throughout the morning we have heard the word "balanced" used repeatedly. I thank you for coming here to testify, but it appears that this panel is divided between those who love the bill and those who really love the bill.

There are some people who may not be in that category. They include the National Venture Capital Association, which said of this bill, "We think as presently worded it will raise the cost and risk of patent litigation for startups that need to defend their intellectual property against much larger incumbents and will discourage investment in any new company that wants to enter lines of business where patents are important."

The U.S. Alliance for Startups and Inventors for Jobs said of this bill, "It will make it far more difficult for small companies to protect and enforce their patented technologies against larger competitors."

There is another side to this story which has not been given a chance to speak this morning, and I hope that during the course of considering this bill we can reflect on it.

Let me also say to Mr. Chandler from Cisco, I do not think you started with your strongest argument, your strong argument that you spent \$50 million in legal fees defending against these nuisance lawsuits. The revenues of Cisco last year were \$47 billion; \$50 million represents one-tenth of 1 percent of your revenues. It is as if a \$1 million corporate making \$20,000 a week had to spend \$20 a week in legal fees. Let me ask you, since both you and Mr. Rhodes represent companies that have patents, how many patent lawsuits did you file to protect your patent lawsuits last year?

Mr. CHANDLER. We filed one lawsuit last year.

Senator DURBIN. Only one?

Mr. CHANDLER. Only one.

Senator DURBIN. Mr. Rhodes?

Mr. RHODES. We filed—over the last 5 years, 60 percent of our patent lawsuits have been patent—when we have asserted our patents against others. We currently have a dozen of those suits pending and only three cases that we are defending.

Senator DURBIN. This is what it gets down to is Large corporations either filing one or more lawsuits have the resources to play under this new law as proposed, because it takes quite an effort under the proposed law to assert your rights under a patent. You

have the requirement of detailed pleadings. You have the reduction of opportunities for discovery. You have fee shifting, and in a great number of cases at least leads to the possibility of fee shifting, which could discourage the small patent holder.

One small business witness said in the Small Business Committee, "If you need to pay \$5 million in order to assert your patent rights, that is not petty cash for me. It is taking my house, my spouse, and my children."

This responsibility that is put into the law makes it much more difficult than it might for Cisco or for 3M.

Ms. SAMUELS, the case that you referred to here, the Jump Rope case, where a patent troll called Smart Options sued them, you are aware of the fact that the court awarded fees after finding that Smart Options, the patent troll, failed to perform even minimal due diligence before suing.

Ms. SAMUELS. That is right, Senator Durbin, but then the patent troll came back and sued again under new patents, and they have just recovered a small fraction. What I would like to—

Senator DURBIN. Do you know what percentage of cases now recover fees for this type of nuisance litigation under patent law?

Ms. SAMUELS. I understand it is still a very, very low percentage, and in certain districts it has not happened at all since the—

Senator DURBIN. It turns out, according to the Federal Circuit Court Bar Association, defendants have a 50-percent chance of winning these fees. It is not as if we are dealing with a remote possibility. Under the current law, a 50-percent chance of winning these fees.

Ms. SAMUELS. Fees are not granted in 50 percent of patent litigation.

Senator DURBIN. This is the Federal Circuit Court Bar Association. You are welcome to look at their report.

May I ask the panel here, particularly those who are representing the larger corporations, there are exemptions built into this law, exemptions from fee shifting, pleadings, and discovery. One of the exemptions relates to bill—patent infringement lawsuits between generic and brand-name drug companies. In other words, the bill protects this one type of patent litigation from the burdens and risks the bill would impose on all other patent holders.

I am not saying that drug patent cases should not be exempt. Maybe they should. Why does the bill draw the line there? Shouldn't we also protect original inventors in the bill? They are not trolls. They earned their patent. What about small businesses and universities? Can you tell me why we have carved out one group in this bill to say that they would be exempt from the more demanding procedural requirements than these other categories? Would anyone like to—

Mr. HADAD. Senator Durbin, I will, since I am in the industry. As you know, with cases under 271(e), or the so-called Hatch-Waxman procedure, these cases have to get done within a 30-month period—that is sort of a statutory mandate—because that is the period where the FDA is stayed from approving any products while a litigation is pending. Anything that would delay the case would somehow maybe derail, I think, the balance of that statute, and that is, I believe, why those exemptions are in there.

When it comes to the fee shifting, I have to say I have a bit of mixed feelings about that one myself, because I believe that the standards for behavior in cases should be applied equally in all cases, and so I do not see the need to necessarily differentiate here.

Senator DURBIN. I may come to a different conclusion as to fee shifting, but I would say that since we are dealing with patent trolls, which, according to the GAO, represent 20 to 25 percent of all the patent litigation, this new proposed law applies to all patent litigation, I think—except for the ones that I mentioned, the expectation that was made.

I yield back to whoever is presiding. I think it may be Senator Lee at this point.

Chairman LEE. [Presiding.] Thank you.

Senator PERDUE.

Senator PERDUE. Thank you, Mr. Chairman, and thank you, panelists, this morning for your testimony.

You know, in my experience—I have been on both sides of this in my career—the economic boom of the last 70 years is really attributable, in my opinion, to three things: one is innovation; two is our ability to form capital; and, three, the rule of law. Unfortunately, today we face abuses in several of those areas, and I have got a real concern that we find the right balance that does not hinder our ability to form capital.

Ms. Samuels, I think you mentioned this earlier, particularly as it relates to the fee shifting part of this bill. Can you give us your views? You are the closest to—I do not know how many rounds you have been through. I am part of a little startup—have been part of a little startup. We went through four rounds, and I know what impact this can have on small companies' abilities to raise capital.

I share Senator Durbin's concern about the small player, the young player, getting from that angel stage into the venture capital stage, and then being hit by a fraudulent or problematic lawsuit that is totally frivolous.

Ms. SAMUELS. Thank you for the question, Senator Perdue. As a preliminary matter, the VC community—and particularly the venture capital community that invests in high-tech, high-growth entrepreneurship, that invests in software companies—by and large supports this kind of comprehensive legislation. I can happily provide lots of examples. I have some written down, but I would rather just get to the meat of what is going on here. I think what we see is that those venture capitalists who are investing in small startups, their interests are so closely aligned with the small startups, of course. It is in their benefit to see those startups succeed.

When a patent troll comes after that company, you run into a lot of problems because a small company, even backed by venture capital, does not have a lot of resources to fight back. That is incredibly problematic.

I think, you know, to address some of the things that Senator Durbin said that play into this, there is some concern that this kind of legislation makes it harder to attract investment. I do not think that is true at all. This legislation is a compromise piece of legislation. It is really measured.

The kinds of things that this bill wants a company to do before filing suit, like basic due diligence, are the kinds of things anyone should do before they take advantage of the Federal court system in our country.

Senator PERDUE. Right. Thank you very much.

Ms. SAMUELS. Thank you.

Senator PERDUE. Ms. Lettelleir, I competed with Penney and I also sold to Penney, but welcome this morning. I just have a question about balance. We have heard that mentioned several times today. The balance I am concerned about is between, you know, the focus on pleading and the initial disclosure provisions of the bill. Can you speak from your perspective about have we found that balance? Or do you still have concerns?

Ms. LETTELLEIR. I think the bill has done—it presents a very finely crafted compromise position between all the stakeholders, and I think that it achieves what we will need to make meaningful changes to the system. You know, as a target of this type of litigation, we receive just ridiculously broad assertions.

For example, I just received one last month that they list a patent number and then beside it they have only the word “e-commerce,” and that constitutes my notice of what they are alleging. I do not even know where to start in terms of analyzing the potential risk, whether, in fact, I should seek a license, or if I think that, in fact, we do not actually practice the invention.

I think that the pleading requirements that are set forth will be very helpful, I think the requirements in the demand letters will be very helpful, in terms of moving the ball down the path in a less expensive way for all the parties.

Senator PERDUE. Thank you.

Mr. Rhodes, relating to demand letters, in your written testimony I think you suggested that provisions of the bill on abusive demand letters may encourage a “sue now, talk later” approach. I would like to give you an opportunity to expand on that, because we are really trying to make sure that these provisions will actually—well, basically you are saying that this increases the likelihood of litigation. Is that correct? Is that a correct observation from your testimony?

Mr. RHODES. Thank you, Senator Perdue, and that is the concern. I think the risk is if companies that want to put others on notice of their patent rights confront the current landscape that we are dealing with, with demand letters, the risk may be too high, and we may be incented into a “sue first, talk later” strategy—not because we do not want to get the information out there, but because the risks of doing so under the current regime are too high. What I mean by that is two problems and two proposed solutions.

One is if it is not clear what the rules of the road are with respect to a particular demand letter, you might not know what you should or should not put in the demand letter. And people just want clear rules of the road. We do not have that today because different States have different rules now where they have legislated demand letter provisions. What we would like is national uniformity, consistency. We are asking that the U.S. FTC be allowed to enforce the uniform standard. If they do not, State Attorneys General would be empowered to step in and enforce that uniform

standard. But it would be uniform so we would not have to wonder, you know, what we put in a letter in this State or that State.

We also think the addition of a bad-faith requirement, as is in the bill proceeding in the House Energy and Commerce Committee, would be helpful to help really distinguish the truly bad-faith assertion letters that we heard about from some of the panelists this morning, from parties legitimately trying to put others on notice of their rights or promote licensing discussions, who may, for whatever reason, make a mistake.

Senator PERDUE. Thank you.

I will now yield to Senator Klobuchar, who I think is next.

Senator KLOBUCHAR. Very good. Thank you very much. Thank you to all the witnesses. I know we have mentioned all of the cosponsors of this bill many times, but I also want to thank Senator Coons for his work. He knows a little bit, having been a counsel in the past, about how important it is to protect the rights of patent holders, as well as in a previous life in the private sector, as well as the work of Senator Durbin. I know people have some differing views here, but I think this is very important, and I really came around to working with our patent holder companies and making sure that there were provisions in the bill, as Mr. Rhodes has expressed, that make sure that we can differentiate some between legitimate assertions of patents and then the troll situation.

I do not know if anyone has brought out this stat, but there were more cases filed by patent trolls in 1 month, in January 2015, than in the entire year of 2004—250 compared to 234, just to give a sense of this changing problem and why we are doing something about it today.

I also believe that we need to make some—look at some of the additional needs with this bill, and I deeply appreciate everyone's willingness to work on this issue.

I thought I would start with one of the most poignant examples that I heard when I did a roundtable with 50 patent lawyers in Minnesota. It was a lot of fun. I heard at the roundtable the story about an infusion pump used to administer critical medicines to patients, including premature babies. The maker of the pumps has been sued by a patent troll who is claiming that the patent on the—that the infusion pump infringes on a fuel delivery system that is intended for the use in tractor-trailers. The litigation reforms in the PATENT Act are aimed at stopping, of course, these kinds of abuses.

I have also heard, of course, from small inventors who are concerned about how this legislation might affect them, so I guess I would start with you, Ms. Samuels, and how you balance that, the small inventor's interest and then the effect on so many businesses across the country.

Ms. SAMUELS. Thank you for the question, Senator Klobuchar. For starters, we have in our network of startups people who strongly support this reform and are patent holders themselves, and I think it is because we have crafted the kind of compromise here that I really do not believe puts much of a burden on a small patent holder. I mean, you are talking about, before you file a lawsuit in Federal court, doing certain due diligence. The fee-shifting standard, for instance, that you bring an objectively reasonable

case, that is the kind of behavior we want to incentivized, right? And “objectively reasonable case” does not mean you have to win. You can lose and not get your fee shifted, right? You just need to give some thought before you go and sue someone in Federal court.

I think—you know, to take a quick step back, I think part of the problem here is there is this knee-jerk reaction in a lot of what we are discussing, where people just assume that a patent is, as someone else said, some kind of God-given right to make money, and it is not. A patent exists to incentivize innovation, the progress of science and useful arts. And that is what we are talking about here.

I actually think, to answer your question, that the balancing act that this bill does both protects small businesses who are targeted by trolls, but it also protects small businesses who have patents and want to assert them.

Senator KLOBUCHAR. OK. Thank you.

Mr. Rhodes, as I mentioned in your introduction, innovation has been key to your company. You brought the world the Post-it Note, as we know, and as you point out in your testimony, some stakeholders continue to claim that the customer stay provision is subject to abuse that will harm legitimate patent rights. Do you agree with this concern?

Mr. RHODES. Thank you for the question, Senator Klobuchar. I do not. As I mentioned earlier, I think really the trick there was that delicate three-part negotiation: the patent holder, the covered manufacturer, and the covered customer. We really focused at the end of the supply chain so that the stay would be available for retailers or end users who really should be in the position of obtaining a stay.

Senator KLOBUCHAR. When you and I talked yesterday, you talked about some of the additional reforms that you thought could be helpful here. Do you want to enumerate those?

Mr. RHODES. Yes, and certainly I mentioned those this morning with the post-grant review procedures and inter partes review procedures in the Patent Office. I mentioned, you know, three buckets of interlocking reforms that we would like to see added to the bill: at the institution phase, leveling the playing field there; having sort of the hybrid approach where claim amendments could be considered if a patent owner elected to take the patent into a reexamination or reissue proceeding; and then for those claims that are examined—or, I am sorry, are adjudicated under IPR and PGR proceedings, making those consistent with the court.

I would just like to emphasize that on the litigation pieces we have listened to the concerns of those who have called for changes to litigation practice to address imbalance and unfairness. We would now ask for the same attention and concerns on our side to what we perceive to be imbalance and unfairness to be brought to real solutions on the IPR and PGR front. Thank you.

Senator KLOBUCHAR. Thank you very much.

Chairman GRASSLEY. [Presiding.] Now, we have Senator Tillis.

Senator TILLIS. Thank you, Mr. Chair.

Mr. Hadad, I had a question for you. I have heard from a lot of pharmaceutical companies about maybe one of the unintended consequences of the America Invents Act is some of this economic espi-

onage that is going on with manipulating stock prices. I think you mentioned some of that in your opening testimony.

Do you believe in the bill's current form that it adequately address those threats going forward?

Mr. HADAD. No, it does not.

Senator TILLIS. Can you give me some idea of what we could potentially look at that would improve our standing in that area?

Mr. HADAD. Absolutely. Today I enumerated three proposals modifying the U.S. PTO's post-grant review proceedings which would make them more fair. What we are asking for is—and I just want to make it clear. BMS and other industry members are on both sides of this issue. Yes, we are patent holders, but we are also defendants at times. What we are looking for is a proceeding which is fair, which is a faster, cheaper, and analogous proceeding to what is going on in district court, but one that does not arrive at greatly different results every time, which is what we are seeing right here.

The things that you mentioned about hedge funds trying to torpedo patents and take advantage of the stock market anxiety around this are really a symptom of an underlying condition. The underlying condition is these proceedings are at least perceived to be slanted against the patent holder, and they just need to be balanced.

I also just want to follow-up, too. We have talked a lot about startups today and concerns of startups around patent assertion entities, but I would also want to point out that there are a lot of startups in the biotech area, and those startups, when bigger companies are looking to do deals with them, they have to have IP protection, meaningful IP protection for that investment and for that drug to be developed. I do not want that to be lost in the mix as well. Thank you.

Senator TILLIS. I talked with a pharmaceutical company down in North Carolina, the CEO, and we were talking about, because of this uncertainty, the long-term impact it has on very important business decisions. This particular company is in the middle of getting an Alzheimer's treatment drug ready. It is about 4 years out. They have to start making decisions about manufacturing capability today, billion dollar investments. With this level of uncertainty, it really changes the matrix for them in terms of making those sorts of capital expenditures, which are delaying good outcomes that the pharmaceutical industry is poised to provide.

I do have another question. Mr. Rhodes, this may go to you because you mentioned, I think, a case for preemption. Generally speaking, I do not like the Federal Government preempting States' efforts. I understand the complexity that comes from having different rules in different jurisdictions.

Last year, when I was Speaker of the House, we actually passed a bill that I think actually goes further. It essentially created a cause of action against entities who assert a bad-faith patent infringement and claims or who made bad-faith infringement assertions and demand letters.

Do you believe that—it sounds like you would be arguing for a position that this may be preempted. Do you believe that the bill right now preempts that sort of law in North Carolina?

Mr. RHODES. Thank you for the question, Senator Tillis. I do not believe there is a preemption in the bill as introduced, no. To be clear, you know, what I am seeking, I think what the overwhelming majority of patent holders in this country are seeking, are, as I said, clear rules of the road so there is no ambiguity or confusion as to what we should or should not put in our demand letters. We have no wish to send out false or deceptive demand letters. We just want to know what we can put in the letter in this State or that State. You know, much like we are trying to make sure that we have a level playing field outside the U.S. with our trading partners and their patent laws, within the U.S. we would like that same kind of level playing field and certainty and uniformity.

Patent law has always been a creature of Federal statute. I think it is really up to Congress, the Federal courts, and Federal agencies to develop that policy, and there is certainly a role for concurrent enforcement, but I would like that to be a uniform standard for enforcement.

Senator TILLIS. Ms. Lettelleir, the customer stay provision, the thing that concerns me is the way that that process could be gamed in terms of maybe technologies that have a 24-or 48-month cycle, components of products that may be a brand, and people could game the system to where it would be very difficult for someone who ultimately proves that their patent has been infringed upon actually collecting anything. Do you think there are safeguards in the proposed legislation against that?

Ms. LETTELLEIR. I think that the very fact that the customer stay does not absolve the end user from liability, from the recovery potentially of damages, is the safeguard. It is just the way it mechanically would work. All it really would do would pause the cause of action against the end user while the manufacturer case proceeds on liability questions. Then at the conclusion of that, whatever may remain in terms of issues to be resolved with the end user simply picks back up, and you continue down that path. I do not see there—it does not really significantly delay or hinder their ability to be made whole if, in fact, there was infringement.

Senator TILLIS. My question more is once they get to the original offending entity, whether or not there is anything there to help make them be made whole. My time has expired. We will follow-up with questions. Thank you.

Chairman GRASSLEY. Thank you, Senator Tillis.

Senator Franken.

Senator FRANKEN. Thank you, Mr. Chairman.

Mr. Rhodes, I appreciate that you are here to offer 3M's perspective, and I know that abusive tactics have harmed 3M, as well as other Minnesota companies. I also understand that your business relies heavily on the continued strength of the United States patent system, and I remain hopeful that we can support that system with narrowly tailored legislation that targets bad actors while preserving our innovation economy.

I know you have been involved in the discussions surrounding the PATENT Act, but you also wrote in your testimony, “. . . we do not believe that the PATENT Act is ready to be reported out of this Committee just yet . . .”

Can you tell me how your perspective has changed over the last year overall, but also and specifically as it relates to the growing popularity of post-grant review proceedings?

Mr. RHODES. Yes, thank you very much for the question, Senator Franken. I think my perspective over the last year has changed in two respects: one is I am very much appreciative of the work that has been done by the Committee and their staffs to address some of the imbalance and concerns that we had expressed with the bill that—or prior bills that had been introduced. I agree this is different and improved in many ways.

I think concurrently with that, the concern has growing—has been growing with respect to the IPR and PGR proceedings in the Patent Office. We now have over 3,000 of those filed, we think under procedures that are not fair even beginning at the outset, where the challenger can put in all of its evidence to begin a review; the patent holder really has to respond with one hand tied behind its back and cannot put in testimony to rebut expert testimony put in by the challenger. The same body then decides on that incomplete record that it is more likely than not that one of the claims is invalid. That same body then carries through and is sort of in a position of justifying that initial decision in the final ruling.

When you get into the proceedings, the right to amend claims that was codified in the AIA has effectively been negated. The way the rules have been set up, only a very small handful of amendments to claims have ever been granted. We think taking the amendment process out of perhaps what is not a good mix in the context of IPR and PGR and putting in a new hybrid process where you could have an effective ability to examine amended claims and BRI would make sense is a way to go. Then for those claims that really are adjudicated in IPR and PGR, those are supposed to be faster, more cost-effective alternatives to district court litigation. Let us make them that.

You know, again, as was said this morning, we want to have consistent among courts. I think we ought to also have consistency among adjudicatory bodies when they are looking at patent claims. We ought not to have, as in the example I listed in my testimony, 4 years of district court litigation and then all the way up to the Federal circuit, a patent claim is upheld, its validity is upheld, and then you turn around and get an IPR petition that expressly leverages the difference in claim construction between the two to start over from scratch? That is not what—I would submit that is not what Congress intended when it set up these procedures of the AIA.

Senator FRANKEN. Thank you.

Mr. Hadad, in your testimony you focus heavily on statistics that some in the pharmaceutical industry have argued demonstrate a pro-challenger bias in the post-grant review proceedings. What would you say to those on the opposite side who say that these statistics actually reflect the fact that the PTO has all too often issued overly broad patents? In other words, the people on the other side would say that these statistics demonstrate that these proceedings are serving the precise function they were intended to. What would you say to that?

Mr. HADAD. Thank you, Senator Franken, for the question.

I think when you look at the analogous proceedings in district court, I think no one has thus far, in my mind, criticized the excellent work the district courts have been doing in adjudicating patents in terms of the merits. The procedure has been somewhat onerous, the discovery and the like. Those statistics, from what I understand, are far lower in terms of the overturning of patents, certainly around, I think, 40 percent or so from the last statistics I saw. When you look at the USPTO, that is about a 75-percent rate of invalidation.

I think that delta tells a story that suggests that perhaps if there were level standards, as I mentioned earlier, Senator Franken, they would consider these things in a corresponding way. I do not think bad patents would survive more reasonable standards any more than they would under these current standards. I think bad patents will go down in either case.

Senator FRANKEN. OK. Well, thank you.

Thank you, Mr. Chairman.

Chairman GRASSLEY. Senator Coons.

Senator COONS. Thank you, Chairman Grassley, for calling this hearing. It is my hope that this will be the first of several hearings on the proposed reforms to the patent system and that we will have an opportunity to hear from as broad a range as possible of the folks who will be affected by the proposed changes, including some of the critical voices not on today's panel, which I think essentially includes small businesses who rely on patent protection for attracting investment, especially in the bio and pharma and materials spaces and the venture capital community that invests in them.

While I congratulate my colleagues on their bipartisan effort, this is not a bill that I can support. While it has made progress and is less bad than H.R. 9, currently under consideration in the House, there are still, in my view, two central concerns that I have in reviewing this act.

First, the reforms in this bill that will make it harder to enforce patents are not targeted toward trolls but will affect all patent holders. What this will mean in practice is that small investors, small inventors, startup businesses taking the biggest risks will be potentially hit the hardest by the proposed litigation reforms.

Second, the bill contains nothing to encourage the innovation that our patent system is designed to support. In particular, there is nothing in this bill to remedy the well-documented abuse of post-grant proceedings, and I greatly appreciate the comments of my colleagues Chairman Grassley and Senator Cornyn who have expressed a desire to incorporate improvements in these areas in markup.

Allow me to briefly elaborate on both points, if I might.

I am starting with the bill before us today. Our panelists have described some truly egregious conduct by trolls, including companies sending thousands of letters to small businesses or retailers and a company suing based on nearly expired patents. Yet none of those circumstances are limitations actually embedded in the provisions of this bill. Instead, it changes the rules for all patent holders.

Specifically the provisions in heightened pleading requirements, delayed discovery, enhanced fee shifting do not even attempt to distinguish between patent trolls and the startups and small businesses across America that are potentially creating jobs and making new discoveries and delivering life-saving cures. We can make that distinction, and we must. The patent system is simply too important to make speed the ultimate goal of our efforts rather than accuracy.

Several of you have described it as a Rubik's Cube, a complex system where there is a real risk of unintended consequences, and I think, frankly, the point about post-grant review makes that abundantly.

Do not just take this from me. I have a letter—and, Mr. Chairman, I would ask permission to enter this into the record—from the National Venture Capital Association, which does——

Chairman GRASSLEY. Without objection, so ordered.

Senator COONS. Thank you.

[The letter follows as a submission for the record]

Senator COONS. Which does speak on behalf of all of the venture capital community, that speaks to the significant unintended consequences that we may face, and I quote: "It is important to recognize a patent is only as strong as the owner's ability to enforce it and the awareness of others of that ability. If the bill as written were to pass, NVCA believes both of these parameters would be impaired, making it more difficult to invest in early stage companies working on life-saving cures or significant breakthroughs."

To further understand these views, I encourage any of my colleagues or staff to watch the hearing and associated testimony from the recent Small Business and Entrepreneurship Committee hearing chaired by Senator Vitter. In that hearing, we heard from Rachel King, CEO of a small biotech company developing potentially life-saving treatments for blood cancers. She testified, quote "If the ability to enforce patents becomes limited due to excessive lawsuit filing requirements or undue delays, third parties would be less likely to invest in or license our technology, and major sources of R&D funding would dry up."

We also heard from Robert Schmidt, co-chair of the Small Business Technology Council, who expressed fear that weakening patent laws would only benefit large, dominant firms in maintaining their market power.

On the second issue, there is nothing in this bill that helps inventors attract investment to find new cures or disrupt current technologies, and I am pleased to hear Mr. Chandler's testimony in which he acknowledged that recent abuses of post-grant review is outrageous and the expressed concerns by Mr. Rhodes and Mr. Hadad that these need to be addressed. My STRONG Patents Act, which Senator Vitter has joined Senators Durbin and Hirono in co-sponsoring, really would address IPR abuse, and I would be interested, if I might, Mr. Chairman, in hearing Mr. Hadad speak to what are the changes in IPR and PGR proceedings that you would like to see incorporated into the bill. Since Mr. Rhodes has already had an opportunity to address that, I would be interested, Mr. Hadad, in how you see the changes needed to really deal with this issue.

Mr. HADAD. Thank you, Senator Coons, and thank you for your concerns and considerations of these issues in your STRONG Patent Act.

Many of the proposals that I brought up have analogous provisions in the existing text of the STRONG Patent Act. There are refinements, as thinking has continued, to really target this to the abusive conduct and really tailor it in a way that makes sense. As I mentioned, having the equivalent standards as the district court, giving an alternative to amending claims through this reissue or reexamination, and then providing some basic fairness and equity in terms of the type of information you can introduce, those three areas that I said—and I think Mr. Rhodes agrees with—are areas that would be areas of focus going forward, in my mind.

Senator COONS. Thank you, Mr. Hadad.

Thank you, Mr. Chairman.

Chairman GRASSLEY. Now, Senator Whitehouse.

Senator WHITEHOUSE. Thank you all. Let me begin by thanking the cosponsors and negotiators who worked so hard on this bill. I am at this point in undecided mode. I am waiting to let my Rhode Island universities have a chance to digest the bill a little bit more and to have a better sense from the small business and startup community in Rhode Island weigh in a little bit more with me. I echo Senator Coons' suggestion that there should be more hearings on this that bring in a wider range of viewpoints.

My concern is that among the different conflicts that inhabit this patent space includes the ones we have talked about, like patent holders versus patent infringers or alleged patent infringers; includes the difference between the pharmaceutical companies, which have a huge stake in a particular patent but want to defend it at all costs, and tech companies that may have a product that implicates potentially thousands of patents and that gives them very, very different motivation in this space.

Behind all of that, as somebody who used to do a certain amount of litigation, is the conflict of big versus little and the advantage that our litigation system kind of systemically gives to big, particularly through the ability to just crush a small plaintiff with endless discovery, lots of paper blizzard litigation techniques and strategies that basically prevent the small plaintiff company from ever getting to the merits. If you are gigantic incumbent, then you have enormous power to crush potentially disruptive competition by climbing into their space and simply overpowering them in court. All of the moves that were made in this bill with respect to heightened pleading standards and discovery limits and adding a threat of a potentially game-ending fee-shift award into the equation seem to move in the direction of big versus little.

I am going to need to hear a little bit more from my universities, which tend to represent smaller folks, and from small businesses. I do think that a lot of progress has been made.

I do think it is also going to be important that we have a clear understanding, Mr. Chairman, as we go forward, that if we reach an agreement that is very solid in the Senate, that we have some reassurance that we will not just get rolled in the conference process and end up with a bill that looks like the House bill, which I think is really unacceptable to most of us and would do real wrong

as opposed to this, which I think is—you know, we are in the hunt on this bill, and the question is: Have we got it right yet?

My basic question, I would like to ask it to each of you. If you want to expand a little bit, please feel free to, but I think it is a yes-or-no question. If you had to sit down and write a definition of what a troll was so that you could tell a troll apart from a legitimate patent holder, would you be able to do that? Mr. Chandler.

Mr. CHANDLER. I have felt for a long time that the issue here is abuse of the litigation process by big and small alike potentially, by active companies and inactive, that certainly there has been a huge increase in the number of suits brought by companies that are basically investment vehicles for buying patents and litigation. The reforms we are looking at in this legislation should improve the patent system overall.

Mr. WHITEHOUSE. My point is: Can you tell a troll apart from other litigants? Is there a way to define—we use the word a lot. Would you be capable of defining it if you had to?

Mr. CHANDLER. Certainly—well, I do not use the term because I think the problem is systemic.

Senator WHITEHOUSE. OK.

Mr. CHANDLER. I think you have rats running through a maze—

Senator WHITEHOUSE. Mr. Rhodes—

Mr. CHANDLER [continuing]. because there is food at the end of it.

Senator WHITEHOUSE [continuing]. Would you be able to define the term if you had to?

Mr. RHODES. I do not use the term because I do not think there is any common or understood definition to it that people agree on, certainly that I am aware of, and I think it is important—

Senator WHITEHOUSE. Ms. Lettelleir?

Mr. RHODES [continuing]. to identify behavior, not people.

Ms. LETTELLEIR. I have to agree with my colleagues on that because I really think it—at one point it might have been more easily defined, say 10 years ago when this movement started. Over time the vortex of behavior has drawn in what previously might not have been—

Senator WHITEHOUSE. Two seconds left on my clock. Mr. Hadad?

Mr. HADAD. No.

Senator WHITEHOUSE. No.

Ms. SAMUELS. I agree. It is trolling behavior, not troll as a party.

Senator WHITEHOUSE. Got it. OK. Thank you very much.

I yield back my time, and I guess that puts Senator Cornyn in charge.

Chairman CORNYN. [Presiding.]

Good morning. Thank you for being here today. I was just getting a little update on what has happened. We have a remarkable way of scheduling multiple meetings and hearings at the same time around the Senate.

I understand there was some concern about the process leading up to today's hearing, and I just would like to remind all of my colleagues, we got very close to actually bringing a bill from the Senate Judiciary Committee to the floor last year. Senator Reid, who then was Majority Leader, reportedly told the Chairman of the Ju-

diciary Committee, “Do not bother because I am not going to schedule it for debate and votes.” We were unsuccessful bringing the bill to the floor then, but it has been a 2-year process, as many of you know, because we have consulted with each of you, and we have had intense involvement with stakeholders, an incredibly diverse array of stakeholders. This is the second hearing we have had on this issue this Congress.

I just wanted to say that to remind all of my colleagues that we have worked very hard to get to where we are today, which is not to the finish line, but we are a lot closer. My thanks to each of you for your contribution to help us get to where we are today. I realize we are not done, but we are much closer.

Mr. Chandler, I understand that Senator Durbin has some questions about the fee-shifting provisions. This is something that Senator Schumer and I worked hard to try to get right. As a former judge—State court judge, I had some concerns about the presumptive fee-shifting idea. I have seen a lot of people lose lawsuits that were not frivolous. They just lost. In cases where there is objective unreasonableness of the position, I think one of the things that is important is to have the fee-shifting mechanism that we have tried to put in this legislation to make sure that it acted as an additional deterrent and did justice to the people who were sued based on a frivolous claim.

Could you talk about the importance of fee shifting a little bit more and explain why the Supreme Court’s decision in *Octane Fitness* was not enough?

Mr. CHANDLER. Thank you, Senator Cornyn, and thank you for your sponsorship of the PATENT Act.

The Supreme Court decisions are based on a statute that still refers to exceptional cases and have been very spottily applied. In fact, in one district a judge has indicated that he felt it was a suggestion, not mandatory law. The number of fee awards still based on the principle of exceptionality has been very low and we do not think serves as a sufficient disincentive to unmeritorious litigation.

We do—we would prefer the presumptive language in the Innovation Act in the House but understand the process of crafting this bill and are comfortable with the way the language is presented in the PATENT Act to address this and to provide the district judges with a uniform national standard, which has not been the result from the Supreme Court decisions last year.

Chairman CORNYN. I thought it was important to have—to require a hearing and to require evidence be introduced at that hearing and then to have an opportunity for appellate review to keep the district judges doing what Congress intended them to do when it comes to considering this matter.

Mr. Rhodes, thank you for your contribution to this effort and working with us. Can you explain why this fee-shifting provision is an improvement over current law in your view?

Mr. RHODES. Yes, thank you for the question, Senator Cornyn. I do believe that the interests of uniformity are important. As Mr. Chandler said, you know, we currently have the Supreme Court opinions. We have long supported more frequent fee shifting in patent cases to drive the right behavior. The Supreme Court in giving district courts more discretion is still working within the confines

of existing Section 285, which is an exceptional case. The Supreme Court defined that as cases that stand out from others, but, you know, there is still a lot of ambiguity in that.

I would submit that having the protections, the safeguards that you mentioned, as well as making it clear that fees are not automatically shifted—that has been one of our core principles. It really should target bad behavior, not parties, got to go both ways and be premised on, as the bill says, you know, behavior or conduct that is not objectively reasonable. There is an interest-of-justice exception at the end.

I think there is actual protection as compared to current law that this statute would provide to those who are concerned about more frequent fee shifting.

Chairman CORNYN. I've heard—on a different topic, I have heard from life sciences industries and other concerns about inter partes review that was created by the 2011 America Invents Act, and I would like to hear from people on both sides of that discussion here. Mr. Hadad, you have testified your belief that reforms to IPR are necessary, in part because of what you view as a high rate of invalidation of patents after they have been issued, and I can understand the uncertainty that that might create, and particularly if there are different legal standards that apply to litigation as opposed to the IPR process. Could you share your views with us on that?

Mr. HADAD. Thank you, Senator Cornyn. Yes, I do believe the IPR proceedings, as they have been implemented—and I think they have been implemented in the best of intentions by the USPTO, but there is a considerable deluge of these IPRs, and they have to be managed. I think to some degree lost in the mix a little bit have been some of the procedural safeguards to ensure a fair and level playing field between parties.

You mentioned the standards, and I had mentioned them earlier. I think what they would do would be to give basically analogous type of decisionmaking to the district courts and the USPTO. We are looking for the USPTO to be a more efficient forum, not to be a different forum in terms of the level of invalidations. I think what we are seeing is an increased lack of confidence in patent—for patent holders in terms of investment when you consider that there is effectively a 75-percent chance that your patent at one point will go down in a USPTO proceeding, at least based on current statistics.

Mr. CHANDLER. Senator, may I address that as well?

Chairman CORNYN. Certainly.

Mr. CHANDLER. Thank you. I think first we ought to get a grip on the statistics. There are 2.48 million outstanding and in-force patents in the United States. There have been 3,000 petitions for IPR review. The PTO has granted about 1,300 out of those 3,000, and that has resulted in 391 patents having some or all of their claims eliminated.

I can understand why that is painful for the people who have that happen. I also understand that they are going to petition Congress for redress.

The fundamental issue, though, that we see is things like this hedge fund activity that is initiating IPRs and then trying to short

stocks. We ought to address that directly through securities laws, for instance. That is not acceptable behavior, in our view.

The reforms that are being proposed to the IPR process would basically force the Patent Office to use standards that were set for the district court rather than taking a fair look at whether a patent was granted in the first place. The types of standards that the PTO uses where they use broadest reasonable interpretation to figure out what the scope of a patent should be, where they do not apply a clear and convincing evidence standard that we put in the district courts because they are not the experts the way the Patent Office is. All that does is roll back the ability of the PTO, which was a fundamental part of the process that was implemented in the America Invents Act, to take a fair look, should this patent have been granted in the first place, using the same standards that were used when the patent was looked at in the first place. If a mistake was made, let us fix it. There is no excuse for letting a mistaken patent grant result in a 20-year monopoly that raises costs to customers and keeps other entrepreneurs out of the marketplace.

We think there are targeted reforms that should be implemented, but rolling back the standards the PTO uses is not the right answer.

Chairman CORNYN. I know there are different views on the panel—

Mr. CHANDLER. There sure are.

Chairman CORNYN [continuing]. and that is the reason for the hearing in the first place so we can flesh this out and we can hopefully make better decisions.

Mr. Rhodes.

Mr. RHODES. Yes, I think that, you know, these states that there are 2 million patents and only 3,000 IPRs have been filed so far, that misses the point that this is not a representative sampling of the 2 million patents that are in force.

What patents do you think are being challenged right now? The most important ones, the most valuable ones, the ones that are either in litigation or that others would like to be able to practice. Therein lies the problem.

There is less confidence than has ever been, and this goes beyond the life sciences sector that we heard from Mr. Hadad. There is less confidence now, when I am talking to business decisionmakers, about whether we can safely put investments in commercializing patented technology and building products based on that technology, can we assure investments by knowing that we have patent rights that can protect them. That is a less certain question than it has ever been. It is because of the uncertainty, the perception of unfairness, the reality of unfairness that I mentioned in several respects this morning, and that directly drives business decisions, and it is beyond the life sciences sector.

We have proposed a series of reforms. You know, we hope that our ask is listened to. The same way those who said there was imbalance in litigation that needed to be addressed, we hope our concerns are listened to as well in terms of the post-issuance proceedings.

Chairman CORNYN. Ms. Lettelleir, I should have recognized you first since you are a constituent, but welcome to today's hearing. We have heard testimony on the alignment or we should not align the IPR standards with those in district courts. What is your view of that?

Ms. LETTELLEIR. I think the one thing that is very important for the Committee to keep in mind as it considers these requests for changes is that the post-grant review proceedings that were adopted as part of the AIA was part of a carefully structured provision, and if you now go in and try and pick just one element of that or two elements of that, you disrupt the balance of what was accomplished in the AIA.

While I have heard the arguments that there is an imbalance between the district court standards and the PTO standards, the reality is that throughout the rules governing IPR and PGR that have been adopted and applied, there are imbalances. If you just start looking to making one element of those proceedings line up with district courts, then you have changed fundamentally the balance between challengers and patent holders. We are very concerned of disrupting the balance that was achieved when AIA was accomplished.

As challengers of patents before the PTO in the context of these post-grant review proceedings, we are seeing unfairness as to the challenger as well. There may be a broader discussion that needs to be had down the road, but as part of this, I do not think you can just take one element and disrupt the entire balance that was achieved in the AIA.

Chairman CORNYN. I have gone over my time for now. I will recognize Senator Blumenthal, who I think is next.

Senator BLUMENTHAL. Thanks, Senator Cornyn, and thank you all for being here. Thank you for the excellent testimony. I had to step out to attend one of the numerous conflicting hearings and meetings that we find we have in the Senate.

I am very, very interested in this dilemma. For me it is a dilemma. I have wrestled with it for quite some time. I recently heard, for example, from a Connecticut Navy veteran names Michael Skelps whose photography company was, in fact, sued by a patent troll. The troll claimed to have patented the idea of taking pictures at a finish line and selling them to racers. I am a runner. I know about these photographs at finish lines. They are done commonly. Michael Skelps was threatened with this lawsuit. In fact, he was sued, and the troll's demand letter contained no information about his supposed patent. It made the case to Mr. Skelps that it would be cheaper to settle than to litigate, and it announced that the troll had already forced nine businesses to settle with much the same kind of claim.

Mr. Skelps fought it as hard as he could. He spent \$100,000 and ultimately all three of the troll's patents were invalidated. He won the battle. He lost the war. I learned last night that Mr. Skelps will file Chapter 13 bankruptcy this month, and within 60 days his business will be gone.

I have heard from innovators who are afraid what could happen if patent reform goes too far, but I am convinced that there are ways to focus and target legislation to help not only big companies

and very well resourced entrepreneurs, but also the Michael Skelpses of the world, of America. He happens to be a veteran who obviously was not going to give up without a fight, and he fought and he won. Ultimately, though, he lost.

I am hopeful that we will have a result here that vindicates the legal rights of people in America generally, both the entrepreneurs and the innovators, the business people, and our veterans. I want to thank all the bill's sponsors. I am not one of them. I hope that we can improve even more on what has been done already, which leads to the question that I have for you, and I will accept volunteers. Do you think there are parts of the bill that can and should be improved? What would you do to make it better and—what always troubles me, especially in an area that is so complex and challenging—to avoid unintended consequences?

Ms. SAMUELS. I can answer that. Thank you, Senator Blumenthal, for the question. I think that this bill represents a really good compromise, which means, of course, that I do not think it is perfect. Right? That is the definition of compromise. Some of the things that I wish we saw in there were—I wish that we were dealing with quality, like we talked about last year, 2 years ago, with an expanded covered business method review; that we more directly were talking about improving patent quality, which for people in my industry, in the small startups in the tech space and not unlike the photographer, Mr. Skelps—if I got that correctly.

Senator BLUMENTHAL. You did.

Ms. SAMUELS. That is what would really help. That is the core of this problem. I—actually the discovery provisions have been dialed back some during compromise, and I wish that were not the case, because I was so glad to hear your story and I will be quick just to say that there has been a lot of talk today about small businesses and they hurt on both sides of the equation, and I think that is probably always true. In this instance, we are so worried about small businesses having access to the courthouse, and that just does not mean plaintiffs, but it really means defendants in these cases, so that you do not have to spend \$100,000, \$200,000, \$1 million to defend yourself, but you can go to court and make your case. So thank you for the question.

Senator BLUMENTHAL. Thank you.

Mr. CHANDLER. We would—thank you, Senator. We would support making sure that the discovery stay in the case of transfer motions, motions to dismiss, motions to sever be more robust. Right now it allows for local rules that could impose a significant amount of discovery while a transfer motion is being considered, and we would hope there would be an interlocutory appeal on the transfer motions as well. As we noted, 40 percent of the patent litigation is now brought in two judicial districts where only 1.5 percent of Americans live. That imbalance forces people to bring large numbers of witnesses and travel to places that are very, very inconvenient, but cases are brought there for reasons that are obscure to us.

Mr. RHODES. We would certainly hope that any of the welcome compromises that we mentioned would not be dialed back in the bill. We think that would be a big step backward.

Beyond that, I have mentioned two areas where we think improvement should be had this morning—no surprise to those of you

who have been here the whole morning—AIA reviews as well as the demand letter section. We think if we could couple changes to those with what is in the bill today, at that point we would be in a position where we could support the overall package.

Ms. LETTELLEIR. Senator Blumenthal, from the Main Street perspective, we recognize the balance that has been struck, and we accept that. While we would always hope to have stronger provisions, we accept the balance that has been struck. However, any further erosion of the critical provisions of the PATENT Act would greatly challenge our continued support for the PATENT Act as introduced.

Mr. HADAD. To finish it up, we appreciate the compromises in the current existing bill. We do remain concerned about these post-grant proceedings and believe a comprehensive bill addressing abusive litigation procedures would also include those as well. Thank you.

Senator BLUMENTHAL. Thank you. I want to thank you all. As my colleague Senator Schumer remarked at the very beginning, the witnesses that we have before us today reflect a consensus, but it also may be without some of the disagreeing views, some of the other views, which may not be reflected simply because others have not been invited for whatever reason. I think that this Committee has an obligation to reach out for views that represent the diversity and continue to work to improve it without necessarily disrupting the compromise that has been struck. Even with a compromise, I think there may be room for improvement.

Thank you, Mr. Chairman.

Chairman CORNYN. Thank you, Senator Blumenthal.

I agree with Senator Blumenthal, there is always room for improvement. But we—

Senator BLUMENTHAL. I want to thank the Chairman for his role in forging this compromise, along with our colleagues Senator Leahy, Senator Grassley, Senator Schumer, and Senator Klobuchar.

Chairman CORNYN. We have learned, even with consensus legislation, which this is not yet, it is still hard to pass legislation in the Senate. We are going to keep at it. We are trying to make sure that we do get the views of stakeholders, and we have worked very hard at that, and, again, I will thank you once more for your sharing that with us and working with us in good faith.

This to me is the sort of important piece of legislation—maybe it is not important on a global scale, but it is to a lot of people. I have heard from everybody from restaurant owners to hotel/motel owners to operators, to people in the building trades that they are somehow swept up by the patent trolls litigation, and it is just incredibly destructive and unfair.

Ms. Samuels, I think you had a great phrase: “defendants access to justice.” Sometimes we focus on the plaintiffs’ access to justice in a lawsuit but do not give adequate recognition to the defendants’ access to justice as well.

I might just cover with you—and I apologize if you have talked about this before when I was not able to be here and I was at one of those other conflicting meetings and hearings that Senator

Blumenthal alluded to. How would the pleading rule in this proposal help small businesses?

Ms. SAMUELS. Thank you for the question, Senator Cornyn, and I have to thank you so much for your leadership on this effort.

I think the heightened pleading provision is actually one of the most important parts, particularly for startups, for small businesses, for individuals who face threats from patent trolls, because you need to be able to understand the scope of the threat you face before you can make appropriate decisions about how to proceed, and without basic information, you cannot make those decisions.

I think this is especially true when we are talking about a patent system—a patent system that is a system of public notice. That is the point of the patent system, and right now it does not operate like that. When we talk about property, we are talking about metes and bounds. If you want to grow a company, make some innovation, put something out there, it is literally impossible right now to know the scope of your rights because there is no information out there to help delineate that. The heightened pleading requirement would help fix that problem.

Chairman CORNYN. Mr. Rhodes, you testified to the safeguards and the pleading rule. Would you describe those and perhaps explain those a little more?

Mr. RHODES. Yes, thank you for the question, Senator Cornyn. I think the trick with pleadings is to achieve, as in so many other areas of the bill, the right balance between putting all parties, both plaintiffs and defendants, on fair notice of the claims and the defenses at issue in the case without making the requirements too high or onerous that there is an access-to-justice issue or that the pleading targets do not just become a motion to dismiss—that it does not become a target for motions to dismiss. I think, you know, that is a balance we are trying to strike here.

I was encouraged that some of the initial information that is not required to establish a claim for relief was moved to initial disclosures, so that cannot serve as the basis for a motion to dismiss.

There is also an ability to plead matters generally, consistent with the Plaintiff's Rule 11 obligation, but more generally if information is not available to the plaintiff at the time the complaint is filed.

In addition, there is confirmation within the heightened pleadings requirement of the right to amend pleadings consistent with the standards in Rule 15(a) of the Federal Rules of Civil Procedure. I think those safeguards are important.

Chairman CORNYN. If we can turn to the issue of discovery, if I worry about—the two things I worry about the most about our civil justice system is the costs and the delays necessary to resolve disputes. Not everybody can afford a high-priced lawyer or the discovery costs associated with protracted litigation. One of the things we tried to address here is a way to deal with this in an appropriate way. It is an item of consensus because you have plaintiffs who complain about discovery, and you have defendants who complain about discovery, too. But some, especially those with little to produce, rely upon the high cost of discovery to extract settlements regardless of the merits of the case.

Since the introduction of the Patent Abuse Reduction Act 2 years ago, which included a discovery stay, I have heard a lot from both sides about the right way to address discovery costs.

Ms. Samuels, would you please tell us how you view the discovery stay in the PATENT Act and its impact on startup companies?

Ms. SAMUELS. Of course, Senator Cornyn. Thank you for the question. You know, I think that a lot of what I said about heightened pleading is also true with regard to the discovery reforms in the early stays. What you are allowing startup small companies without a lot of resources to do is really take the necessary time with the necessary information to understand the scope of what they are facing, to understand as they make these decisions whether they should pay a lawyer and continue to fight, whether they should settle. These are the kinds of things we need to give these folks so that they, like we have talked about, have access to the courthouse.

To be honest, while I am glad that the stay is in here, I wish it went farther. I wish it were to Markman. I understand we have a compromise and that is life, so we just think that anything that allows these people to get into the courthouse is a good thing.

Chairman CORNYN. Mr. Rhodes, I think you touched on this, but let me just ask you again. Do you think we have reached a balanced approach on deterring frivolous litigation without unduly burdening patent holders who need to assert their rights when it comes to discovery?

Mr. RHODES. Yes, I think with respect to the discovery stay, that was a major area of concern for 3M and for 21C. As the original proposal that you referenced was drafted, it would stay discovery pending claim construction, and that is a complex and often protracted procedure that takes place in every case, nearly every patent case before the claims are construed. We were very concerned, as a company that makes investments based on our patent rights and, unfortunately, sometimes has to enforce those patents to prevent infringement, that staying all discovery in a case pending the claim construction process might delay our ability to get fast, expeditious, and effective relief.

I think walking that back to preliminary motions does address concerns. The discovery proceeds while motions to transfer, for example, are not ruled upon. It does address some of that concern about discovery taking place in a court where maybe the case is not even going to proceed, while balancing the risk—against the risk of a protracted delay of that discovery stay as pending claim construction.

I do disagree strongly with the pushback that we have heard this morning about the exception for initial disclosures. I think if you look across the country at the patent courts that have done the best job of—at the district courts that have done the best job of managing patent cases, a common denominator that you see are initial disclosure requirements, local patent rules that provide for an early exchange of information that helps narrow the issues in dispute. It helps identify opportunities on issues for early resolution. It helps identify early settlement opportunities. I think allowing that process to proceed in an orderly fashion, drawing upon the

experience and the expertise of the Federal judiciary that has adopted that process is very important, even if we stay more intrusive discovery pending those preliminary motions.

Chairman CORNYN. Thank you. I know Senator Blumenthal mentioned some concern about people who are not represented at today's hearing. I just wanted to note for the record that at the last hearing one of the universities were engaged, and I am pleased that as a result of the work we have done reaching out to the various university groups, we have welcomed both their input, and I think we were in a pretty much better place as far as their concerns and the compromise that we have reached, which is, as we have all said, is not perfect, but seems to be a consensus—we have reached a consensus, by and large, with some notable exceptions on the IPR and other areas where we need to continue to work.

Senator Blumenthal, do you have any other questions you would like to ask?

Senator BLUMENTHAL. I do not. Thank you.

Chairman CORNYN. OK. Thank you. Well, since we have run out of Senators and questions, thank you for your patience and your time, and thanks for continuing to work with us and get this right. Thanks. The hearing is adjourned.

[Whereupon, at 11:54 a.m., the Committee was adjourned.]



# **A P P E N D I X**

## **ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD**

Witness List

Hearing before the  
Senate Committee on the Judiciary

On

“S. 1137, the “PATENT ACT” – Finding Effective Solutions to Address Abusive Patent Practices.”

Thursday, May 7, 2015  
Dirksen Senate Office Building, Room 226  
9:30 a.m.

Mr. Mark Chandler  
Senior Vice President  
General Counsel  
Cisco Systems, Inc.  
Washington, D.C.

Mr. Kevin Rhodes  
President, 3M Innovative Properties Company  
Chief Intellectual Property Counsel, 3M Company  
St. Paul, MN

Ms. Diane K. Lettelleir  
Senior Managing Counsel - Litigation  
JCPenney Corporation, Inc.  
Plano, TX

Mr. Henry Hadad  
Senior Vice President  
Deputy General Counsel-Intellectual Property  
Bristol-Myers Squibb  
New York, NY

Ms. Julie P. Samuels  
Executive Director  
President of the Board  
Engine  
New York, NY



**Committee on the Judiciary  
United States Senate  
Hearing  
“S. 1137, the ‘PATENT ACT’ – Finding Effective  
Solutions to Address Abusive Patent Practices”**

Prepared Statement of  
**Mark Chandler**  
Senior Vice President and General Counsel  
Cisco Systems Inc.

May 7, 2015

**Prepared Statement of Mark Chandler Testimony**  
**“S. 1137, the ‘PATENT ACT’ – Finding Effective Solutions to Address**  
**Abusive Patent Practices”**  
**May 7, 2015**

Mr. Chairman, Senator Leahy, and distinguished members of this Committee, thank you for the opportunity to testify on the plague of abusive patent litigation and on the recently introduced PATENT Act, which would make great progress towards a cure. I am Senior Vice President and General Counsel of Cisco Systems, where my responsibilities include both intellectual property and litigation. We own over 12,000 issued US patents and have one of the top ranked portfolios in our industry. We employ over 36,000 people in the United States and spend over \$6 billion annually on research and development. I am here on Cisco’s behalf, but the problems I am describing affect not only my industry but also start-ups, restaurants, hotels, retailers, realtors, and auto manufacturers. That’s why we have formed a very broad coalition called United for Patent Reform to press for needed change.

In recent years, I have testified several times in both chambers about how our great nation’s patent system has been hijacked by scam artists and profiteers. I have spoken about the imperative for strong, focused legislation that will return the patent system to its original purpose of encouraging innovation. Today, I am back again on Capitol Hill because my company, my customers, and American businesses large and small are still suffering from meritless patent suits. Change is more urgently needed than ever. But I also hope the introduction of the PATENT Act, and

the parallel consideration of the Innovation Act in the House, are the first strong steps toward the rapid enactment of a new law that will take back our patent system from its abusers.

When I last testified on this subject in 2013, I pointed out that I was forced to spend more than \$50 million on patent litigation annually, money I had to take away from new patent filings.<sup>1</sup> In fact, in the last five years I have been forced to waste more than a quarter of a billion dollars on patent litigation. Today, I have more than 50 patent litigations where Cisco or a customer is a defendant, virtually all of which are from patent assertion entities (PAEs) whose only real business is litigation.

One particular case from our recent past will show you why this problem is so much bigger than Cisco or the tech industry. A lawyer named Noel Whitley bought patents related to Wi-Fi from his former employer Broadcom and then worked with the Niro firm, which specializes in helping patent assertion entities target legitimate businesses. He set up a company called Innovatio, which despite its name has absolutely nothing to do with innovation. The patents were near their expiration date, heavily licensed to Broadcom's competitors and customers, and subject to binding commitments to license on reasonable terms.

Whitley and the Niro firm sent over 14,000 letters to small businesses including cafes, bakeries, motels, even a children's health clinic—anyone who he

---

<sup>1</sup> *Abusive Patent Litigation: The Impact on American Innovation & Jobs, and Potential Solutions; Hearing before the House Judiciary Committee (Mar. 14, 2013) (statement of Mark Chandler)* at 3, available at [http://judiciary.house.gov/files/hearings/113th/03142013\\_2/Chandler%2003142013.pdf](http://judiciary.house.gov/files/hearings/113th/03142013_2/Chandler%2003142013.pdf) (last visited May 5, 2015).

thought might use the ubiquitous Wi-Fi standard. He told these small businesses that his patent portfolio covered all the WiFi access points they were using. He didn't tell them about the huge number of WiFi devices that were already licensed because of Broadcom's cross-licenses and the license Broadcom kept for itself. Instead he demanded \$3000 per location, for patents now determined in court to be worth pennies per chip. He didn't tell the businesses that Cisco had sued Innovatio to protect its customers, but rather misrepresented to them that equipment manufacturers "have not stepped in to defend any of their users."

Whitley and the Niro firm had planned to extract \$4 billion from the productive part of the American economy but in the end, this scam was shut down. We, with Netgear and Motorola, litigated aggressively, and Innovatio was forced to take less than 3.2 cents per chip. We got the right result, but unfortunately, we had to pay \$13 million in legal fees to get there.

In another example, a publicly traded PAE called VirnetX approached us, at first ostensibly to convince our engineers to adopt their so-called "security" technology to include in our products. They made no mention of patent infringement. But after we told them that we did not want to redesign our products to include their technology, they sued us for patent infringement and accused us of *already* using their technology. The earlier approach was later used as the basis to accuse us of willful patent infringement and further inflate their astronomical demands, even though they had made no mention earlier of any existing Cisco usage of their technology. As the litigation progressed, they made misleading statements

to the investor community to boost their stock price. They forced us to spend \$1.5 million on the pointless production of the electronic equivalent of over 1000 banker's boxes of largely irrelevant documents. Ultimately, we prevailed at trial.

Unfortunately for us however, we had to spend \$20 million in legal fees to obtain this result, money unavailable for actual innovation at Cisco. Even worse, senior technical talent at our company took time away from inventing. It is incredibly frustrating to me to see our most valuable engineers being forced to stop inventing and innovating to make time to educate our lawyers and attend depositions and trials for cases that never should have been brought but for unwarranted leverage of the litigation system and the risks and costs it imposes. Moreover, key VirnetX patents are now being reexamined by the PTO, which has determined that there is a reasonable probability that one or more claims will prove invalid.

But the gamesmanship and abuse of our VirnetX and Innovatio cases are unexceptional. They are business as usual in an American patent litigation system in desperate need of reform. Between 2005 and 2014 there was a nearly **3-fold** increase in NPE litigation in the United States, as measured by the number of defendants.<sup>2</sup> In the first quarter of 2015, NPEs accounted for 62% of all new patent cases and 84% in the IT industry, versus about 20% ten years ago.<sup>3</sup> Although we are blessed with many innovative industries in our country, no one can realistically

<sup>2</sup> 2014 NPE Litigation: New and Smaller Targets, RPX Corporation (January 9, 2015), <http://www.rpxcorp.com/2015/01/09/2014-npe-litigation-new-and-smaller-targets-2/> (last visited May 5, 2015).

<sup>3</sup> Q1 2015 Patent Dispute Report, UnifiedPatents (April 8, 2015), <http://unifiedpatents.com/q1-2015-patent-dispute-report/> (last visited May 5, 2015).

claim that this massive increase in NPE litigation is in any way proportionate to a similar increase in the level of innovation.

Now for a special note about statistics and people who misuse them to claim that our problem is non-existent, exaggerated, or diminishing. Last year the level of patent litigation decreased somewhat from the previous year and the defenders of the current broken system hastily seized on this blip to claim that reform was unwarranted. They conveniently ignored that the longer term trend was one of explosive growth. In any event, that trend has unfortunately resumed. In the first quarter of 2015, NPE litigation increased 42% over the previous quarter.<sup>4</sup> We need patent litigation reform more than ever.

Behind the dry statistics though are the real stories of abuse like the Innovatio and VirnetX cases. The PAEs study their targets and adjust their scams accordingly. When I last testified, I talked about the game of shaking down numerous small end users with deceptive demands that we successfully fought in our Innovatio case. A survey of venture capitalists and their portfolio companies illustrates how NPEs crush fragile startups with expensive litigation and extortionate demands.<sup>5</sup> Every one of the more than 200 venture capitalists surveyed stated that they might refrain from investing in a company that had received a patent demand, and more than half of the VCs stated that it would be a

<sup>4</sup> *Q1 2015 Patent Dispute Report*, UnifiedPatents (April 8, 2015), <http://unifiedpatents.com/q1-2015-patent-dispute-report/> (last visited May 5, 2015).

<sup>5</sup> Robin Feldman, *Patent Demands & Startup Companies: The View from the Venture Capital Community*, UC Hastings Research Paper No. 75 (2013), available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2346338](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2346338) (last visited May 5, 2015); see also Colleen Chien, *Startups and Patent Trolls*, Stan. Tech. L. Rev. (forthcoming Sept. 28, 2012), available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2146251](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2146251) (last visited May 5, 2015).

major deterrent. Approximately, three-quarters of the VCs reported that reported that patent demands had a significant impact on the companies that received them by distracting employees, consuming scarce resources, and altering business plans. Overall, 92% of the VCs reported that patent demands are a problem for venture-backed companies.

One important part of fixing the patent system is, of course, fixing patent quality. We applaud the leadership of Director Michelle Lee and the USPTO in making examination quality a top priority and we look forward to continued strides. The new post-grant proceedings created by the America Invents Act have been highly successful in efficiently weeding out bad patents that should never have been granted. We should find a way to stop hedge funds from filing spurious review requests to manipulate the stock price of innovative life sciences companies. This practice outrages me. But we must preserve the post-grant proceedings as an openly accessible tool for protecting the public from improperly granted patents.

But patent quality is only part of the story. An astounding 40% of the suits last year were filed in only two judicial districts where less than 1.5% of Americans live. When plaintiffs and defendants pervasively believe, rightly or wrongly, that judicial results depend on where an action is brought, fundamental precepts of legal integrity and the rule of law are endangered. PAEs are attracted to a game where they have much to gain and little to lose. They can hide ownership with shell entities. They can threaten small businesses with letters that hide and misrepresent key information about their assertions. They can file suit based on unsupported and

unexplained allegations. They ask for and get vast productions of documents in discovery but only in order to drive up costs rather than to ferret out relevant facts. If they win at the end, they stand to make a killing even in cases where logic would say damages should be small, since damages in patent cases are hard to predict. If they lose, the defendant nonetheless is out millions of dollars for defense. The pressure is to settle, but not based on the quality and relevance of a patent, rather only on the unfair and asymmetric rules of the game.

Fixing this problem requires congressional action. We need a uniform and fair system for patent litigation in addition to transparency in ownership and effective limitations on deceptive patent demand letters. The courts cannot solve this problem on their own. The graph in Appendix A shows how patent litigation has continued to grow in tandem with helpful Supreme Court and CAFC decisions. Each decision was decried as a blow against the patent system on the one hand but also as the silver bullet against our PAE complaints. Ironically, those who point to these decisions as the solution to our complaints are the very ones who vigorously advocated against them. For example, consider the Supreme Court fee shifting decision in *Octane*. Early data indeed shows an uptick in fee shifting awards, but it is unevenly distributed among districts.<sup>6</sup> Fee shifting is still not happening enough to serve as a deterrent, but that is no wonder given that the decision simply changes how to interpret the statutory term “exceptional” when the bad conduct is in fact commonplace.

---

<sup>6</sup> Federal Circuit Bar Association, A Comparison of pre-*Octane* and post-*Octane* District Court Decisions on Motions for Attorneys’ Fees Under Section 285 (2015), available at <http://ipwatchdog.com/materials/FCBA-Fee-Shifting-Paper.pdf> (last visited May 5, 2015).

Fortunately, through the leadership of Chairman Grassley, Ranking Member Leahy, Majority Whip Cornyn, and Senators Schumer, Hatch, Klobuchar, and Lee, help is on the way. The newly introduced PATENT Act is a good start with many positive features that I will now explain along with a few suggestions for improvement. We also applaud the reintroduction of the House Innovation Act by Chairman Goodlatte and nineteen cosponsors of both parties.

First, I want to praise the PATENT Act for addressing patent quality. The bill makes some technical fixes to the AIA including correcting a scrivener's error that gave the post-grant review proceeding the wrong estoppel standard. It also beneficially provides some incentives for transparency and sunlight about patent ownership. But I'm going to focus on a set of provisions that quite comprehensively address and try to break the underlying business model of frivolous patent assertion.

Abusive and deceptive demand letters are a scourge to small businesses. The Innovatio case is one example and I have testified about others in the past.<sup>7</sup> Many states have now passed laws to directly address this kind of abuse. The PATENT Act helpfully includes language that will discourage this kind of deception both by denying claims of willful infringement based on deceptive communications and by clarifying that bad-faith demand letters are a legitimate object of FTC enforcement. The PATENT Act, unlike the TROL Act which we and our coalition oppose, leaves

---

<sup>7</sup> *Trolling for a Solution: Ending Abusive Patent Demand Letters* (April 8, 2014) (statement of Mark Chandler) at 4-11, available at <http://docs.house.gov/meetings/IF/IF17/20140408/102105/HHRG-113-IF17-Wstate-ChandlerM-20140408.pdf> (last visited May 5, 2015).

states free to adopt their own laws to address this fraudulent behavior. I would welcome further improvements to the PATENT Act's language including removing the difficult to parse requirement that the sending of deceptive communications be "widespread" for the FTC provision to apply.

Under current law, PAEs can start an expensive lawsuit with a vague complaint that doesn't explain the basis of infringement or identify the real interests behind the lawsuit. The defendant has to start spending money even though the plaintiff may only be on a fishing expedition having done none of the needed homework upfront. The PATENT Act forces the plaintiff to include basic information about what patent claims are being infringed, by which products, and how. The PATENT Act also helpfully requires early disclosure of the financial interests behind the lawsuit and any licensing commitments that have been made to standards bodies. The pleading and disclosure provisions would be a big improvement to current law. To ensure that the intent is carried out uniformly across the country, I recommend that the language requiring that the basis for infringement be explained "with detailed specificity" and "where each element . . . is found" be imported from the Innovation Act.

Another favorite abusive tactic is to sue the users and customers of technology rather than the vendors. Sometimes, the abusers reason that they are better off picking off customers whether they be large retailers or small independent coffee shops that know their own business but of course have little reason to understand the innards of WiFi technology or even have access to

sophisticated patent counsel. In other situations, PAEs opportunistically pick the users of technologies whether they be internet service providers or retailers to get a chance at winning a royalty based on their total revenue rather than the much smaller value of the equipment that actually includes the accused infringing technology. The PATENT Act greatly strengthens the ability for vendors like my company to step in and have the suits of our customers stayed while we litigate the real issues. Although I would be able to suggest improvements to the language, I appreciate that it represents a painstaking compromise that is acceptable to a range of interests and I support it.

The PATENT Act also addresses the problem of excessive and unnecessary discovery that raises costs. One unfortunate omission however is the limited stay of discovery prior to claim construction (the so-called Markman ruling) that is included in the Innovation Act. The Markman ruling significantly narrows the issues under dispute and clarifies the meaning of the patent to set the stage for further analysis of infringement and validity. The Innovation Act's pre-Markman stay of discovery would significantly reduce the early stage cost of litigation, reducing the pressure for shakedown settlements unrelated to the merits. I understand that some stakeholders who practice their inventions are concerned that business-critical litigation against competitors would be unnecessarily delayed. However, the Innovation Act specifically carves out competitor litigation from this provision, an approach that could be matched in the Senate. We would be open to further changes to protect the important pre-Markman discovery requirements in certain types of litigation.

Fortunately, the PATENT Act does instead include another very useful provision for reducing unnecessary discovery early in the case by staying discovery pending venue transfer motions, motions to sever, and motions to dismiss. It makes no sense to waste money on discovery when a case may be on the cusp of being dismissed or transferred to another venue with different procedures. I hope that this also brings the important benefit of accelerating transfer motion decisions to occur before the parties and the court waste time and money litigating in the wrong venue.

There are two important improvements that are needed to make this provision fully effective. First, transfer motion decisions should be subject to interlocutory appeal so that this important area of law is applied uniformly to limit forum selection gamesmanship. Second, by explicitly allowing courts to require the exchange of validity and infringement contentions, the provision, I think unintentionally, opens a loophole that would potentially exempt these important issues from the discovery stay and effectively allow most discovery to continue anyway. Given the speed with which these early dispositive motions should be decided, allowing the exchange of contentions is unnecessary. So I recommend either clarifying that such early contentions would be preliminary and thus not require discovery or eliminating the reference to exchanging contentions entirely.

Excessive discovery drives litigation costs at later stages as well. There have been improvements in local discovery rules but they have so far been inadequate.<sup>8</sup> The excessive costs of the discovery system are not just a matter of local court procedure but have national economic consequences because of how they force innovative companies to choose between paying for document production or paying off the owners of weak patents. It is appropriate for Congress to act to rein in the abuses. I have long supported cost shifting for discovery beyond the core of a patent case. The PATENT Act encourages the Judicial Conference to define core discovery and make rules for cost shifting. However, given the criticality of the issue, I recommend that Congress take a more prescriptive approach by directly mandating cost shifting beyond whatever core the Judicial Conference defines.

I welcome the fee shifting provision of the PATENT Act. It is essential to deter abusive patent litigation with a meaningful penalty. It targets unreasonable behavior and litigation positions but does not distinguish among different kinds of entities or between plaintiffs and defendants. It will be far more effective than the *Octane* decision in making bad patent litigation behavior risky. For reasons of national uniformity, I prefer the presumptive language used in the Innovation Act.

Making sure that fee shifting works in practice also requires making sure the backers of judgment-proof shell plaintiffs are left on the hook. There is seemingly

---

<sup>8</sup> For example, the new Model Order Regarding E-Discovery in Patent Cases in the Eastern District of Texas limits the number of electronic custodians and the number of search terms per custodian, but still allow very general search terms (e.g., "WiFi") to be applied to vast repositories. See Model Order Regarding E-Discovery in Patent Cases (E.D. Tex. March 19, 2014), available at [http://www.txed.uscourts.gov/cgi-bin/view\\_document.cgi?document=22218](http://www.txed.uscourts.gov/cgi-bin/view_document.cgi?document=22218) (last visited May 5, 2015).

no limit to the creativity of the masterminds of patent profiteering in creating convoluted public and private ownership structures. I appreciate Senator Hatch's leadership and the contributions made by his colleagues to creating a fee recovery provision that will hold the profiteers accountable while not creating unnecessary obstacles to bringing patent cases to court. This provision also reflects the give and take necessary to arrive at a result acceptable to diverse interests.

Finally I want to praise the PATENT Act for what it does not do. The drafters have wisely resisted the temptation to balance needed improvements in patent litigation with more harmful attempts to weaken changes enacted as part of the AIA. Unlike the Innovation Act and the STRONG Act, the PATENT Act leaves the USPTO's longstanding rules for claim interpretation in post-grant proceedings undisturbed. It is important that the final legislation follows this approach. The USPTO must be able to apply prior art that is relevant under the broadest reasonable interpretation (BRI) of the patent to assure that any resulting confirmed patent is entitled to its presumption of validity in every courtroom that takes its own differing approach.

I would also point out that in addition to the BRI issue, provisions from the STRONG Act would further damage the patent quality gains of the AIA. In an ostensible effort to address the outrageous shenanigans of hedge funds who file IPRs while shorting their owners' stocks, the STRONG Act restricts usage of the post-grant proceeding to litigants and other specifically threatened parties. The problem of abusive hedge fund IPRs, although still nascent, should be solved but it should be solved with appropriate targeted securities law changes. The post-grant

proceedings should remain open to the broader public excepting of course the owners and inventors of challenged patents. A weak patent imposes costs and uncertainties on many parties, not just litigants and would-be litigants.

Consortiums and public interest organizations should continue to be able to aggregate resources to kill bad patents for the public good.

Mr. Chairman and Distinguished Members of this Committee, you now have a real opportunity in front of you to change the rules and make patent profiteering unprofitable. The PATENT Act, as introduced, is a good start. We and our allies will be behind you as you move forward to evolve and strengthen it over the coming weeks and hopefully enact it into law. Thank you.

63

**Written Testimony Of  
Mr. Henry Hadad  
Senior Vice President & Deputy General Counsel-Intellectual Property  
Bristol-Myers Squibb**

**To**

**United States Senate Committee on the Judiciary**

**On**

**“S. 1137, the ‘PATENT ACT – Finding Effective Solutions to Address Abusive  
Patent Practices”**

**May 7, 2015**

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

Thank you for the opportunity to appear on this panel and discuss “S. 1137, the ‘PATENT ACT’ – Finding Effective Solutions to Address Abusive Patent Practices.” By way of introduction, I am Senior Vice President and Deputy General Counsel of Bristol-Myers Squibb Corporation (BMS), where I have served as the Chief Intellectual Property Counsel for the past 4 years. I am a registered patent attorney and have practiced intellectual property law and litigation since 1991, initially in private practice and then in-house for the past 16 years, first at Schering-Plough Corporation, where I also served as the Chief IP counsel, then at Johnson & Johnson, and now at BMS.

At BMS, I am responsible for all aspects of global intellectual property procurement, counseling, litigation, and policy. I am a member of the Boards of Directors of the Intellectual Property Owner’s Association; the American Intellectual Property Law Association Education Foundation; and the Gibbons Institute of Law, Science and Technology at Seton Hall University School of Law. I am also a member of the steering committees of the Sedona Conference working group on patent litigation best practices, and the Coalition for 21st Century Patent Reform.

Although BMS and I are members of various other stakeholder groups, I am testifying today on behalf of BMS. The views that I share today reflect BMS and should not be taken as official views of any other organization or entity.

BMS is a global biopharmaceutical company firmly focused on our mission to discover, develop and deliver innovative medicines that help patients prevail over serious diseases. Around the world, our medicines help millions of people in their fight against such diseases as cancer, cardiovascular disease, hepatitis B and hepatitis C, HIV/AIDS, rheumatoid arthritis and psychiatric disorders. Our 25,000 employees are committed to improving the lives of patients across the globe.

I am particularly proud that our research and development organization is considered among the most productive in the biopharmaceutical industry. Over the past 7 years, we have delivered 12 new medicines to patients. As this Committee understands, delivering new, innovative medicines to patients requires significant investment and commitment. In 2014 alone BMS spent over \$4.5 billion in research and development. Ultimately, our success is measured by the difference we make in the lives of patients.

Today, BMS is at the forefront of innovation. We are proud to make available two approved immuno-oncology agents, and that we have what is considered the industry-leading immuno-oncology development program. Immuno-oncology is a new way to combat cancer by harnessing the body's own immune system to target and attack cancer cells. Our goal is to change survival expectations and the way patients live with cancer.

We have a significant pipeline of new therapies in development, and we are committed to investing the necessary resources to deliver these promising new therapies to patients. As you may know, the development time and cost for biopharmaceuticals is long and expensive. It takes at least 10 years, and in most cases longer, before a drug is approved, and at a cost on average exceeding \$2.6 billion<sup>1</sup>. Despite this time and expense, biopharmaceutical research and development is exceptionally challenging, with less than 12% of investigational drugs that make it to Phase 1 clinical trials being approved by the FDA.<sup>2</sup>

To be successful, a biopharmaceutical company like BMS has to make very strategic choices in developing products in our pipeline. I am here today because an effective patent system is critical to our ability to discover, develop, and deliver new innovative medicines to patients. Strong intellectual property protections are essential to attracting and sustaining investment in the biopharmaceutical industry.

BMS applauds Chairman Grassley, Ranking Member Leahy, and Senators Cornyn, Schumer, Lee, Hatch, and Klobuchar for introducing S. 1137 (the "PATENT ACT"). BMS acknowledges the significant efforts by the bill's sponsors and their staffs to strike a balance between curbing abuses of the patent litigation process and promoting innovation by protecting the interests of patent holders. The bill reflects a number of meaningful compromises that would represent improvements to the litigation process, while also taking into account concerns of innovators. BMS's views on the specific provisions of S. 1137 are provided in section II below.

However, despite this significant progress, BMS strongly urges the Committee to strengthen the bill by addressing abusive litigation practices not only in the district courts

<sup>1</sup> Tufts Center for the Study of Drug Development & Tufts School of Medicine, *Briefing: Cost of Developing a New Drug* 5, 18 (Nov. 18, 2014) available at [http://csdd.tufts.edu/files/uploads/Tufts\\_CSDD\\_briefing\\_on\\_RD\\_cost\\_study\\_Nov\\_18\\_2014.pdf](http://csdd.tufts.edu/files/uploads/Tufts_CSDD_briefing_on_RD_cost_study_Nov_18_2014.pdf)

<sup>2</sup> The likelihood of approval from phase 1 for lead indications is 15.3% and for all indications is 10.4%. Michael Hay, *Clinical Development Success Rates for Investigational Drugs*, *Nature Biotechnology*, Vol. 32 at 42 (January 2014).

but also in the context of adversarial proceedings before the United States Patent & Trademark Office (USPTO). The America Invents Act (AIA) created new post-grant proceedings before the Patent Trial and Appeal Board (PTAB), including inter partes review (IPR) and post grant review (PGR) proceedings. Congress intended IPR and PGR proceedings to be conducted in an efficient, fair and unbiased manner for both patent owners and challengers alike.

Unfortunately, these proceedings have been implemented in a manner that lacks basic due process protections and unfairly prejudices patent owners, as evidenced by recent statistics showing that the PTAB grants approximately 75% of petitions<sup>3</sup> and finds at least some challenged claims unpatentable in over 80% of final written decisions.<sup>4</sup> These one-sided results have led to increasing abuse of these proceedings, including IPR petition filings by hedge funds that are shorting stock to drive down share prices, by parties primarily seeking to extract a financial settlement from patent holders, and by litigants presenting the same or substantially the same arguments that were unsuccessful in federal court. Rather than provide a more efficient proceeding for determining patent validity, IPR and PGR proceedings unfortunately are being used to serially harass patent owners in multiple proceedings before the district courts and the USPTO.

The same issues that confront other members of this panel regarding patent assertion entities are mirrored in abuses of the IPR/PGR system. Litigants are subverting a well-intended but unfairly implemented system of adjudicating patents for their financial gain and to the detriment of innovation, investment and our economy. The stakes are high—if there is a reduced confidence in the patent system, there will be less incentive to invent. By analogy, would you buy a plot of land if you were told that there was a 75% chance that it would be taken from you in the future? Similarly, would you build a factory on that land if you could face duplicative, parallel and serial challenges to your title across multiple venues in a proceeding that is skewed to the benefit of the challenger? Would you employ the numerous workers needed to bring innovation to the public if this property right was so subject to removal?

Our Constitution recognizes the importance of intellectual property in fueling innovation, investment, and our economy. A patent is effectively a leap of faith—that if one performs the up-front work, one will be rewarded a limited period of exclusivity to recoup one's investment and hopefully receive revenue that can be used to fund further research in the future. Our government, and in particular the USPTO, is charged with

<sup>3</sup> [http://www.uspto.gov/sites/default/files/documents/aia\\_statistics\\_04-30-2015.pdf](http://www.uspto.gov/sites/default/files/documents/aia_statistics_04-30-2015.pdf);

<sup>4</sup> Patent Public Adv. Comm. Quarterly Meeting, Patent Trial and Appeal Board Update, at 13, 15, *available at* [http://www.uspto.gov/sites/default/files/documents/20150219\\_PPAC\\_PTAB\\_Update.pdf](http://www.uspto.gov/sites/default/files/documents/20150219_PPAC_PTAB_Update.pdf).

ensuring that this leap of faith is justified, and that if one plays by the rules—that is, one pays their fees, files a patent application, participates in a rigorous examination process, and receives a granted patent years later—one can rely on the benefit that comes from meaningful investment in innovation.

While this leap of faith is particularly pronounced in the biopharmaceutical industry, it will be difficult to justify the investments of time and money that are needed to create new ground-breaking therapies if the current unfair and unbalanced IPR/PGR environment is not addressed through legislation. The newly implemented IPR/PGR procedures have caused innovators, and particularly the biopharmaceutical industry, to lose confidence in our IP system. While these proceedings are relatively new, the implications are clear: the biopharmaceutical industry will innovate less, invest less, and employ fewer, without a robust and predictable patent system. However, the new nature of IPR/PGR proceedings does provide a unique opportunity today to do a course correction in order to restore the system to the one that Congress intended when enacting the AIA.

There are three procedural changes that, if enacted, would more fairly balance these proceedings, aid in their efficient adjudication to the benefit of both patent owners and challengers, and provide faith and predictability in a patent system that has served to stimulate innovation and support our economy since our country began. While each proposed change alone will not advance this goal sufficiently, these interconnected changes taken together are an important step in restoring faith in the patent system and ending these abusive litigation tactics.

1. Construe granted patent claims in PGR and IPR proceedings as they are construed in courts, and apply the same burdens and presumptions as are applied in courts, in a manner that will reduce inconsistent results and duplicative proceedings.
2. Provide the option for patent owners to amend patent claims in a USPTO reissue or reexamination proceeding prior to IPR/PGR institution.
3. Provide basic fairness in the consideration of IPR/PGR petitions.

In Section I, I will begin by addressing statistics evidencing imbalance in AIA post-grant proceedings. Then I will address each of these three proposed changes, and illustrate how they would work together to provide a system that is not prone to the abusive conduct that has become associated with IPR/PGR. In Section II, I will turn to the existing provisions of the PATENT Act.

## I. Changes to Promote Fairness in IPR and PGR Proceedings

### A. Statistics Evidencing Imbalance and Abuse

Although IPR and PGR proceedings have been touted as a faster and cheaper alternative to district court litigation, the PTAB has become a preferred forum for invalidating patents likely due to the inherent bias of the current procedures against patent owners. Indeed, as of April 30, 2015, 2,833 IPR petitions had been filed, a number that far exceeded the expectations of the USPTO.<sup>5</sup> Moreover, as of that same date, the PTAB had made a decision on institution for 1,759 IPR petitions and had instituted trials for 1,325 (75%) of those petitions.<sup>6</sup> As of February 5, 2015, the PTAB had issued final written decisions in 224 inter partes review proceedings.<sup>7</sup> The PTAB found that all of the instituted claims were unpatentable in 141, or 63%, of those decisions, and that some of the claims were unpatentable in another 47, or 21%, of those decisions.<sup>8</sup> The PTAB upheld all claims as patentable in only 36, or 16%, decisions issued to date.<sup>9</sup>

Because these results are heavily skewed against patent owners, petitioners have used IPRs to present arguments that were unsuccessful in federal court. For example, Ferrum Ferro Capital, a hedge fund, recently filed a petition for inter partes review of a claim of a patent owned by Allergan, which the Federal Circuit previously had upheld as valid.<sup>10</sup> Last year, Eli Lilly filed a lawsuit in the Southern District of Indiana against sixteen companies, claiming those companies had infringed Lilly's patents by filing an application with the FDA seeking to sell generic versions of Eli Lilly's Effient products.<sup>11</sup> In March of this year, nine of those companies filed IPR petitions challenging the validity of patents associated with Effient.<sup>12</sup> The parallel filing of these IPR petitions suggests that litigants will take advantage of these proceedings to disrupt the federal court litigation, providing a second opportunity to challenge patents in a more favorable setting for the defendants.

<sup>5</sup> [http://www.uspto.gov/sites/default/files/documents/aia\\_statistics\\_04-30-2015.pdf](http://www.uspto.gov/sites/default/files/documents/aia_statistics_04-30-2015.pdf).

<sup>6</sup> [http://www.uspto.gov/sites/default/files/documents/aia\\_statistics\\_04-30-2015.pdf](http://www.uspto.gov/sites/default/files/documents/aia_statistics_04-30-2015.pdf). This number includes joinder.

<sup>7</sup> Patent Public Adv. Comm. Quarterly Meeting, Patent Trial and Appeal Board Update, at 13, 15, *available at* [http://www.uspto.gov/sites/default/files/documents/20150219\\_PPAC\\_PTAB\\_Update.pdf](http://www.uspto.gov/sites/default/files/documents/20150219_PPAC_PTAB_Update.pdf).

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

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

<sup>10</sup> *Ferrum Ferro Capital, LLC v. Allergan Sales, LLC*, Petition for Inter Partes Review of U.S. Patent No. 7,030,149 (March 9, 015).

<sup>11</sup> *See, e.g., Eli Lilly and Co., et al. v. Accord Healthcare, Inc. et al.*, No. 14cv00389.

<sup>12</sup> *See Accord HealthCare, Inc. v. Eli Lilly and Co.*, IPR 2015-0064; *Accord HealthCare, Inc. v. Eli Lilly and Co.*, IPR 2015-00865.

In addition, Wall Street hedge funds have begun to exploit the IPR process as an investment strategy. One firm has filed thirteen IPR petitions challenging pharmaceutical patents to date, while betting against the shares of the targeted patent's owner.<sup>13</sup> The success of such a strategy depends on the perceived anti-patent bias of IPR proceedings being so strong that the mere filing of a petition can cause share price to drop.

#### **B. Suggested Proposals to Ensure Fairness in AIA Trial Proceedings**

Congress should implement at least three changes to ensure that AIA trial proceedings are fair to both patent owners and challengers.

*First*, in IPR and PGR proceedings, the PTAB should apply the same “correct” claim construction standard as district courts, rather than the “broadest reasonable” interpretation (BRI). In addition, the PTAB should respect the presumption of validity for granted patents, and apply the same “clear and convincing” evidentiary standard as applied in district courts for establishing invalidity of a patent, rather than the more lenient “preponderance of the evidence” standard. By applying the appropriate standards to granted patents, the likelihood of inconsistent results and duplicative proceedings should drop.

Over 80% of patents challenged in IPR are also asserted in district court.<sup>14</sup> Using different claim construction and evidentiary standards promotes inconsistency, and unnecessarily burdens patent owners with defending against challenges that would not

<sup>13</sup> *Coalition for Affordable Drugs (ADROCA), LLC v. ACORDA Therapeutics, INC.*, Petition for Inter Partes Review of U.S. Patent No. 8,663,685 (February 11, 2015); *Coalition for Affordable Drugs (ADROCA), LLC v. ACORDA Therapeutics, INC.*, Petition for Inter Partes Review of U.S. Patent No. 8,007,826 (February 27, 2015); *Coalition for Affordable Drug (ADROCA), LLC v. Shire, INC.*, Petition for Inter Partes Review of U.S. Patent No. 6,773,720 (April 1, 2015); *Coalition for Affordable Drugs II, LLC v. NPS Pharmaceuticals, INC.*, Inter Partes Review of U.S. Patent No. 7,056,886 (April 1, 2015); *Coalition for Affordable Drugs III, LLC v. Jazz Pharmaceuticals, INC.*, Petition for Inter Partes Review of U.S. Patent No. 7,895,059 (April 6, 2015); *Coalition for Affordable Drugs IV, LLC v. Pharmacyclies, INC.*, Petition for Inter Partes Review of U.S. Patent No. 8,754,090 (April 20, 2015); *Coalition for Affordable Drugs V, LLC v. Biogen IDEC International GmbH*, Petition for Inter Partes Review of U.S. Patent No. 8,759,393 (April 22, 2015); *Coalition for Affordable Drugs IV, LLC v. Celgene Corporation*, Petition for Inter Partes Review of U.S. Patent No. 6,045,501 (April 22, 2015); *Coalition for Affordable Drugs II, LLC v. NPS Pharmaceuticals*, Petition for Inter Partes Review of U.S. Patent No. 7,056,886 (April 23, 2015); *Coalition for Affordable Drugs VI, LLC v. Celgene*, Petition for Inter Partes Review of U.S. Patent No. 6,315,720 (April 23, 2015); *Coalition for Affordable Drugs VI, LLC v. Celgene Corporation*, Petition for Inter Partes Review of U.S. Patent No. 6,315,720 (April 23, 2015); *Coalition for Affordable Drugs V, LLC v. Biogen MA, Inc.*, Petition for Inter Partes Review of U.S. Patent No. 8,399,514 (May 1, 2015).

<sup>14</sup> El-Gamnal, Yasser, *The New Battlefield: One year of Inter-Partes Review Under the America Invents Act*, 42 AIPLA Q. J. 39 (2014); see also Venable LLP, Patent Trial and Appeal Board Statistics, April 23, 2014, <https://www.venable.com/patent-trial-and-appeal-board-statistics-04-23-2014/> (noting that the PTO indicated during a roundtable discussion that 80-90% of IPR petitions are in district court litigation).

survive in district court. Further, it leads to the strange result that patents are construed narrowly when assessing whether a product infringes, but broadly for invalidity purposes. Applying the “correct” standards for issued patent claims will properly define the intellectual property right granted by the USPTO, in a consistent and fair manner.

The BRI standard applied by the PTAB, which is used during the initial examination of a patent application, will be broader than the “correct” interpretation adopted by a district court. Using the BRI interpretation, the PTAB is more likely to find claims unpatentable in view of the prior art. The BRI standard has been justified by the ability to amend patent claims. But despite the AIA’s express authorization of patent claim amendments, the PTAB has granted only three motions to amend by adding substitute claims in IPR proceedings to date.<sup>15</sup> IPR and PGR are more akin to district court litigation than examination by the PTO, where applicants have a liberal right to amend. Accordingly, the district court standard is more appropriate than the BRI standard for post-grant proceedings. For similar reasons, using a more lenient “preponderance of the evidence” standard for establishing invalidity in IPR and PGR proceedings, and not applying the presumption of validity for issued patents, also promotes inconsistent outcomes between the PTAB and district court.

The use of BRI and weaker evidentiary standards raises two additional concerns. First, it ignores the often substantial prosecution record, which is the dialogue between the USPTO and the patent applicant on the patentability of the presented claims, and the meaning of key claim terms. While the district court and the public takes this record into account in construing the meaning of patent claims, the USPTO—the very agency that examined the patent—ignores this record. This diminishes the importance of initial examination. Second, and most importantly, the application of different standards has been used to justify duplicative, parallel and serial proceedings in district courts and at the USPTO.

Having the USPTO apply the same standards as the courts will achieve increased fairness, predictability and uniformity among the different proceedings involving granted patents. Moreover, duplicative proceedings could be avoided by confirming that the Director or her proper delegate shall (rather than may) deny petitions presenting the same or substantially the same arguments presented in an earlier PTO or district court proceeding, and by applying consistent standards.

---

<sup>15</sup> *International Flavors & Fragrances Inc., v. U.S. Department of Agriculture*, IPR2013-00124 (PTAB May 20, 2014); *Riverbed Technology v. Silver Peak Systems, Inc.*, IPRs 2013-00402 (PTAB December 30, 2014) and 2013-00403 (PTAB December 30, 2014).

*Second*, patent owners should be able to amend claims to address issues raised in an IPR or PGR petition. Under this proposal, all claims in IPR and PGR proceedings, including original patent claims and any substitutes for them, will be construed using the district court standards described above. Substitute claims would be permitted only if they narrow an originally granted patent claim by adding one or more limitations that have been taken verbatim from another issued claim of the challenged patent. If a patent owner wants to have an opportunity to make more substantial amendments, following receipt of an IPR or PGR petition but prior to its institution, the patent owner may remove any of the challenged claims from the IPR or PGR process by filing a request for reissue or reexamination. The USPTO would then examine the claims in view of issues raised in the petition, using the lower BRI and evidentiary standards applicable in those proceedings, with the possibility that the claims may never emerge from this proceeding. In addition, any claims that were amended in these proceedings would be subject to intervening rights under 35 USC 252, and no estoppels would attach to a challenger, who would remain free to dispute the validity of the amended claims in subsequent patent office or district court proceedings. These changes would promote administrative efficiency by streamlining IPR and PGR proceedings, reduce overall costs, reduce the need for the PTAB, an adjudicative body, to handle claim amendments beyond those allowed for substitutes, and avoid potentially duplicative or inconsistent proceedings within the USPTO.

*Third*, the procedural rules governing IPR and PGR should be revised to ensure fairness and due process for patent owners. Currently, the institution process for post-grant proceedings is biased against the patent owner. For example, while the challenger may submit expert declarations to support its petition to institute an IPR or PGR, the patent owner may not do so in opposing institution. Allowing the patent holder to introduce the same evidence as the petitioner will ensure that the petition institution decision will be made a more balanced evidentiary record. Furthermore, the same PTAB panel currently makes both the decision on institution and the final decision on the merits. The PTAB panel thus becomes predisposed to the outcome of the proceeding at a very early stage, effectively placing the burden on the patent holder to effectively overcome a presumption of invalidity during the merits phase. Ensuring that the Director, or her proper delegate, and not the PTAB, will decide whether to grant the petition will reduce any perception of bias by the merits panel. Last, ensuring that testimony related to material disputes of fact and witness credibility will be heard live by the PTAB at the final hearing, will address additional due process concerns.

Recognizing the need for Congress to consider additional reforms to USPTO proceedings, I will turn now to discussing the PATENT Act introduced last week.

## II. The PATENT Act

Over the last two years, Congress has considered a number of significant legislative proposals to address perceived litigation abuses caused by patent assertion entities. As Congress debates patent reform legislation, it also must recognize that major judicial developments in patent law over the last several years have successfully reduced abusive patent litigation. Indeed, the number of new patent cases fell by 21 percent from 2013 to 2014,<sup>16</sup> which suggests that recent case law changes may already have a significant impact on the ability to enforce patents.

While these developments tended to focus on perceived abuses by patent assertion entities, biopharmaceutical companies, like other innovators, continue to be forced to expend significant resources defending against non-meritorious claims. For example, litigation abuses are present in Hatch-Waxman litigation under 271(e), where multiple generic companies challenge innovator patents on questionable grounds, where the need to finish the district court proceeding within 30 months can lead to gamesmanship, and where the risk between the litigants in terms of overall investment are asymmetric. This problem is compounded by the fact that discovery in Hatch-Waxman cases disproportionately impacts the innovator who, unlike the generic challenger, has invested years and even decades in the development of a successful product. Moreover, innovative biopharmaceutical companies are also plaintiffs and defendants in non-Hatch-Waxman litigation, so any general litigation reform will have a significant impact on this industry.

BMS supports legislation that targets abusive patent enforcement practices while maintaining the strong patent protection needed to justify biopharmaceutical companies' investment in life-saving medicines. BMS believes that the PATENT Act's provisions regarding district court litigation represent a welcome compromise of various stakeholder interests on issues such as pleadings, early disclosures, fee-shifting and recovery, and discovery stays, with the understanding that this legislation is incomplete without provisions aimed at preventing abuse of IPR and PGR proceedings.

### A. Pleadings

As the Supreme Court stated in its *Iqbal* and *Twombly* decisions, pleadings should contain enough factual content to allow the court to draw the reasonable inference that

<sup>16</sup> <http://www.corpcounsel.com/top-stories/id=1202721760927/Data-Shows-2014-a-Historic-Year-for-Patent-Litigation?mcode=1202615620321&curindex=0&slreturn=20150227140117>

the defendant is liable for the misconduct alleged. The issue is one of balance. Requiring too much specificity in a complaint for patent infringement would result in unmanageably long complaints and endless motions practice regarding the adequacy of the pleading. While this provision does require a detailed claim-by-claim description of the alleged infringement that could increase the likelihood of these unintended consequences, BMS recognizes that these concerns are counterbalanced by a number of compromises in the pleading provisions, including removing certain information from the complaint to early disclosures, permitting plaintiffs to plead generally where the information is not accessible upon reasonable inquiry, and providing an exemption for 271(e) cases due to their unique procedural requirements.

#### **B. Transparency of Patent Ownership**

The PATENT Act strikes an appropriate balance by requiring transparency disclosures early in litigation but not in the complaint. Specifically, Section 3 requires the plaintiff to disclose entities with rights in the patent in suit or financial interests in the case, previous complaints filed alleging infringement of the patent in suit and whether the patent is subject to certain licensing obligations within 14 days of filing the complaint. While this information should be disclosed in litigation, the disclosures are unnecessary to state a claim for relief and requiring them to be pled in the complaint would discourage patent owners from pursuing legitimate claims in court and lead to abusive motion practice. By requiring that such information be presented in initial disclosures rather than the pleadings, this reduces the likelihood of unnecessary motion practice.

#### **C. Customer Stay**

Some patent owners have filed abusive infringement actions against a number of participants in a manufacturing/supply/retail/distribution chain, including ultimate customers, to extract settlements from multiple defendants. BMS supports protecting customers who are targeted for infringement based on a product they merely purchased from a manufacturer or off the shelf. In this regard, the PATENT Act appropriately focuses the patent litigation on the suppliers of the infringing product while permitting a stay of litigation against the customers under certain circumstances.

#### **D. Discovery Limits**

The PATENT Act provides for a stay of discovery pending resolution of preliminary motions. BMS appreciates that courts will have the discretion to allow discovery necessary to resolve these motions, motions for preliminary relief, or to prevent prejudice to a party. BMS further believes that the discovery limits imposed under the PATENT Act improve upon prior proposals that would limit discovery until after claim

construction, which could delay ultimate resolution of patent litigation and increase costs. Moreover, the PATENT Act's exemption for 271(e) cases reduces the risk that litigants will abuse this stay to prolong the case beyond thirty months.

#### **E. Procedures to Implement Judicial Conference Recommendations**

BMS supports the provisions in the bill that direct the Judicial Conference to examine and consider developing rules or procedures to address additional issues involving discovery in patent cases, including the extent to which each party is entitled to "core documentary evidence" and other evidence. The Judicial Conference, drawing upon its vast experience and knowledge of patent disputes, is well positioned to implement case management procedures for patent cases based on best practices.

#### **F. Fee Shifting & Recovery**

It is no coincidence that there has been a substantial decrease in the number of infringement actions filed in federal district court following the Supreme Court's decisions in *Octane Fitness* and *Highmark*. More frequent fee-shifting can encourage positive litigation behavior and discourage potential abuse. BMS supports the approach that reasonable attorney fees will be awarded to a prevailing party if a court determines that the position or conduct of the non-prevailing party was not objectively reasonable. BMS further believes that judges should have discretion to rule on fee shifting and to consider special circumstances that may make an award unjust. Fee shifting should be premised on unreasonable positions or conduct of the losing party, which will target abusive behavior while not unduly undermining litigation to assert well-founded claims of patent infringement nor the rights of small entities or academic institutions. Notably, for the biopharmaceutical industry, the PATENT Act fee shifting provisions exempt 271(e) litigation. While the relevant provision makes clear that the exceptional case standard does apply to 271(e) litigation, it is unclear how the Supreme Court standard, and a new statutory standard under the PATENT Act, will be comparatively applied. BMS further appreciates the Fee Recovery provisions of the bill, and in particular the contingent liability certification process where a patent litigant cannot satisfy an attorney fee award, as it reflects a balanced and improved approach over prior proposals.

#### **G. Demand Letters**

Finally, BMS supports targeted reforms that curb abusive, bad-faith demand letter behavior, not legitimate business behaviors. The relevant PATENT Act provisions focuses on widespread demand letter abuse, and assertions that lack a reasonable, objective basis in fact. In our view, it is preferable that the FTC have authority to enforce violations of Section 9 under the Federal Trade Commission Act under a nationwide

standard rather than allowing a patchwork of different state laws govern this area of patent law.

### **III. Conclusion.**

Chairman Grassley, Ranking Member Leahy and Distinguished Members of the Judiciary Committee, I thank you for the opportunity to appear here today and to offer BMS's views on the subject of "S. 1137, the 'PATENT Act' – Finding Effective Solutions to Address Abusive Patent Practices."

I appreciate the efforts of the Members and staff of this Committee to develop meaningful patent litigation reforms that will curb abusive practices and minimize unintended consequences for legitimate patent owners. The PATENT Act, with the suggested modifications to USPTO post grant proceedings, is a productive step in that direction, and we look forward to working with Members and Staff on modifications to existing provisions and additional provisions that are necessary to ensure fairness in AIA trial proceedings.

I will be pleased to answer any questions or to supply additional information.

Statement for the Hearing  
“S. 1137, the ‘PATENT ACT’ – Finding Effective  
Solutions to Address Abusive Patent Practices”

Before the United States Senate  
Committee on the Judiciary

Diane Lettelleir  
Senior Managing Counsel - Litigation  
J.C. Penney Corporation, Inc.

May 7, 2015

Chairman Grassley, Ranking Member Leahy, and members of the Judiciary Committee, I am Diane Lettelleir, Senior Managing Counsel – Litigation of J.C. Penney Corporation, Inc. I want to thank you for giving me the opportunity to testify today about the devastating impact of abusive patent litigation practices on J.C. Penney Corporation, Inc., (“JCPenney”). It is an honor to present our Company’s perspective, and I can assure you that our views are shared by other Main Street businesses around the country, including retailers, grocers, home builders, convenience stores, advertisers, restaurants, realtors and hoteliers.

And, on behalf of JCPenney I also want to thank the bipartisan sponsors of the Protecting American Talent and Entrepreneurship (“PATENT”) Act for their commitment to tackling this very important issue. This legislation will go a long way in addressing the abuses in these frivolous and damaging lawsuits that JCPenney and other Main Street businesses are facing.

J.C. Penney Corporation, Inc.

On April 14, 1902 James Cash Penney opened his first store in Kemmerer, Wyoming. Since that humble beginning 113 years ago, JCPenney has grown to be one of the nation’s largest apparel and home furnishing retailers. Today, JCPenney has over 1,060 stores employing approximately 114,000 associates across 49 states and Puerto Rico. We are headquartered in Plano, Texas.

JCPenney’s business model is simple – we sell quality, affordable men’s and women’s apparel, footwear and home products. While the business model is simple, the means we use to promote, sell, and deliver our products and services to our customers are not. As our customers embrace and utilize technology in their daily lives they expect retailers to do the same. Therefore, to support and deliver the services our customers want and deserve, we employ innovative technologies to enhance the shopping experience both in our stores and online. Though we are experts in the retail business, JCPenney, like most Main Street businesses, have been ravaged by the exponential growth and aggressiveness of the patent troll industry.

JCPenney agrees that innovation and the US patent system are important to the economy and JCPenney respects the intellectual property rights of others. While patent protection and the right to enforcement are two important components of the innovation ecosystem, adoption of innovation is equally important. Innovation without the opportunity for commercial adoption of that innovation does not lead to economic growth or further innovation. The current patent infringement litigation reality is undercutting the opportunity for commercialization of innovation.

### The Effects of Abusive Patent Litigation

The retail industry represents a large contribution to the national economy. There are currently just under 3.8 million retail establishments supporting 42 million jobs that contribute \$2.6 trillion annually to U.S. gross domestic product. The vast majority of the retail industry is made up of franchises and small businesses. In fact 98.6% of all retail businesses employ fewer than 50 people.<sup>1</sup>

As members of this Committee know, abusive patentees continue to negatively impact JCPenney and other Main Street businesses. Each year, we collectively spend millions of dollars and thousands of hours of employee time fighting abusive patent litigation. Many smaller retailers who lack the resources to fight patent litigation have no option but to pay the demanded settlements because they do not have the expertise or money to fight in court. This money could have been used to expand their business, hire new workers or invest in new technology.

And, unfortunately, the problem continues to grow. While abusive patentees initially targeted the high-tech industry, they have expanded their focus to include Main Street businesses. In fact, in 2012, for the first time, non-practicing entities (“NPE”) reportedly sued more Main Street companies than tech companies.<sup>2</sup> The motivation for the shift in abusive patentees targeting strategy is easy to understand. Main Street businesses that only “use” technology are easy prey because they often lack the legal resources and technical expertise to fight complex patent infringement claims. Abusive patentees take advantage of these weaknesses and strategically offer settlements at a level set below the cost of litigation. The settlements offered are not based on the value of the claimed invention in the asserted patent or the merits of the asserted claims. Faced with this calculus and having little or no understanding of the merits of the claims, many Main Street businesses are forced to pay.

### JCPenney’s Experience

JCPenney’s experience is similar to other retailers and provides a framework for understanding why this legislation is so important to Main Street businesses. JCPenney has been a defendant in 30 NPE lawsuits in the last six years and has had as many as a dozen active cases at any one time. In addition, JCPenney has and continues to receive threatening demand letters. None of these NPE lawsuits or demand letters relates to the items we sell; every claim relates to the technology we use to operate either the brick and mortar business or the ecommerce business. NPEs frequently seek tens of millions of dollars in damages in these cases.

<sup>1</sup> NRF: The Economic Impact of the U.S. Retail Industry, <https://nrf.com/resources/retail-library/the-economic-impact-of-the-us-retail-industry>.

<sup>2</sup> Chien, Colleen V., Patent Trolls by the Numbers (March 13, 2013). Santa Clara Univ. Legal Studies Research Paper No. 08-13. Available at SSRN: <http://ssrn.com/abstract=2233041>.

In parallel to the direct cost of defending patent infringement allegations, the steady stream of frivolous assertions has disrupted JCPenney's adoption of innovation from small inventors and small technology companies. The disruption manifests itself in two ways. First, JCPenney knows that by taking the step of adopting new technology, it becomes a target for abusive patentees. Second, the small inventor or technology company itself becomes a target of abusive patentees by virtue of its efforts to commercialize its innovation. In both instances, JCPenney knows that the small technology company or inventor will not have the financial strength to defend itself or JCPenney against those threats.

This dynamic has caused a shift in how JCPenney and many other Main Street businesses approach the adoption of new technology. JCPenney has a storied history as a driver and an early adopter of new technology. In the past, JCPenney provided many opportunities for small companies to pilot new technology in a limited manner. If the technology proved successful a small company had the potential to have that technology implemented more broadly. This was a win for JCPenney, our customers and for small technology companies providing new technology. Unfortunately, the cost to defend or settle abusive patent lawsuits has forced JCPenney to shy away from adopting technology offered by small inventors and small technology companies. JCPenney's shift away from start-ups and small technology companies has not been driven by concerns that the new technology actually infringed any patent. In most cases, the start-ups or small technology companies themselves own patents covering aspects of the technology they offered to JCPenney. JCPenney's shift away from start-ups and small technology companies is driven by the risk and expense of abusive patent litigation.

#### Solutions

I can confidently speak not only for JCPenney but also for similarly situated Main Street businesses when I say that Congress must step in to curb the abuse. This targeted legislation will address the existing asymmetries, and strengthen and restore a balance that has been missing for years in abusive patent litigation. While I believe all the provisions are important to curb these abusive suits I will focus in particular on three areas: demand letters, heightened pleading and customer stay.

The first is demand letters. Abusive patentees are continually harassing Main Street businesses with vague, misleading, and deceptive demand letters. The demand letters usually fail to include basic facts that any business would need to make an informed decision or an explanation of what the defendant makes or does that allegedly infringes. As a recipient of such letters, JCPenney has no way of determining its potential liability or making an informed decision about the best way to respond. This harmful and deceptive practice needs to be stopped.

The second is a heightened pleading standard. Under current law, a patent holder is not required to give notice in the complaint as to how a patent is infringed or even to identify a specific accused product or a specific asserted claim. Abusive patentees, therefore, are able to file cookie-cutter complaints based on little or no investigation with only threadbare, boilerplate recitals. An accused infringer is left without knowing what actions or products are accused of infringement, how to investigate the claim, prepare an answer, or which documents need to be preserved or produced. Discovery becomes an unfettered fishing expedition when the case is not defined in the complaint. Requiring a patent holder to give notice of the basis for alleged infringement will deter vague assertions and the resulting irrelevant discovery.

The third measure is customer stay. Parallel to filing suit against JCPenney for using a particular technology product, the abusive patentee may separately file a lawsuit against a manufacturer of the accused technology product. In some instances, a manufacturer of a technology product that learns that a number of its customers are being sued by the same patentee on the same patent may proactively file a separate lawsuit against the patentee for non-infringement or invalidity. Currently, when a second case is pending between the patentee and the manufacturer the judge in the customer case against JCPenney may agree to stay the case against JCPenney. If a stay is granted, the customer case against JCPenney is put on hold until the case involving the manufacturer is over. Then, if necessary, the customer case against JCPenney would resume.

The current motion practice associated with customer stays is expensive and drags out for months. The frequent denial of stays in customer cases by district courts allows abusive patentees to force the customer defendants to continue to spend significant amounts in defense costs and thereby perpetuates the abusive patent litigation model of forcing settlements not based on the value of the claimed invention but solely based on the avoidance of the costs of defense. The abusive patentee knows its cases against the customers likely will not be put on hold and that most customers will not have ready access to the evidence needed to defend themselves or the financial wherewithal to bear the high cost of litigation.

Customers and end-users should not be required to go forward defending patent infringement suits when there is a parallel pending action against the manufacturer of the same accused technology. A manufacturer is in the best position to defend against claims that its products are infringing, and indeed many manufacturers launch successful defenses, proving that the patents are invalid or not infringed. Allowing suits to go forward against customers while the manufacturers are still defending only enables the extortion tactics of abusive patentees, as the cost of defense is often too much to overcome for the end-users and they are forced to settle. In patent infringement suits against end-users, all proceedings should be stayed until resolution of the claims against the manufacturer.

The goal for retailers and other Main Street businesses is to have workable statutory stay language that provides an even application of the stay across all district courts.

Along with these important provisions the PATENT Act contains a number of other reforms and corrective measures, and of course some of these measures will be more effective for certain parties at dealing with the abusive patentees, while other reforms will be more effective at dealing with the situations faced by other parties. While we are especially concerned about implementing demand letter standards, heightened pleading standards and customer stay reform; JCPenney supports all the provisions contained in the PATENT Act.

In closing, let me be clear that we fully support the ability of small individual inventors and legitimate patent holders to market their products and bring claims to protect their intellectual property. But we believe that appropriate patent litigation reform can promote incentives for innovation and still curb the abuses rampant in patent litigation today.

Thank you, once again, Chairman Grassley, Ranking Member Leahy, and members of this Committee for holding this critical hearing. This is a vital step in shedding light on the growing problem of NPEs and the negative affect they have on business, innovation, and the economy. We urge Congress to pass meaningful reforms, without delay, so JCPenney and other Main Street businesses can spend more on jobs creation and productive endeavors that benefit the American economy, and less on abusive patent lawsuits.



Statement of Kevin H. Rhodes,

Vice President and Chief Intellectual Property  
Counsel of 3M Company,

On Behalf of the  
Coalition for 21<sup>st</sup> Century Patent Reform

To the

Committee on the Judiciary of the  
United States Senate

On

**“S. 1137, the ‘PATENT ACT’ – Finding Effective  
Solutions to Address Abusive Patent Practices”**

May 7, 2015

**Statement of Kevin H. Rhodes**

**Vice President and Chief Intellectual Property Counsel  
3M Company**

**On Behalf of the  
Coalition for 21<sup>st</sup> Century Patent Reform**

**Executive Summary**

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

Thank you for the opportunity to testify on “S. 1137, the ‘PATENT ACT’ – Finding Effective Solutions to Address Abusive Patent Practices.” By way of introduction, I am a Vice President and the Chief Intellectual Property Counsel of 3M Company and the President and Chief Intellectual Property Counsel of 3M Innovative Properties Company, based in St. Paul, Minnesota. At 3M, I am responsible for managing the global intellectual property assets of the company and its worldwide affiliates. I testify today on behalf of the Coalition for 21st Century Patent Reform (“21C”), for which I serve as the Chair of the Steering Committee.

21C congratulates Chairman Grassley, Ranking Member Leahy, and Senators Cornyn, Schumer, Hatch, Klobuchar, and Lee on introduction of S. 1137, the “Protecting American Talent and Entrepreneurship Act of 2015” (the “PATENT ACT”). 21C very much appreciates the understanding and hard work by the bill’s sponsors and their staffs to address 21C and other stakeholder concerns that efforts to curb patent litigation abuses do not unduly undermine the ability of all patent owners to bring legitimate infringement actions to enforce their patents. As I explain more fully in Section II that follows, we appreciate that the language of the bill reflects a number of welcome compromises in the provisions on litigation issues such as fee-shifting, fee recovery, pleadings and early disclosures, discovery stays, and customer stays to address abusive litigation practices by some patent owners that have no place in a properly-functioning patent system, while preserving the rights of the overwhelming majority of patent owners to continue in good faith to license, assert, and litigate their patents when necessary to prevent infringement. We believe that the PATENT ACT represents a significant, thoughtful and constructive contribution to the patent reform effort.

But we do not believe that the PATENT ACT is ready to be reported out of this Committee just yet, for the job of patent reform is not yet done. In 21C's view, any meaningful patent reform legislation must also include provisions designed to ensure that the new Inter Partes Review ("IPR") and Post-Grant Review ("PGR") proceedings conducted in the United States Patent and Trademark Office ("PTO") that Congress established in the Leahy-Smith America Invents Act ("AIA") are fair to patent challengers and patent owners alike. Real and effective patent reform must also include provisions to address imbalances that unfortunately have arisen in these AIA review proceedings, as misuse of these reviews against patent owners is a real and growing problem. Abuses are no more acceptable in PTO proceedings adjudicating patents than they are in courts, and we ask this Committee to prioritize reforms of IPR and PGR proceedings equally with litigation reforms.

Let me be clear: IPR and PGR proceedings are important elements in the overall framework of a properly-functioning patent system when they provide faster and less expensive alternatives to litigation to determine the validity of issued patents. But that is only true when those proceedings are conducted in a manner that is equitable and fair to all participants, not when they are so skewed against patent owners that they invite gamesmanship and abuse, which regrettably is the case today. The reforms we propose will restore basic balance and fairness to AIA review proceedings, while retaining their vitality as alternatives to litigation to determine the validity of issued patents.

Contrary to Congressional intent when the AIA was enacted, patent owners have been put at a distinct disadvantage in these proceedings as compared to litigation, leading to high patent invalidation rates and the widespread belief that the procedures are tilted against patent owners. Even worse, patents are being invalidated at such high rates in what are widely perceived to be proceedings biased against patent owners that financial speculators have begun to file IPR petitions to manipulate the stock prices of patent owners for financial gain. Given the widely-reported high "kill rates" for patents in IPR proceedings, the mere filing of the petition can drive down the patent owner's stock price and allow a hedge fund that "shorted" the stock before filing an IPR petition to profit from this scheme. Thus far, one hedge fund in particular has filed IPR petitions to invalidate patents on at least six different pharmaceutical products. The PTO has not yet even decided to institute any of these reviews, let alone made any determination that any of the patents involved are invalid. But the adverse impact on the patent owner starts at the time of filing the review petition, regardless of the ultimate outcome. There can be no doubt that Congress never intended for the IPR and PGR system it created to be gamed in this manner.

Legislation is urgently needed to restore balance and fairness to these proceedings in the manner that Congress intended when it created them, and to reestablish public trust and confidence that they provide all participants – both patent challengers and patent owners – with procedures that comport with basic notions of fairness and due process. As I explain more fully in Section III below, 21C proposes three straightforward legislative changes to accomplish this restoration:

- (1) Reforming the procedures used when the PTO is considering whether to institute an IPR or PGR proceeding to provide a level playing field and basic fairness for all parties;
- (2) Allowing patent owners to have the issues raised in newly-filed petitions first considered in reissue or reexamination proceedings, where they may amend the claims prior to institution of any IPR or PGR; and
- (3) Reviewing the validity of granted patent claims, and substitute claims containing only originally issued claim limitations, by applying the same standards in IPR and PGR proceedings as are applied in courts, including claim construction, burdens of proof and presumptions.

These provisions will achieve increased fairness, predictability and uniformity among proceedings involving granted patents and will reduce duplicative and inconsistent outcomes. By removing the current questions and uncertainty that exist concerning the fairness of the procedures used in these proceedings, Congress will reassure the innovation community that patents can be relied upon to protect and support the investments in research, development, commercialization, technology transfer, and collaborations that are so essential to future innovation.

21C pledges to continue to work with members of this Committee, their staffs, and other stakeholders to couple the provisions in the PATENT ACT as introduced with these additional provisions that are so essential to restore balance and fairness in AIA review proceedings. 21C looks forward to lending its strong support for a bill that addresses both patent litigation and AIA review proceedings in an effective and comprehensive fashion.

**Statement of Kevin H. Rhodes**

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

Thank you for the opportunity to testify on “S. 1137, the ‘PATENT ACT’ – Finding Effective Solutions to Address Abusive Patent Practices.” By way of introduction, I am a Vice President and the Chief Intellectual Property Counsel of 3M Company and the President and Chief Intellectual Property Counsel of 3M Innovative Properties Company, based in St. Paul, Minnesota. At 3M, I am responsible for managing the global intellectual property assets of the company and its worldwide affiliates. I am a registered patent attorney and have been practicing for 24 years in the field of intellectual property law and litigation, previously in private practice and for the past 14 years in-house at 3M. I am a member of the Boards of Directors of the American Intellectual Property Law Association, the Intellectual Property Owner’s Association and the Intellectual Property Owner’s Association Educational Foundation. I also serve on the Executive Committee of the Association of Corporate Patent Counsel.

I testify today on behalf of the Coalition for 21st Century Patent Reform (“21C”), for which I serve as the Chair of the Steering Committee. 21C is a broad and diverse group of more than 40 companies, the Steering Committee of which includes 3M, Bristol-Myers Squibb, Caterpillar, Eli Lilly, ExxonMobil, General Electric, Procter & Gamble and Johnson & Johnson. For more than 100 years, our Coalition’s companies have played a critical role in fostering innovation in the United States. 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 devices, pharmaceuticals, and biotechnology, our Coalition has long advocated for patent reforms that will foster investments in innovation and job creation, and promote vigorous competition in bringing new products and services to the market.

**I. Introduction.**

The member companies of 21C take an intense interest in a properly-functioning patent system, and we approach issues of patent law and policy from a middle-ground perspective. In the case of 3M, for example, 3M is a plaintiff about as often as it is a defendant in patent infringement litigation. On the plaintiff’s side, as an innovator and

market leader, patent enforcement is often necessary for 3M to protect its R&D investments, technologies and products against infringement by others. On the other hand, 3M invests considerable resources to avoid being a defendant in patent infringement litigation. As an integral part of its new product development process, 3M reviews thousands of third-party patents each year to ensure that 3M is not infringing the patent rights of others. Nonetheless, disputes inevitably arise and 3M finds itself on the receiving end of patent demand letters and infringement lawsuits. As a result, in terms of legislation directed to patent litigation rules and practice, 3M, like other 21C member companies, seeks to ensure that balance and fairness is afforded to patent owners and patent defendants alike.

Likewise, with respect to the new Inter Partes Review (“IPR”) and Post-Grant Review (“PGR”) proceedings created by the Leahy-Smith America Invents Act (“AIA”), 3M and its fellow member companies of 21C have balanced interests.<sup>1</sup> Our members have participated in AIA review proceedings both as patent owners and as patent challengers. We believe it is essential to the patent system that these proceedings be designed, structured and conducted in a manner that is fair and unbiased for both patent challengers and patent owners. We believe that is exactly what Congress intended when it created IPR and PGR proceedings to provide expeditious, efficient and cost-effective alternatives to litigation for adjudicating the validity of issued patents.

#### **A. 3M’s and 21C’s Balanced Perspectives on Patent Litigation.**

As a global, diversified technology company based on science and bringing innovative new products to its customers, 3M devotes enormous resources to R&D and to obtaining patent protection for its technologies and innovative products. In 2014 alone, 3M invested \$1.77 billion in R&D and was awarded 625 U.S. patents. 3M obtained its first patent in 1923 and last year received the 100,000<sup>th</sup> patent in its corporate history.

These patent rights are not self-enforcing. It is essential to 3M that it has the ability to assert its patents effectively, efficiently, and expeditiously to prevent infringers from free-riding on 3M’s investments in innovation.

---

<sup>1</sup> The AIA also created a third new type of review for certain issued patents, the Transitional Program for Covered Business Method Patents (“CBM” reviews). CBM reviews utilize the procedures of PGRs, so proposals for modifying PGR proceedings address changes for CBM reviews as well.

3M sells over 50,000 products in five different business groups, with total sales in 2014 of nearly \$32 billion. 3M's products range from industrial products like abrasives, adhesives and automotive components; consumer products like Post-it® notes and Scotch® tape; safety and graphics products like RFID tags and readers, respirator masks, and reflective sheeting for road signs; electronics and energy products like optical films for computer screens, window films and components for solar energy generation; and health care products like stethoscopes, dental implants and medical billing software. With so many products in so many different market segments, it is inevitable that 3M sometimes finds itself accused of infringing patents owned by others. 3M thus knows from first-hand experience the challenges involved in defending itself against patent demand letters and infringement lawsuits from non-practicing entities (NPEs) and patent assertion entities (PAEs), as well as competitors.<sup>2</sup>

So on balance, as both plaintiffs and defendants in patent infringement lawsuits, 3M and its fellow member companies of 21C support measured reforms to curb the litigation abuses that undeniably currently exist, balanced against the need to ensure that a patent owner's ability to enforce its patent rights against infringement – a core value of the patent grant – is not unduly undermined by unbalanced, overly-broad reactions to litigation abuses by a few patent owners. That is the balance we have been seeking in the patent reform legislation proposed last year and in this Congress.

---

<sup>2</sup> Although the terminology is not well-defined, clear or subject to accepted, shared or even common understandings, as I understand the term, a non-practicing entity (“NPE”) is a patent owner who does not make or sell a product embodying its patented invention. NPEs thus may include a wide variety of patent owners, including not only so-called “patent trolls,” but also universities, individual inventors, startup firms, R&D or engineering entities, patent holding companies, patent aggregators, companies not practicing noncore patents, and even companies that have not yet commercialized a particular patent, but which may in the future depending on their resources, business plans and customer demands. Patent assertion entities (“PAE”), as I understand the term, are a subset of NPEs that acquire patents for the purpose of asserting them against alleged infringers. *See* Fed. Trade Comm’n, *The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition*, at p.8 n.5 (2011) (available at <http://www.ftc.gov/os/2011/03/110307patentreport.pdf>).

**B. Reforms To IPR and PGR Proceedings Are Essential Elements for Any Real and Effective “Patent Reform.”**

A focus of proposed patent reform legislation in this Congress and the last has been on proposals to halt abusive litigation practices. That is an essential element of patent reform and one that 21C fully supports. However, it is not enough. Real and effective patent reform must also include reforms to address gamesmanship and abusive practices that have arisen since the PTO began accepting IPR petitions on September 16, 2012, a year following enactment of the AIA.<sup>3</sup> Misuse of these reviews against patent owners is a real and growing problem. Such abuses are no more acceptable in PTO proceedings adjudicating patents than they are in courts, and we ask this Committee to prioritize reforms of IPR and PGR proceedings equally with litigation reforms.

To be clear: what was true when Congress enacted the AIA is still true today – IPR and PGR proceedings are important elements in the overall framework of a properly-functioning patent system when they provide faster and less expensive alternatives to litigation to determine the validity of issued patents. But that is only true when those proceedings are conducted in a manner that is equitable and fair to all participants, not when they are so skewed against patent owners that they invite gamesmanship and abuse, which regrettably is the case today. The reforms we propose will restore basic balance and fairness to AIA review proceedings, while retaining their vitality as alternatives to litigation to determine the validity of issued patents. Just as patent litigation reforms must be measured and balanced to ensure that they do not unduly undermine the rights of patent owners to assert their patents against infringers, so too must reforms to AIA review proceedings be measured and balanced to ensure that these reviews retain their intended purpose of providing viable alternatives to litigation to determine the validity of issued patents.

Unfortunately, many of the problems we see in AIA reviews today are a direct result of the PTO’s implementation of IPR and PGR proceedings in a manner that deviated in several important aspects from the framework established by the AIA and sound patent policy. Contrary to Congressional intent when the AIA was enacted, patent owners have

---

<sup>3</sup> Because PGR proceedings are only applicable to patents issued under the first-inventor-to-file regime begun on March 16, 2013, the first PGR petition was not filed until August 5, 2014 and only a handful have been filed thus far. The same problems discussed in connection with IPR proceedings also exist with respect to the PTO’s implementation of PGR proceedings, so the magnitude and impact of these problems will only increase as more first-inventor-to-file patents issue and more PGR petitions are filed.

been put at a distinct disadvantage in these proceedings as compared to litigation, leading to high patent invalidation rates and the widespread belief that the playing field is tilted against patent owners. Legislation is urgently needed to restore balance and fairness to these proceedings in the manner that Congress intended when it created them, and to reestablish public trust and confidence that they provide all participants – both patent challengers and patent owners – with procedures that comport with basic notions of fairness and due process.

Indeed, the importance and urgency of Congressional action can hardly be overstated. The perceived bias of AIA review proceedings against patent owners has incentivized a form of “forum-shopping” spree by patent challengers. The latest statistics from the PTO indicate that 3,176 review petitions have been filed as of April 30, 2015,<sup>4</sup> greatly exceeding the number of petitions expected at the time the AIA was passed.<sup>5</sup> The vast majority of IPR petitions have been filed against patents involved in concurrent litigation (up to 80% by some estimates). Given the speed of AIA review proceedings and the expectation that district courts will liberally grant stays of litigation pending a final decision in a concurrent AIA review, it is no overstatement to say that we are witnessing a sea change in patent adjudication in this country, with the adjudication of the validity of patents being asserted in litigation shifting in huge numbers from district courts to the PTO’s Patent Trial and Appeal Board (PTAB).

The popularity of these proceedings among patent challengers as a parallel pathway to challenge patents in litigation is hardly a surprise, given the perception – and reality – that challengers have significant advantages over patent owners as a result of how the PTO implemented the review procedures. As I explain more fully in Section III below, legislation requiring the PTO to apply the same standards as the courts will achieve increased fairness, predictability and uniformity among proceedings involving granted patents and will reduce duplicative and inconsistent outcomes.

In fact, patents are being invalidated at such high rates in what are widely perceived to be proceedings biased against patent owners that financial speculators have begun to file IPR petitions to manipulate the stock price of patent owners for financial gain. The *Wall*

---

<sup>4</sup> See [http://www.uspto.gov/sites/default/files/documents/aia\\_statistics\\_04-30-2015.pdf](http://www.uspto.gov/sites/default/files/documents/aia_statistics_04-30-2015.pdf).

<sup>5</sup> The PTO originally estimated that 460 IPR petitions would be filed annually. See 77 Fed. Reg. 48724 (Aug. 14, 2012). In fiscal year 2014, the number of petitions filed was nearly three times higher (1310). See [http://www.uspto.gov/sites/default/files/documents/aia\\_statistics\\_04-30-2015.pdf](http://www.uspto.gov/sites/default/files/documents/aia_statistics_04-30-2015.pdf).

*Street Journal* reported on this investment scheme, in which a hedge fund takes a short position in the stock of the patent owner and then files IPR petitions against patents protecting its important products.<sup>6</sup> Given the widely-reported high “kill rates” for patents in IPR proceedings, the mere filing of the petition can drive down the patent owner’s stock price and allow the fund to profit from this scheme. Thus far, one hedge fund in particular has filed IPR petitions to invalidate patents on at least six different pharmaceutical products.<sup>7</sup>

The PTO has not yet even decided to institute any of these reviews, let alone made any determination that any of the patents are invalid. But the adverse impact on the patent owner comes upon the mere filing of the review petition, regardless of the ultimate outcome, because the IPR process is so widely viewed as being skewed in favor of patent challengers. There can be no doubt that Congress never intended for the IPR and PGR system it created to be abused in this manner.

This problem is acute and will only grow as more and more review petitions are filed, so we cannot afford to wait to see if the PTO seeks to establish more fairness and balance through a lengthy second rulemaking process to correct the errors of its first rulemaking.<sup>8</sup> Legislation is needed to restore the fairness and balance that Congress

<sup>6</sup> See <http://www.wsj.com/articles/hedge-fund-manager-kyle-bass-challenges-jazz-pharmaceuticals-patent-1428417408>.

<sup>7</sup> See <http://www.bloomberg.com/news/articles/2015-04-23/celgene-shire-make-five-as-kyle-bass-expands-drug-patent-fight>.

<sup>8</sup> As an example of the need for legislation to correct problems with AIA review proceedings now, rather than waiting for the PTO to fix the problems itself, consider the PTO’s use of the “broadest reasonable interpretation” (“BRI”) for patent claims in IPR and PGR proceedings, which has created a fundamental inconsistency between the adjudication of the validity of issued patent claims in courts and the PTAB. A wide segment of the PTO user community has consistently opposed the use of BRI in IPR and PGR proceedings. Shortly after passage of the AIA, when the PTO proposed implementing rules, the three leading intellectual property law organizations – the American Bar Association Intellectual Property Law Section, the American Intellectual Property Law Association and IPO – submitted multiple joint comments commenting on the regulations the PTO proposed. These organizations were united in urging that BRI not be used for these reviews. See *ABA-IPL, AIPLA and IPO Comments to USPTO on Proposed Rules for AIA Implementation* (April 9, 2012) (available at [http://www.uspto.gov/sites/default/files/aia\\_implementation/comment-aba-aipla-ipo.pdf](http://www.uspto.gov/sites/default/files/aia_implementation/comment-aba-aipla-ipo.pdf)).

In the Fall of 2014, these same organizations were among those that provided comments to the PTO in response to a Federal Register Notice requesting comments on “Trial Proceedings Under the America Invents Act (AIA) Before the Patent Trial and Appeal Board.” 79 Fed. Reg.

intended in the first place for all participants in IPR and PGR proceedings. By removing the current questions and uncertainty that exist concerning the fairness of the procedures used in these proceedings, Congress will reassure the innovation community that patents can be relied upon to protect and support the investments in research, development, commercialization, technology transfer, and collaborations that are so essential to future innovation.

In sum, 3M and other member companies of 21C bring a perspective to proposals for patent reform legislation that is both long-term and balanced. Our primary interest is in making sure that our nation's patent laws reflect sound patent policy and promote our nation's innovation ecosystem. Abusive patent practices have no place in our patent system, and that applies equally to the abuses that can arise in the context of patent litigation and the abuses that can arise from a lack of balance and fairness during IPR and PGR proceedings in the PTO.

From this perspective, I will share 21C's views on the PATENT ACT as introduced and the additional provisions that are essential to correct the imbalances that have arisen in AIA review proceedings. Coupled with the PATENT ACT's litigation reforms, these additional provisions will ensure that the legislation represents an effective and comprehensive achievement in terms of advancing U.S. patent law and policy, and that it helps to maintain our patent system as the gold standard by which all others are measured.

## **II. The PATENT ACT.**

21C supports legislation to target abusive patent enforcement practices. Such practices do not promote American innovation or the interests of the public, and the vast

---

36474 (June 27, 2014). Based on two years of experience with AIA review proceedings among their tens of thousands of members, they again unanimously called upon the PTO to cease using the BRI protocol in favor of a claim interpretation standard in AIA reviews consistent with that used in courts. See *ABA-IPL Comments in Response to 79 Fed. Reg. 36474* (available at [http://www.americanbar.org/content/dam/aba/administrative/intellectual\\_property\\_law/advocacy/advocacy-20141016-comments-ptab.authcheckdam.pdf](http://www.americanbar.org/content/dam/aba/administrative/intellectual_property_law/advocacy/advocacy-20141016-comments-ptab.authcheckdam.pdf)); *AIPLA Comments in Response to 79 Fed. Reg. 36474* (available at [http://www.uspto.gov/sites/default/files/ip/boards/bpai/aipla\\_20141016.pdf](http://www.uspto.gov/sites/default/files/ip/boards/bpai/aipla_20141016.pdf)); *IPO Comments in Response to 79 Fed. Reg. 36474* (available at [http://www.uspto.gov/sites/default/files/ip/boards/bpai/ipo\\_20140916.pdf](http://www.uspto.gov/sites/default/files/ip/boards/bpai/ipo_20140916.pdf)).

Yet to date, after three years of consistent calls for change, the PTO has not acted upon any of these comments regarding its use of BRI.

majority of patent holders in this country take no part in them. That is why 21C has remained actively engaged in the legislative efforts to curb these abusive practices, while at the same time working to ensure that legislation would not impinge upon the rights of patent owners to continue to license, assert, and litigate their patents in good faith.

21C believes that the provisions directed to patent litigation in the PATENT ACT represent the most balanced legislative approach proposed to date that promises to curb patent litigation abuses without unduly undermining the ability of all patent owners to bring legitimate infringement actions to enforce their patents. I will discuss a number of these provisions below, with particular emphasis on explaining how the language reflects welcome compromises to address 21C and other stakeholder concerns without compromising its effectiveness in curtailing abusive litigation practices.<sup>9</sup>

#### **A. Sec. 3. Pleading and Early Disclosure Requirements.**

Section 3 of the PATENT ACT eliminates Form 18, the bare-bones model complaint for patent infringement that has prevented patent infringement cases from being subject to the same pleading requirements as other types of civil litigation, even following the Supreme Court's opinions in its *Twombly* and *Iqbal* decisions.<sup>10</sup> 21C has supported the elimination of Form 18; but beyond that, 21C has cautioned that Congress should not legislatively mandate so much pleading specificity that every patent infringement complaint spawns needless and burdensome battles about the adequacy of what has been pled. Pleadings should put the parties on fair notice of the claims and defenses at issue in the case, without engendering collateral disputes that increase the costs and burdens of litigation and delay its resolution.

Section 3, while requiring plaintiffs to list each patent and claim allegedly infringed, to identify the products or processes that are accused of infringing, and to describe the alleged infringement, includes safeguards to ensure that patent owners can file complaints even if they lack complete knowledge or information within the control of the defendant. Specifically, subsection (c) permits plaintiffs, consistent with their Rule 11 obligations, to plead information in general terms if it is not accessible to them after an inquiry reasonable

---

<sup>9</sup> I will focus my statement on a discussion of the litigation-related provisions of the PATENT ACT; and in the context of an overall bill that achieves the goals discussed herein, 21C finds the other provisions not discussed here to be acceptable as well.

<sup>10</sup> *Bell Atlantic Corp. v. Twombly*, 550 U.S. 544 (2007); and *Ashcroft v. Iqbal*, 556 U.S. 662 (2009).

under the circumstances. In addition, subsection (d) confirms that pleadings in patent cases subject to these requirements can be amended as specified in the Federal Rules of Civil Procedure.

One of the criticisms of earlier proposals for heightened pleading requirements in patent cases arose from requiring complaints to include background information that is not needed to state a claim for relief for patent infringement, such as entities with a financial interest in the case, earlier complaints filed for infringement of the patent-in-suit, and licensing obligations associated with the patent-in-suit. Although such information should be disclosed in litigation, concerns were raised that requiring it to be pled in the complaint simply provides more opportunity for early motions to dismiss to be brought alleging deficiencies in pleading such background information, with such motions being brought not to challenge the sufficiency of infringement allegations, but rather for delay, to drive up costs for plaintiffs, or for other improper tactical purposes. Section 3 of the PATENT ACT addresses these concerns by moving certain background information from the pleadings to a new early disclosure required from the plaintiff not later than 14 days from the filing of the complaint. The plaintiff must disclose entities with rights in the patent-in-suit or financial interests in the case, previous complaints filed alleging infringement of the patent-in-suit, and whether the patent is subject to certain licensing obligations. By requiring that such information be provided in the form of initial disclosures rather than in pleadings, such information will be disclosed at the outset of cases, as it should, but in a manner that will avoid needless motions.

#### **B. Sec. 4. Customer Stay.**

21C has long advocated for a statutory customer stay provision as one of the most effective measures that Congress could enact to reduce patent litigation abuse. Unfortunately, some patent owners have abused the litigation system by making overly-broad infringement assertions, often against many different participants in a manufacturing/supply/distribution/retailer/end-user chain, intending to extract windfall settlements from multiple defendants seeking only to avoid the cost and disruption of litigation. Non-meritorious litigation positions, espoused by patent owners to force settlements in the face of the staggering costs of litigation, have no place in patent cases. Thus, manufacturers should have the statutory right to intervene in actions against their customers or end users, or to proceed in separate actions against patent owners, and customers 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

infringement suits between patent owners and manufacturers of the accused products or processes. This right to stay customer/end user suits would curtail the practice of filing such suits to coerce settlements from those customers or end users who may lack sufficient technical knowledge of the accused product or the wherewithal to defend against infringement allegations, 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 of the products accused of infringement.

Although this type of customer stay right is easy to state conceptually, drafting a workable framework is much more challenging. A customer stay right must balance fairly all three interests: those of the patent owner, the manufacturer, and the customer/end user. This is especially difficult in the context of complex, nonlinear supply chains, where the distinctions among manufacturers, assemblers, customers and end users may not be entirely clear. The goal is to ensure that stays are available only for those at the end of the supply chain who are simply reselling or using the accused product or process as intended by the manufacturer, not for those who are making or modifying products in a manner alleged to infringe the patent-in-suit and thus are in the best position to defend against infringement allegations based on their actions.

We believe that Section 4 of the PATENT ACT achieves this delicate balance in several ways. For example, it limits the definition of “covered customer” – *i.e.*, a party entitled to a stay – to retailers and end users who are reselling or using a product or process obtained from a manufacturer and who have not made material modifications to the accused product or process in a manner that is alleged to infringe the patent-in-suit. Significantly, a manufacturer of an accused product or process cannot qualify as a covered customer. Through these definitions, the customer stay is available only to those at the end of the supply chain, who are reselling or using a technology acquired from a covered manufacturer, without materially modifying it.

To address manufacturer concerns that the customer stay right not intrude upon the terms of supply contracts or indemnification agreements between suppliers and customers, subsection (c) provides that the covered manufacturer must consent to a stay if it has been made a party to the action on motion by the covered customer. Otherwise, a stay is available only if the manufacturer in essence gives its “consent” by intervening in the action or by filing a separate action involving the same patents and accused products or processes. Consent is not required, however, if the manufacturer has been sued for infringement in the same action as its customer or in a separate action, as in such cases the

manufacturer already must defend itself against the infringement allegations brought by the patent owner.

Section 4 also includes an important safeguard to protect patent owners against being forced to litigate the same issues twice against a covered manufacturer and then a covered customer. In order to obtain a stay, a covered customer must agree to be bound as to issues determined in an action against its manufacturer or supplier without a full and fair opportunity to separately litigate any such issue, but only as to those issues for which all other elements of the common law doctrine of issue preclusion are met. To further protect the patent owner, a stay may be lifted if the action against the covered manufacturer will not resolve major issues in the suit against the covered customer, or where the stay is unreasonably prejudicial or would be manifestly unjust.

Some have criticized the customer stay provision on the grounds that it would deprive patent owners of remedies for infringement if the manufacturer of an accused product is located in a foreign country and is beyond the jurisdiction of U.S. courts. Under subsection (b)(1), however, the customer stay is only available to a covered customer if its covered manufacturer is a party to the action against the covered customer or a separate action in a Federal court of the United States involving the same patent or patents relating to the same covered product or process. Thus, a stay of an action brought against a customer accused of infringement would not be available if the manufacturer were beyond the jurisdiction of U.S. courts. In fact, a stay would not be available unless the manufacturer is actually a party to an action involving the same patents and products or processes in a federal district court. Otherwise, the patentee's action could proceed against the customer, as under current law.

On balance, therefore, 21C believes that Section 4 creates a customer stay right that appropriately balances the interests of all parties – the patent owner, the covered manufacturer and the covered customer – and thus achieves the goal of protecting retailers and end users from defending patent infringement actions in the first instance, in favor of allowing the litigation to proceed against the manufacturer of the accused product or process, who will be better-positioned to mount a defense. We believe that this provision will discourage the filing of opportunistic patent infringement suits to coerce settlements from parties who lack the knowledge or resources to defend themselves and will promote the efficient resolution of patent disputes between the parties in the best position to litigate the merits of the case.

**C. Sec. 5. Discovery Limits.**

21C has expressed concerns with previous legislative proposals to stay discovery in patent cases pending the district court's construction of the patent claims at issue. As we have explained, claim construction must take place in nearly every patent case, and it often involves lengthy and complicated briefing, hearings and orders that can take considerable time to complete. Deferring discovery during this process risks undue delay, adding substantially to the total pendency of nearly every patent infringement case, even cases between competitors where prompt resolution of the infringement allegations on the merits may be essential to protecting the patent owner's investments in R&D, products and businesses built upon the patented invention.

Section 5 of the PATENT ACT addresses these concerns by limiting the stay of discovery to the time required to resolve certain motions filed before the first responsive pleading – specifically, motions to dismiss, transfer venue, or sever accused infringers. This still provides meaningful relief from expensive discovery to those defendants who believe they are entitled to dismissal from the case, that the case should be litigated in a different forum or that they have been improperly joined with other defendants. It will curtail the practice of allowing discovery to proceed while a motion to transfer is pending, and then citing that discovery and the court's familiarity with the case as grounds for denying a motion to change venue brought under 28 U.S.C. § 1404(a). But at the same time, it alleviates the risk of prolonged delays in nearly every patent case, which is the risk if discovery is stayed during lengthy claim construction proceedings.

Section 5 includes a number of safeguards to ensure that the stay of discovery is not abused for purposes of delay. For example, as mentioned, any motion on which a stay is premised must be filed prior to the first responsive pleading. Further, courts are afforded discretion to allow limited discovery necessary to resolve such motions or a motion seeking preliminary relief, or if the court finds that additional discovery is necessary to preserve evidence or otherwise prevent specific prejudice to a party. Particularly important, subsection (c)(2) provides that nothing prohibits a court from ordering or local rules from requiring the exchange of contentions by interrogatories or other written initial disclosures. District courts across the country with the most experience and skill in managing patent infringement cases have adopted local rules that specify the timing and scope of such initial disclosures, which help to clarify and narrow issues in dispute, identify potentially dispositive issues for early resolution, and foster opportunities for settlement. Subsection (c)(2) ensures that the stay of discovery does not have the unintended consequence of

bringing these efficient and effective case management practices to a halt whenever a preliminary motion is filed that triggers a stay of more intrusive and expensive discovery.

**D. Sec. 6. Judicial Conference Discovery Reforms.**

Section 6 of the PATENT ACT requires the Judicial Conference of the United States to develop discovery rules and case management procedures to address concerns regarding the asymmetries in discovery burdens and costs that may arise in patent litigation. These include the extent to which each party is entitled to “core documentary evidence” as opposed to “noncore” or “additional” documents, access to electronic discovery and computer code, and which party should be responsible for the costs of production. The Judicial Conference also is required to develop procedures for discovery sequencing and scope, as well as case management procedures for patent cases.

21C believes that this is the right approach to develop more efficiency, consistency, and predictability among district courts across the country in terms of patent litigation discovery and case management. Invoking the process established decades ago under the Rules Enabling Act will allow the federal judiciary, acting through the Judicial Conference, to craft and propose such rules to the Supreme Court and then to Congress. We believe that the federal judiciary, drawing upon its vast experience and knowledge in the litigation of patent disputes, is best positioned to address concerns regarding the asymmetries in discovery burdens and costs that may arise in patent litigation without unduly burdening the ability of patent owners to bring and pursue legitimate claims for infringement of their rights.

**E. Sec. 7. Fees and Recovery.**

21C has long viewed more frequent fee-shifting in patent cases as the single most effective measure that Congress could enact to address abusive behavior in patent cases. If applied in a balanced, principled manner, targeting unreasonable positions or conduct on the part of any litigant, more frequent fee-shifting can encourage meritorious litigation behavior and can discourage the filing of unfounded cases and litigation misconduct.

Accordingly, 21C has long supported changing the “exceptional case” standard of 35 U.S.C. § 285 to permit more frequent fee shifting in patent cases, to encourage both plaintiffs and defendants to assert only meritorious positions, and to discourage litigation misconduct. Although the Supreme Court, during its last term, handed down two

unanimous decisions in *Octane Fitness v. ICON Health & Fitness* and *Highmark v. Allcare Health Management System*<sup>11</sup> that provided district courts with greater authority and discretion to award attorney's fees, 21C believes that legislation is still needed to provide clearer and more consistent standards for patent owners and accused infringers alike regarding when fee-shifting is appropriate in patent infringement cases.

21C supports such legislation, provided that two fundamental principles are met. First, fee-shifting should be applied in a balanced fashion, seeking to curtail abusive litigation behavior whether it comes from a plaintiff or a defendant. Such behavior should be targeted regardless of the party that engages in it, and any litigant asserting unreasonable litigation positions or who engages in misconduct should face the prospect of financial penalties. Second, to avoid unduly chilling the ability of patent owners to bring and pursue objectively reasonable claims for infringement of their rights, and to ensure that defendants can assert and litigate objectively reasonable defenses, it is important not to adopt an automatic "loser pays" regime for patent cases. Rather, fee shifting should be premised on objectively unreasonable positions or misconduct of the losing party, which will target abusive behavior while not making litigation to assert well-founded claims of patent infringement, or the assertion of defenses to infringement, too financially risky.

Section 7 of the PATENT ACT adheres to these two principles. It provides that reasonable attorney fees will be awarded if a court determines the position or conduct of the non-prevailing party (plaintiff or defendant) was not objectively reasonable, unless special circumstances make an award unjust. Thus, we believe that the amendments Section 7 make to Section 285 represent an improvement over current fee-shifting law in patent cases and will provide a more effective deterrent to litigation misconduct.

**Fee Recovery:** 21C recognizes the need for a mechanism to address certain situations where the losing party in an action is unable to satisfy a fee award. This is of particular concern with respect to plaintiff entities in patent cases that may be created and structured to be shell entities with few, if any, assets other than the patents that are being enforced. With respect to an award of attorney's fees, such parties are essentially judgment-proof. For obvious reasons, a fee award that can be recovered only against the nominal parties to the litigation will have no practical effect in deterring abusive litigation by such entities if its effect can be easily avoided by undercapitalizing the plaintiff entity.

---

<sup>11</sup> *Octane Fitness LLC v. ICON Health & Fitness Inc.*, 134 S. Ct. 1749 (2014) and *Highmark Inc. v. Allcare Health Mgmt. Sys. Inc.*, 134 S. Ct. 1744 (2014).

Thus, 21C 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 finances patent litigation but transfers the patent to a shell company, with assets inadequate to satisfy a fee award, which then asserts that patent in a way that violates Section 285.

As with other provisions in the complex landscape of patent litigation, this concept is much easier to state than it is to implement effectively and fairly. Previous approaches have included joinder, as parties to the litigation, of certain interested parties with a direct financial interest in the case, and requiring certain plaintiffs to post a bond to ensure that they can satisfy any award of fees that may be entered. Each of these proposals has drawn criticism from stakeholders who have questioned their effectiveness, fairness and impact on patent-related investments.

Section 7, subsection (c) of the PATENT ACT takes a different approach to fee recovery that 21C believes provides a better solution to the problem than does joinder or bonding. In certain situations, it would extend contingent liability for satisfaction of a fee award to certain non-parties related to a losing party against whom fees have been assessed, but only following an award of fees against that losing party. This would avoid questions about whether a patent case could continue on the merits while collateral disputes erupt over bonding or joinder at the outset of the case. Its reach would be limited to nonparties with a substantial financial interest related to the proceeds from any settlement, license, or damages award resulting from the enforcement of the patent in the action by the party alleging infringement, and contingent liability would apply to such nonparties only following the application of a number of procedural safeguards in the interests of fairness and due process. Specifically, interested parties may only be held liable for the portion of a reasonable fee award not satisfied by a named party if such interested parties were given notice of their potential liability, elected not to renounce their financial interest in the lawsuit, and are afforded the right to intervene to contest their liability.

Subsection (c) also addresses concerns about access to the courts that have been expressed with respect to other fee recovery proposals. Under the procedures set forth in subsection (c), no plaintiff would be statutorily prevented from bringing an action for patent infringement. Upon the filing of a patent infringement complaint, the party defending against the charge of infringement may elect to file a statement that it holds a good faith belief that the primary business of the party alleging infringement is the assertion

and enforcement of patents or the licensing resulting therefrom. The party alleging infringement then has several options, none of which risks its case being involuntarily dismissed. It can certify (i) that it will have sufficient funds available to satisfy any award of reasonable attorney fees if an award is assessed; (ii) that its primary business is not the assertion and enforcement of patents or the licensing resulting therefrom; or (iii) that it has no interested parties as defined in subsection (c)(2). If the party alleging infringement makes any of these three certifications, that is the end of the inquiry as to fee recovery. Only if it cannot make any of these certifications is the party alleging infringement required to disclose its interested parties, at which point the procedures for notice, possible renunciation of interest and potential intervention to contest liability begin.

Likewise, subsection (c) also addresses concerns about discouraging investments in patented technology and innovation that have been expressed with respect to fee recovery proposals. The concern is that investors will shy away from making such investments if they could be deemed interested parties subject to joinder or contingent liability for fee awards. As explained above, the definition of “interested party” does not extend to all investors, but rather is limited to persons who have a stake in the proceeds from the litigation. In the words of subsection (c)(2)(A), an interested party is a person who “has a substantial financial interest related to the proceeds from any settlement, license, or damages award resulting from the enforcement of the patent in the action by the party alleging infringement.” To clarify further that the provision is intended to reach litigation funders, not all investors, subsection (c)(2)(d) excludes from the definition of interested party a person “whose financial interest is based solely on an equity or security interest established when the party alleging infringement’s primary business was not the assertion and enforcement of patents or the licensing resulting therefrom.” Finally, subsection 7(c)(1)(G) allows a court to exempt any party identified as an interested party from the applicability of the fee recovery provision as the interest of justice requires.

21C thus believes that the contingent liability approach to fee recovery set forth in Section 7(c) of the PATENT ACT would directly address concerns that fee-shifting might be ineffective because patent owners would bring suits in the name of shell entities that lack adequate funds to satisfy a fee award. It would do so in a manner that is more efficient, fairer, and less disruptive to investments in patent holders, than would the alternative approaches of joinder or bonding.

**F. Sec. 8. Pre-Suit Notice/Demand Letters.**

Section 8 of the PATENT ACT would require that a written notice, sent prior to the filing of a civil action for patent infringement, contain an identification of each patent and at least one claim of each patent believed to be infringed, and of each product, process, apparatus, or chemical composition, including its manufacturer, believed to be infringed. In addition, the written notice must contain a description of why each patent is believed to be infringed, inform the recipient that it may have the right to stay any lawsuit, identify any person with the right to enforce each patent, and, if compensation is proposed, a statement as to how that compensation was determined. These requirements would not apply to written communications between parties regarding existing licensing agreements, and they may be waived by a court if it determines it is in the interest of justice to do so.

If the notice does not contain the required information, the defendant's time to respond to the complaint is extended by an additional thirty days. In addition, a letter that fails to include the required information cannot serve as evidence of pre-suit notice to establish willful infringement.

21C understands that this provision is intended to balance the interests of early and meaningful disclosures against remedies for noncompliance that are focused and proportional. 21C suggests, however, that additional consideration be given to protection of the senders of such notices from declaratory judgment actions, to avoid the unintended consequence that this provision requires a pre-suit letter to include so much detail that a letter complying with its requirement would expose the sender to declaratory judgment jurisdiction. Ironically, the provision may incent some patent owners to stop sending letters in favor of a "sue first, talk later" approach, resulting in more, not less, patent litigation.

**G. Sec. 9. Abusive Demand Letters.**

21C appreciates that the PATENT ACT seeks to address the problem of bad faith patent demand letters at the federal level. Such letters, designed to intimidate or coerce recipients who may lack the expertise or resources to investigate or defend against bad faith assertions of patent infringement into extortionist settlements, do not belong in our patent system.

As with so many other aspects of patent law and policy, the challenge is finding the right balance to address this problem while avoiding collateral damage to legitimate patent

assertion and licensing communications. Efforts to address what may be a small subset of egregious patent demand letter abuses must not inadvertently chill legitimate patent licensing communications. The patent system is designed to encourage notice and communication to foster respect for patent rights, licensing, and technology dissemination, and legislation addressing demand letters should be carefully-tailored so that it does not impede such communications.

As compared to some other legislative proposals to curb abusive demand letters, Section 9 contains some welcome features to balance these competing concerns. First, it appropriately targets those who engage in the “widespread sending” of abusive demand letters. Targeting the “widespread sending” of unfair or deceptive patent demand letters is an important way to distinguish between legitimate patent licensing communications and schemes to extract extortionist settlements. Focusing enforcement authority on such widespread practices will not diminish the ability of the FTC to protect the public against the extortionist “business model” that has led to widespread calls for patent demand letter legislation.<sup>12</sup> But by targeting enforcement authority against widespread abuses, the provision effectively stops that “business model” while reducing the risk of unintended consequences to legitimate licensing communications. The “widespread sending” limitation also ensures that the FTC will not be drawn into individual disputes between patent owners and particular potential licensees or alleged infringers. Congress should not create the possibility that the recipient of a single demand letter, or a defendant in an ensuing infringement suit, could seek to draw the FTC into the dispute to exert leverage against the patent owner, under the guise of consumer protection. Such individual patent disputes should be decided on their merits by the federal courts applying the Patent Act, not by invoking federal or state enforcement authority under what is designed to be a statute to protect the public against unfair or deceptive acts or practices.

Section 9 also clearly and objectively defines the list of permitted and prohibited contents of demand letters. It provides that a person who commits an unfair or deceptive act or practice in violation of Section 5(a)(1) of the Federal Trade Commission Act<sup>13</sup> in

---

<sup>12</sup> The patent demand letter abuses of which we are aware all have involved this “business model” based on the widespread sending of bad faith demand letters, in hopes that some percentage of smaller or unsophisticated recipients will be coerced into settling. See *In the Matter of MPHJ Technology Investments*, Jay Mac Rust LLC, and Farney Daniels, P.C., FTC, File No. 142 3003 (available at <https://www.ftc.gov/system/files/documents/cases/141106mphjagree.pdf>); *In re Innovatio IP Ventures, LLC Patent Litig.*, 921 F. Supp.2d 903 (N.D. Ill. 2013).

<sup>13</sup> 15 U.S.C. § 45(a)(1).

connection with the assertion of a United States patent, and who engages in the widespread sending of written communications representing that the recipients have or are infringing, shall be deemed to have violated a rule defining an unfair or deceptive act or practice – with the contents of the rule being clearly defined in the remainder of the subsection. This would subject the sender to civil penalties under Section 18(a)(1)(B) of the Federal Trade Commission Act.<sup>14</sup> In this way, the “rules of the road” with respect to permitted and prohibited contents of demand letters are clearly set forth to define the FTC’s civil enforcement authority. The overwhelming majority of patent owners have no wish to send demand letters that are unfair or deceptive, so it is just as much in their interest as it is in the interests of letter recipients that the “rules of the road” as to what can and cannot be put into demand letters be clear and objective.

21C believes that Section 9 could be improved further by the inclusion of a requirement that the letters it targets be sent in bad faith, to avoid ensnaring good faith communications. The appropriate goal of legislation should be to identify, and empower the FTC to address through clearly-defined enforcement powers, those demand letters which are truly and clearly intended to deceive or mislead their recipients. In addition, legislation should not infringe the constitutional protections under the First Amendment afforded to legitimate licensing or assertion communications by patent owners.<sup>15</sup> The bad faith requirement serves both purposes without diminishing the effectiveness of the provision. 21C thus believes that in the interests of sound patent law and policy, and in the interests of preserving the constitutionality of the provision, Section 9 should include a bad faith requirement, with bad faith defined as “knowingly false or knowingly misleading statements or representations, or statements or representations made with reckless disregard for the truth or falsity of such statements or representations.”

Finally, the PATENT ACT would benefit from the addition of language making clear that it creates uniform standards for patent demand letters that apply on a nationwide basis. From its origins in the Constitution, patent law has always been exclusively within the province of federal statutes and courts, and so too should issues relating to patent demand letters be applied consistently and uniformly nationwide through federal legislation, regulation and judicial action. The current patchwork of differing – and often

---

<sup>14</sup> 15 U.S.C. § 57a(a)(1)(B).

<sup>15</sup> 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. *See, e.g., In re Innovatio IP Ventures, LLC Patent Litig.*, 921 F. Supp.2d 903, 910 (N.D. Ill. 2013) (collecting cases).

inconsistent – state patent demand letter laws that has arisen over the past two years risks weakening our patent system by making patent licensing and enforcement more difficult, costly, and less certain. Ironically, the difficulty of navigating through the growing maze of differing state laws may incent patent owners to adopt a “sue first, talk later” approach, resulting in more, not less, patent litigation.

Thus, Section 9 should provide nationwide requirements for patent demand letters that replace the current mix of differing state laws. Not only would this achieve the goal of establishing clear and consistent standards for patent demand letters nationwide, it also would bring those same standards to the states that have not enacted patent demand letter laws. Importantly, however, the legislation should deliver this uniformity in a manner that does not preclude the states from taking action to protect their citizens from bad faith demand letters. Both the FTC and the state attorneys general should be authorized to bring civil actions in federal court alleging violations of the PATENT ACT’s demand letter provision. Moreover, Section 9 could make clear that states, while empowered to invoke the PATENT ACT in federal courts against bad faith demand letters, also would retain their existing authority under state consumer protection laws not specifically directed to patent demand letters. In this manner, the legislation would impart uniformity to patent demand letter requirements while preserving the roles of the states in fulfilling their traditional consumer protection function.

### **III. Reforms to IPR and PGR Proceedings That Should Be Added to the PATENT ACT.**

Following passage of the AIA, the PTO proposed and promulgated various implementing regulations for the newly-created IPR and PGR proceedings. As noted above, the three major IP law associations – the ABA-IPL Section, AIPLA and IPO – expressed concerns that the PTO’s rules had the potential to unfairly skew these proceedings in favor of patent challengers. Unfortunately, experience has confirmed these concerns.

IPR and PGR proceedings were created to replace inter partes reexamination, which had been criticized as protracted and ineffective, with new adjudicatory reviews of the validity of issued patents. The new proceedings were intended to allow a member of the public to file a petition requesting that one or more claims in a patent be cancelled on the

ground that they are unpatentable.<sup>16</sup> To institute either proceeding, the Director must determine that, based on the information presented in the petition and any preliminary response filed by the patent owner, “there is a reasonable likelihood that the petitioner would prevail with respect to at least 1 of the claims challenged in the petition”<sup>17</sup> or that “it is more likely than not that at least 1 of the claims challenged in the petition is unpatentable.”<sup>18</sup> These thresholds were intended to be higher than the threshold needed to institute a reexamination – “a substantial new question of patentability” – under which the great majority of reexamination requests were granted. Once instituted, the proceedings are conducted by a panel of three administrative patent judges of the PTAB.

As implemented by the PTO, in the great majority of IPR and PGR proceedings the PTAB finds the institution threshold to be met, and then proceeds to invalidate the great majority of challenged claims. In a presentation at the most recent meeting of the Patent Public Advisory Committee on February 19, 2015, the Chief Judge of the PTAB reported that more than 75% of the IPR and PGR petitions filed resulted in the initiation of PGR or IPR reviews. In those proceedings that have progressed to a final decision, all challenged claims were cancelled in 63% of the proceedings and at least one of the challenged claims was cancelled in 84% of the proceedings.<sup>19</sup>

Patent owner concerns about these AIA review proceedings arise not just from these statistics, but from observations about the procedures that lead to these high invalidation rates. In particular, there is a perception the numbers reflect that PGR and IPR proceedings are unfairly tilted against patent owners. Many believe that is why the number of IPR petitions filed have so greatly exceeded the PTO’s original estimates and why they are so routinely filed in conjunction with district court litigation in which validity of the patent-in-suit is also being adjudicated. This perception of imbalance is undermining public and investor confidence in patent rights and the patent system; and even worse, it is encouraging use of the IPR process in the type of opportunistic financial speculation against patent owners that I described above.

---

<sup>16</sup> The grounds for alleging unpatentability are sections 102 and 103 of title 35 and only on the basis of prior art consisting of patents or printed publications for IPRs, and any ground relating to invalidity that could be raised under paragraphs (2) or (3) of section 282(b) of title 35 for PGRs. See 35 U.S.C. §§ 311(b) (IPR); 321(b) (PGR).

<sup>17</sup> 35 U.S.C. § 314(a) (IPR).

<sup>18</sup> 35 U.S.C. § 324(a) (PGR).

<sup>19</sup> See [http://www.uspto.gov/sites/default/files/documents/20150219\\_PPAC\\_PTAB\\_Update.pdf](http://www.uspto.gov/sites/default/files/documents/20150219_PPAC_PTAB_Update.pdf), at slide 15.

Much of the problem stems from the fact that Congress intended these proceedings to serve as alternatives to district court litigation for adjudicating patent validity, yet when it promulgated its implementing rules, the PTO departed from well-settled law regarding the interpretation and scope of patent claims being adjudicated in litigation. Over the objections of a large segment of its user community, the PTO decided that patent claims in AIA review proceedings would be interpreted according to the “broadest reasonable interpretation (“BRI”) standard used during the initial examination of patent applications as well as ex parte reexaminations and reissue patent examinations, rather than construing claims in accordance with their ordinary and customary meaning as understood by one of ordinary skill in the art, just as they are construed when their validity is adjudicated by courts applying the claim construction standards of *Phillips* and *Markman*.<sup>20</sup>

This dichotomy between how the validity of patent claims is adjudicated in courts and in the PTO is an invitation to gamesmanship and serial challenges to patent rights. Because the overwhelming majority of patents involved in IPR proceedings involve patents that are in concurrent district court litigation, applying different standards to patents involved in the different forums invites duplicative proceedings and inconsistent outcomes.

For example, an IPR petition filed on March 9, 2015 illustrates that the difference in claim construction standards applied in the PTO and in courts is not just an academic concern. In the petition, an investment fund challenges the validity of the same patent claim that had withstood validity challenges in federal district court and on appeal to the United States Court of Appeals for the Federal Circuit.<sup>21</sup> In the petition, the challenger argues that the broader claim construction standard in IPR proceedings should lead to a different outcome, despite more than four years of litigation, including an appeal to the same court that would hear any appeal from the IPR proceeding.<sup>22</sup> The AIA was never intended to create an administrative patent review procedure that could consider the same evidence and arguments of invalidity a patent owner had faced in more than four years of litigation, including an appeal to the Federal Circuit, apply different legal standards and reach a different result.

---

<sup>20</sup> *Phillips v. AWH Corp.*, 415 F.3d 1303 (Fed. Cir. 2005) (*en banc*); *Markman v. Westview Instruments, Inc.*, 52 F.3d 967 (Fed. Cir. 1995) (*en banc*), *aff'd* 517 U.S. 370 (1996).

<sup>21</sup> *Ferrum Capital, LLC v. Allergan Sales, LLC*, Petition for Inter Partes Review of U.S. Patent No. 7,030,149, IPR2015-00858 (March 9, 2015) (available at <http://www.iam-media.com/files/IPR.pdf>).

<sup>22</sup> *Id.* at 15-17.

In light of such developments, legislation is urgently needed to restore balance and fairness to AIA review proceedings in the manner that Congress intended when it created them. 21C proposes three straightforward legislative changes to accomplish this restoration:

- (1) Reforming the procedures used when the PTO is considering whether to institute an IPR or PGR proceeding, to provide a level playing field and basic fairness for all parties;
- (2) Allowing patent owners to have the issues raised in newly-filed petitions first considered in reissue or reexamination proceedings, where they may amend the claims prior to institution of any IPR or PGR; and
- (3) Reviewing the validity of granted patent claims, and substitute claims containing only originally issued claim limitations, by applying the same standards in IPR and PGR proceedings as are applied in courts, including claim construction, burdens of proof and presumptions.

I will discuss each of these three reforms in more detail, highlighting the issues that have arisen and proposed solutions, including specific recommended amendments to Title 35 that would implement those solutions.

**A. Reforming the Procedures Used When the PTO Is Considering Whether to Institute an IPR or PGR Proceeding, to Provide a Level Playing Field and Basic Fairness for All Parties.**

***Issue:*** A petitioner has unlimited time to prepare its petition, may submit all evidence that supports its position, including expert testimony, and has no duty at the pre-institution stage to disclose evidence in its possession that tends to refute the positions it argues. A patent holder has limited time to prepare its preliminary response, may not present expert testimony or other declarations, and is under a duty of disclosure. Thereafter, discovery in IPR and PGR proceedings is sharply limited as a matter of expedience, largely preventing patent owners from obtaining and presenting evidence that is not within their control. Because the same PTAB panel decides whether to institute the review and then hears the case on the merits, the appearance of being predisposed to rule against the patent holder is created, which is confirmed when the panel's final decision agrees with its original determination. Finally, PTAB panels often refuse to hear oral

testimony at the final hearing, even when the outcome of the proceeding may depend on witness credibility. All this, coupled with the high invalidation rate, is rapidly undermining the public's faith in ability of the PTO to grant patents that are reliably enforceable.

**Solutions:** By ensuring the challenger will be under a duty to disclose all material information known to it that tends refute the positions taken in its petition and that the patent holder will have the ability to introduce expert testimony and declaration evidence in its preliminary response, institution decisions will be made on a more balanced evidentiary record. By ensuring that the Director, or her proper delegate, and not the PTAB, will decide whether to grant the petition, any perception of improper bias of the PTAB merits panel will be eliminated. By ensuring that testimony related to material disputes of fact and witness credibility will be heard live by the PTAB at the final hearing, additional fairness and due process concerns will be alleviated.

**B. Allowing Patent Owners to Have the Issues Raised in Newly-Filed Petitions First Considered in Reissue or Reexamination Proceedings, Where They May Amend the Claims Prior to Institution of Any IPR or PGR.**

**Issue:** The PTO has justified its application of the BRI claim construction standard largely on the ability of a patent owner to amend claims during an IPR or PGR proceeding. But the statutory right to amend claims in AIA review proceedings has been rendered largely illusory by the PTO. The PTAB has denied almost all motions to amend the patent (by most reports, only 3 such motions have been granted in the first 30 months of AIA review proceedings, and one of those three was uncontested). The PTAB's denial of proposed substitute claims appears to be based on the need to complete these proceedings within the statutory one-year period, along with the recognition by the PTAB that, as an adjudicative body, it is not well equipped to examine patent claims during AIA reviews. Yet, were it possible for patent owners to amend their claims to narrower scope in view of prior art newly-cited in IPR or PGR petitions, better patents and fairer results could be obtained.

**Solutions:** Following service of an IPR or PGR petition, but prior to its institution, the patent owner would be permitted to remove any or all of the challenged claims from the IPR/PGR process by filing a request with the PTO to initiate a reissue or reexamination proceeding to address any narrowing claim amendments. Under these procedures, the amended claims would be considered by the PTO in view of the information in the petition, the claims would be construed using BRI (as in other examinations), and amended claims

would be subject to intervening rights. In many cases, further IPR or PGR proceedings would be unnecessary, especially if all of the challenged claims were narrowed or finally rejected. In the meantime, all parties will be spared the much higher expense of an IPR or PGR proceeding. The petitioner would not be estopped by the outcome of any reissue or reexamination, and if the petitioner were dissatisfied with the results, the petitioner would be permitted to file a new IPR or PGR petition.

**C. Reviewing the Validity of Granted Patent Claims, and Substitute Claims Containing Only Originally Issued Claim Limitations, By Applying the Same Standards in IPR and PGR Proceedings as Are Applied in Courts, Including Claim Construction, Burdens of Proof and Presumptions.**

**Issue:** Currently, in AIA review proceedings, the PTO construes granted patent claims using the BRI standard used during the initial examination of a patent application, where applicants have a liberal right to amend their claims in an iterative process with a patent examiner, rather than using the *Phillips* claim construction standard that courts use for granted patents. Moreover, while granted U.S. patents have a presumption of validity and validity challenges are reviewed under the clear and convincing evidence standard by district courts, the PTO applies lower review thresholds and standards. Lastly, the PTO often grants IPR petitions where the same or substantially the same arguments or prior art were considered during an earlier PTO or district court proceeding.

**Solutions:** Having the PTO apply the same standards as the courts will achieve increased fairness, predictability and uniformity among the different proceedings involving granted patents. Under this proposal, in AIA review proceedings, claims will be construed under the *Phillips* standard, and substitute claims would be permitted only if they do no more than add limitations that are verbatim the same as limitations already appearing in issued claims of the challenged patent. Moreover, by confirming that the Director or her proper delegate shall deny petitions presenting the same or substantially the same arguments presented in an earlier PTO or district court proceeding, and by applying consistent standards, duplicative proceedings should be avoided.

Proposed amendments to Title 35 to enact these reforms are set forth below in Appendix 1. By adding these provisions to the PATENT ACT, this Committee will be poised to move forward with comprehensive and effective patent reform legislation that 21C will strongly and enthusiastically support.

**IV. Conclusion.**

Chairman Grassley, Ranking Member Leahy and Distinguished Members of the Judiciary Committee, I thank you for the opportunity to appear here today and to offer my views on the subject of “S. 1137, the ‘PATENT ACT’ – Finding Effective Solutions to Address Abusive Patent Practices.”

I appreciate the understanding and engagement by Members of this Committee and their staffs to craft patent litigation reforms targeted at abusive practices to minimize negative, unintended consequences for the vast majority of patent owners seeking to protect and enforce their patents in good faith. The PATENT ACT represents a welcome step in that direction.

21C pledges to continue to work with members of the Committee, their staffs, and other stakeholders to couple the provisions in the PATENT ACT as introduced with additional provisions that are so essential to restore balance and fairness in AIA review proceedings. 21C looks forward to lending its strong support for a bill that addresses both patent litigation and AIA reviews in an effective, balanced and comprehensive fashion.

I will be pleased to answer any questions or to supply additional information for the record.

### Appendix 1

#### Proposed Statutory Amendments

- (1) Amend 35 U.S.C. § 6(b)(4) as follows:

(b) Duties.— The Patent Trial and Appeal Board shall— ... (4) conduct ~~(but not participate in the decision to institute)~~ inter partes reviews and post-grant reviews pursuant to chapters 31 and 32.

- (2) Enact § 9(b) of the “Innovation Act of 2015,” H.R. 9 (reproduced below).

- (3) Amend § 312(a)(4) as follows:

“(4) the petition provides such other information, including all evidence known to the petitioner that (i) tends to refute positions advanced in the petition, (ii) if obviousness is alleged, that constitutes objective evidence of nonobviousness, and (iii) such other information as the Director may require by regulation; and

- Amend § 322(a)(4) as follows:

“(4) the petition provides such other information, including all evidence known to the petitioner that (i) tends to refute positions advanced in the petition, (i) if obviousness is alleged, that constitutes objective evidence of nonobviousness (iii) if prior art other than patents or printed publications is relied upon, evidence related to that prior art, and (iv) such other information as the Director may require by regulation; and

- (4) Amend paragraph 9(e) of § 316 as follows:

“(e) EVIDENTIARY STANDARDS.—In an inter partes review instituted under this chapter, pursuant to 35 USC § 282(a), the challenged patent, including any claims substituted therein, shall be presumed to be valid and the petitioner shall have the burden of proving a proposition of ~~invalidity unpatentability~~ by clear and convincing a preponderance of the evidence. Upon request of a party, testimony relating to material disputes of fact or witness credibility shall be heard live before the PTAB panel at the final hearing.

- Amend paragraph 9(e) of § 326 as follows:

“(e) EVIDENTIARY STANDARDS.—In a post-grant review instituted under this chapter, pursuant to 35 USC 282(a), the challenged patent, including any claims substituted therein, shall be presumed to be valid and the petitioner shall have the burden of proving a proposition of ~~invalidity unpatentability~~ by clear and convincing a preponderance of the evidence. Upon request of a party, testimony relating to material disputes of fact or witness credibility shall be heard live before the PTAB panel at the final hearing.

## (5) Amend § 313 as follows:

“If an inter partes review petition is filed under section 311, the patent owner shall have the right to file a preliminary response to the petition, within a time period set by the Director, that may include evidence, including fact and expert declarations, and set forth reasons why no inter partes review should be instituted based upon the failure of the petition to meet any requirement of this chapter. The patent owner shall have the right to remove any or all challenged claim or claims from the requested inter partes review by filing with the Office within three months of the service of the petition on the patent owner, a request to have such challenged claim or claims examined further by the Office in view of the issues presented in the petition in a reissue or reexamination proceeding. Any such reissue or reexamination proceeding shall be conducted with special dispatch by the Office.

## Amend § 323 as follows:

“If a post-grant review petition is filed under section 321, the patent owner shall have the right to file a preliminary response to the petition, within a time period set by the Director, that may include evidence, including fact and expert declarations, and set forth reasons why no post-grant review should be instituted based upon the failure of the petition to meet any requirement of this chapter. The patent owner shall have the right to remove any or all challenged claim or claims from the requested post-grant review by filing with the Office within three months of the service of the petition on the patent owner a request to have such challenged claim or claims examined further by the Office in view of the issues presented in the petition in a reissue or reexamination proceeding. Any such reissue or reexamination proceeding shall be conducted with special dispatch by the Office.

## (6) Amend § 316(a)(9) as follows:

“(9) setting forth standards and procedures for allowing the patent owner ~~to move~~ to amend the patent under subsection (d) to cancel a challenged claim ~~and to~~ propose a reasonable number of substitute claims, provided those substitute claims narrow the scope of the cancelled claim only by adding one or more limitations found in other issued claims of the challenged patent, and ensuring that any information submitted by the patent owner in support of any amendment entered under subsection (d) is made available to the public as part of the prosecution history of the patent;

## Amend § 326(a)(9) as follows:

“(9) setting forth standards and procedures for allowing the patent owner ~~to move~~ to amend the patent under subsection (d) to cancel a challenged claim ~~and to~~ ~~or~~ propose a reasonable number of substitute claims, provided those substitute claims narrow the scope of the cancelled claim only by adding one or more limitations found in other issued claims of the challenged patent, and ensuring that any information submitted by the patent owner in support of any amendment entered under subsection (d) is made available to the public as part of the prosecution history of the patent;

(7) Amend § 314(a) as follows:

“(a) THRESHOLD.—The Director may not authorize an inter partes review to be instituted unless the Director determines (i) no other proceeding is or has been before the Office in which the same or substantially the same prior art or arguments are or have been presented, (ii) no court of competent jurisdiction has ruled on the validity of the challenged patent in view of the same or substantially the same prior art or arguments, and (iii) information presented in the petition filed under section 311 and any response filed under section 313 shows that there is a reasonable likelihood that the petitioner would prevail with respect to at least 1 of the claims challenged in the petition.

Amend § 324(a) as follows:

“(a) THRESHOLD.—The Director may not authorize a post-grant review to be instituted unless the Director determines that (i) no other proceeding is or has been before the Office in which the same or substantially the same prior art or arguments are or have been presented, (ii) no court of competent jurisdiction has ruled on the validity of the challenged patent in view of the same or substantially the same prior art or arguments, and (iii) the information presented in the petition filed under section 321, if such information is not rebutted, would demonstrate that it is more likely than not that at least 1 of the claims challenged in the petition is unpatentable.

**Section 9(b) of the Innovation Act of 2015, H.R. 9**

(b) USE OF DISTRICT-COURT CLAIM CONSTRUCTION IN POST-GRANT AND INTER PARTES REVIEWS.—

(1) INTER PARTES REVIEW.—Section 316(a) of 9 title 35, United States Code, is amended—

- (A) in paragraph (12), by striking “; and” and inserting a semicolon;
- (B) in paragraph (13), by striking the period at the end and inserting “; and”; and
- (C) by adding at the end the following new paragraph:

“(14) providing that for all purposes under this chapter—

“(A) each claim of a patent shall be construed as such claim would be in a civil action to invalidate a patent under section 282(b), including construing each claim of the patent in accordance with the ordinary and customary meaning of such claim as understood by one of ordinary skill in the art and the prosecution history pertaining to the patent; and

“(B) if a court has previously construed the claim or a claim term in a civil action in which the patent owner was a party, the Office shall consider such claim construction.”.

(2) POST-GRANT REVIEW.—Section 326(a) of title 35, United States Code, is amended—

- (A) in paragraph (11), by striking “; and” and inserting a semicolon;
- (B) in paragraph (12), by striking the period at the end and inserting “; and”; and
- (C) by adding at the end the following new paragraph:

“(13) providing that for all purposes under this chapter—

“(A) each claim of a patent shall be construed as such claim would be in a civil action to invalidate a patent under section 282(b), including construing each claim of the patent in accordance with the ordinary and customary meaning of such claim as understood by one of ordinary skill in the art and the prosecution history pertaining to the patent; and  
“(B) if a court has previously construed the claim or a claim term in a civil action in which the patent owner was a party, the Office shall consider such claim construction.”



**Committee on the Judiciary**

**Hearing**

**“The PATENT Act: Finding Effective Solutions to Abusive Patent Litigation”**

**Testimony of Julie P. Samuels**

**Executive Director and President of the Board,**

**Engine**

**May 7, 2015**

Chairman Grassley, Ranking Member Leahy, and members of the Committee, thank you for holding this hearing and inviting me to testify about finding effective solutions to abusive patent litigation. We are greatly encouraged by all your committee has done to address the problem of abusive litigation practices, a favorite weapon of so-called patent trolls.

I am the Executive Director and President of the Board of Engine, a technology policy, research, and advocacy organization that bridges the gap between policymakers and startups. To accomplish this, we work with government and a community of hundreds of high-technology, growth-oriented startups across the nation to support the development of technology entrepreneurship. Engine creates an environment where technological innovation and entrepreneurship thrive by providing knowledge about the startup economy and helping to construct smarter public policy. To that end, Engine conducts research, organizes events, and spearheads campaigns to educate elected officials, the entrepreneur community, and the general public on issues vital to fostering technological innovation.

Patent litigation abuse is a real problem, and one that disproportionately targets the startups and small businesses that make up Engine’s community. This troll problem is an acute and growing menace that adversely impacts the operations and viability of companies who can least afford these threats. Since startups and small businesses are key drivers of innovation and job growth, troll threats against them are particularly stifling to American economic growth and prosperity. One recent study found that trolls cost the U.S. economy at least \$29 billion per year.<sup>1</sup>

<sup>1</sup> Bessen, James and Michael Meurer. “The Direct Costs from NPE Disputes.” 28 June 2012. *Cornell Law Review*, Vol. 99, 2014, forthcoming. Boston Univ. School of Law, Law and Economics Research Paper No. 12-34. p. 2. [https://www.bu.edu/law/faculty/scholarship/workingpapers/documents/Bessen\\_MeurerM062512rev062812.pdf](https://www.bu.edu/law/faculty/scholarship/workingpapers/documents/Bessen_MeurerM062512rev062812.pdf)



As a preliminary matter, I use the colloquial term “patent troll” or “troll” throughout this testimony for ease of description, but titles and terminology are immaterial. The parties who have created the problem and continue to abuse the system use certain behaviors that should not be permissible under the law; it is these behaviors the PATENT Act rightfully targets.

### **Background**

Trolls exploit poor quality patents and a litigation system that is stacked in their favor to extract nuisance settlements from vulnerable startups, typically with baseless claims. They hide behind shell companies in order to exploit uncertainty about patent ownership and ambiguity about what their patents purport to cover. Without any due diligence, they routinely send demand letters and file suit alleging infringement to multiple parties, on a wholesale and indiscriminate basis, demanding settlement payments from their innocent prey. Trolls have also been known to even target a company’s customers, in an effort to extort quick settlements that would otherwise not be warranted. The troll abuse problem is exacerbated by the fact that trolls amass and deploy poor quality patents—vague, abstract, or overly broad patents that fail to meet the law’s requirements that were erroneously issued in the first place.

This chokehold on innovation requires a multi-pronged set of remedies; the courts, the Patent and Trademark Office (PTO), and Congress each must play an essential role. The Supreme Court has taken significant steps on the judicial front, issuing several key decisions that clarify and strengthen patent quality, particularly the requirements for patent eligibility. If rigorously implemented by the PTO and by other courts, these decisions should have the effect of improving the quality of prospective patents. However, the decisions will have little impact on the many existing patents in trolls’ arsenals and on a litigation system that is unbalanced and unfair. And patent allowances show no sign of slowing: the rates of allowance are alarmingly high at 92 percent in 2014 (up from below 70 percent just five years ago). That means that 322,214 patents were issued in 2014 alone.

Thus, patent quality is but one side of the troll equation. Trolls thrive because of a grossly uneven patent litigation playing field that incentivizes and rewards frivolous claims. Only legislation can change that. We need a robust reform bill, like the PATENT Act, to give startups, small businesses, and even individuals a fair chance to have their day in court when faced with a troll threat. Unless these reforms are enacted, patent trolls will continue forcing startups to drain critical energy and resources away from the business of innovating and creating jobs.

### **The Impact on Startups**

Startups and small businesses develop breakthrough technologies that fuel innovation and drive economic growth and job creation. In fact, research shows that startups are responsible



for all net new job growth in the United States.<sup>2</sup> So trolls' crushing impact on startups reverberates throughout the ecosystem, impeding innovation and hurting the U.S. economy at large.

Research also shows that startups bear the brunt of troll abuse<sup>3</sup> and the impact of troll threats on startups is disproportionately severe: 82 percent of troll activity targets small and medium-sized businesses, and 55 percent of troll suits are filed against companies with revenues of less than \$10 million.<sup>4</sup> Generally lacking the resources to decipher vague and often bogus demand letters, startups are vulnerable to extortion. The time and money required to fight back against a troll could put the viability of their entire business in jeopardy.

Trolls' impact on startup operations is acute: a very high percentage of startups who received a demand letter reported "significant operational impact" in the form of deferred hiring, change in strategy, cost-cutting, reductions in personnel, decreased valuation or total shut-down.<sup>5</sup>

The economic incentives in the troll model are clear: a bare bones and vague demand letter provides immediate low-risk, low-cost leverage over a startup, even when the claim is baseless. It can easily cost a startup \$50,000 just to hire a patent lawyer to evaluate demand letter claims. Litigation costs range between \$1 million and \$6 million, and can mean life or death for a fledgling business.<sup>6</sup> So startups often capitulate, and layoff an employee or hire one less programmer, in order to pay off the troll. For example, Ditto, a virtual eyewear company, had to lay off four of its 15 employees in response to a troll demand. Although the infringement claim was dismissed, the suit resulted in a reduction in Ditto's valuation of \$4 million.<sup>7</sup>

The mere threat of troll suits has chilling effects on the investment community. In a survey of 200 venture capitalists, 100 percent indicated that the presence of a patent demand could be a major deterrent in deciding whether to invest.<sup>8</sup> It is estimated that VC investment in startups would have been \$8 billion higher but for troll threats in the last five years alone.<sup>9</sup>

<sup>2</sup> Hathaway, Ian. "Tech Starts: High-Technology Business Formation and Job Creation in the United States." Kauffman Foundation Research Series: Firm Formation and Economic Growth, August 2013. [http://www.kauffman.org/~media/kauffman\\_org/research\\_reports\\_and\\_covers/2013/08/bdtechstartsreport.pdf](http://www.kauffman.org/~media/kauffman_org/research_reports_and_covers/2013/08/bdtechstartsreport.pdf)

<sup>3</sup> Savitz, Eric. "Are Patent Trolls Now Zeroed In On Start-Ups?" Forbes, 17 January 2013.

<sup>4</sup> <http://www.forbes.com/sites/ciocentral/2013/01/17/are-patent-trolls-now-zeroed-in-on-start-ups/>

<sup>5</sup> Chien, Colleen V. "Patent Assertion Entities." Presentation to the Dec 10, 2012 DOJ/FTC Hearing on PAEs, 10 December 2012. <http://ssrn.com/abstract=2187314>

<sup>6</sup> Chien, Colleen. "Startups and Patent Trolls." 28 September 2012. *Stanford Technology Law Review*, forthcoming. Santa Clara University Legal Studies Research Paper No. 09-12: p.2. <http://ssrn.com/abstract=2146251>

<sup>7</sup> Lee, Ben. "Twitter: It's time for patent trolls to bear the cost of frivolous lawsuits." GigaOm, 8 October 2012. <https://gigaom.com/2012/10/08/twitter-time-for-trolls-to-pay-full-price-for-patent-mischief/>

<sup>8</sup> Mullin, Joe. "New Study Suggests Patent Trolls Really Are Killing Startups." *Ars Technica*, 11 June 2011. <http://arstechnica.com/tech-policy/2014/06/new-study-suggests-patent-trolls-really-are-killing-startups/>

<sup>9</sup> Feldman, Robin. "Patent Demands & Startup Companies: The View from the Venture Capital Community." 28 October 2013. UC Hastings Research Paper No. 75: p. 11. <http://ssrn.com/abstract=2346338>

<sup>10</sup> Tucker, Catherine. "Patent Trolls and Technology Diffusion." 23 March 2014. Massachusetts Institute of Technology, Management Science, Working Paper, 201. <http://ssrn.com/abstract=2136955>



Trolls like to paint themselves as the champions of the small guys, as legitimate entities who help independent inventors monetize their patents by enforcing them on the inventor's behalf. In fact, trolls increasingly *target* small entities, and statistics show that very little of a patent troll's revenue is transferred to actual inventors.<sup>10</sup> Patent trolling activities are associated with half a trillion dollars of lost wealth for their victims—largely startups and small businesses—from 1990 to 2010 alone.<sup>11</sup>

Patent trolls are primarily armed with two weapons: low-quality, impossible-to-understand patents and the outrageous costs of patent litigation, which can easily run well into the millions of dollars. So imagine you are a small startup, cash-strapped and hungry, and you get a patent demand, either in the form of a lawsuit or a demand letter, from a company you've never heard of, claiming it owns some seemingly basic technology. Your choices are: hire a lawyer and spend valuable time dealing with the problem or pay the troll to go away, usually for a sum far smaller than what it would cost to hire that lawyer or go to court.

And while numbers and statistics can feel abstract, the impact that trolls have on real startups and entrepreneurs is extremely personal. Take the experience of Jump Rope, a Chicago startup founded by Peter Braxton. An Air Force veteran and former Combat Pilot, Braxton started Jump Rope using his own money and funds raised from friends and family. Jump Rope is a smartphone application where users can pay a (dynamic) price to skip the line and gain immediate entrance to nightclubs, bars, museums, and sporting events. The platform provides a time-saving, transparent and hassle-free service to its customers.

Less than one month after launching Jump Rope, a patent troll called Smart Options approached Braxton, claiming that Jump Rope infringed its patent. Braxton's lawyers advised him to settle, but he instead decided to fund the litigation personally—spending more than \$250,000. Braxton won the first suit, and the court awarded him fees after a finding that the Smart Options failed to perform even minimal due diligence before suing. Nevertheless, Smart Options came back, threatening additional suits with even more patents. The situation took a surprising turn when Erich Spangenberg, often called a patent troll himself, agreed to step in to fund Jump Rope's defense in exchange for equity in the business. In the end, Braxton was forced to give up sizeable equity in his business in order to fight what proved to be specious claims.

These kinds of troll stories are all too common. There's the case of TMSoft, creator of a popular white noise app, which was targeted by now notorious troll Lodsys. Lodsys was a particularly destructive troll, targeting app developers for implementing simple

<sup>10</sup> Bessen, James, and Michael Meurer, "Patent Trolls in Public," *Patently-O*, 19 March 2013. <http://patentlyo.com/2013/03/patent-trolls-in-public.html>.

<sup>11</sup> Bessen, James, Jennifer Ford, and Michael Meurer, "The Private and Social Costs of the Patent Trolls," 19 September 2011, Boston Univ. School of Law, Law and Economics Research Paper No. 11-45, p. 17. <http://ssrn.com/abstract=1930272>.



click-to-upgrade functionality, a basic technology that both Apple and Google provide to their app sellers. TMSoft founder Todd Moore was forced to defend his company, knowing that litigation could cost millions of dollars he didn't have. But he still rejected Lodslys' offer of a \$3,500 settlement that would be routed to an overseas bank account. Fortunately, Lodslys decided to drop the case before it went to trial. But Moore's attorney estimates the case required legal work that was valued at \$190,000 - even though it never even made it to a courtroom.

Another California company, Life360, also found itself in the crosshairs of a patent troll. Life360's app keeps over 55 million families safe and connected through messaging and location sharing capabilities. The company had on several occasions chosen to settle with patent trolls. But after growing their network to millions of families and raising \$50 million in capital early last year, the company was hit with a troll suit that it decided to fight head on. The troll in question was Florida-based Advanced Ground Information Systems, or AGIS. AGIS claimed that its patent covered any tech that marks the location of a person on a map and makes calls to that person's phone.

Life360 took the case to a jury trial where it won a verdict of non-infringement on all counts. Yet in spite of a jury finding the troll's claims meritless, Life360 still had to spend over \$1.5 million to defend itself, with no reasonable recourse to recover that money. That's \$1.5 million that could have paid salaries for additional jobs, instead spent defending against a baseless lawsuit.

These are the kinds of consequences that result from troll suits, not just for brand new ventures but for growing startups as well. Foursquare currently faces four separate troll suits, on top of two it has already settled. Its legal budget this year set aside a sum of money for these cases that would otherwise have been enough to hire between six and ten additional engineers—good jobs that now do not exist. Foursquare is itself a patent holder, and believes in a strong patent system. But this constant onslaught of troll attacks have prompted companies like Foursquare to support comprehensive patent reform like the PATENT Act.

Unfortunately, many startups are so afraid of attracting more troll suits that they are willing to share their stories only if their names are omitted. One such company, a California-based startup, has been faced multiple meritless suits from patent trolls. The startup's general counsel reported: "The system is set up in such a way that it pretty much guarantees that the troll gets paid. It has nothing to do with the patent's claims, but with the litigation fees. We were bombarded with letters, emails, discovery requests, and motions. It was all meaningless paper, but we still had to spend time and money to respond." In spite of these continued attacks, this startup recently filed for its first patent and plans to file more applications in the future. It also strongly supports litigation reforms like those included in the PATENT Act. To quote its general counsel: "As an actual innovator, we believe in patenting our inventions. But we still support reform efforts aimed at those who abuse the patent litigation system."



Another California-based startup that asked to remain anonymous spends between \$800,000 and \$1 million annually developing its patent portfolio, which the company generally intends to use for defensive purposes. This company's general counsel pointed out that this money—which could be used to innovate, fund growth or hire more employees—is instead being used just to protect against lawsuits. He also told me that “the way the current system is set up today stifles innovation. People holding large patent portfolios with no intent to practice the inventions hinder innovation. You can't go forward and do something without the fear of a lawsuit. It's inconceivable to get an effective freedom to operate opinion because there are so many existing patents out there and new ones filed everyday on questionable so-called 'new inventions'.”

This particular company, which employs nearly 400 people nationwide, has faced several troll suits from traditional trolls and so-called competitors with “licensing programs.” One such competitor signed up for the company's service online, and then filed patents for the type of services provided, without citing the original company's work as prior art in its patent application. That so-called competitor went on to sue, and the original company had to settle to avoid the costs of litigation. These cases illustrate why there is no need to define who is or who is not a patent troll—legislation like the PATENT Act need only target certain bad-faith behaviors that attempt to substitute litigation for innovation.

#### **The PATENT Act Includes Necessary Reforms**

Only legislation can deter trolls from exploiting a stacked litigation deck against startups like those discussed above to extort settlements. Congress must therefore pass the PATENT Act, a strong patent reform bill that removes existing incentives to assert bad patents and creates a level litigation playing field for all inventors. Specifically:

- Because trolls often hide behind shell companies, the PATENT Act requires transparency of a patent's ownership so startups know exactly who is threatening them, can access information about whom else a troll may be suing with the same patent, and can better evaluate how to respond.
- Because someone can file a patent suit without providing almost any basic details about his or her case, information like how a patent is infringed, what products allegedly infringe it, and even who owns that patent, the PATENT Act institutes welcome increased transparency requiring this type of information. This information is easily known to any patent holder at the outset of a case, especially those who engage in a responsible amount of due diligence prior to filing a case. Yet startups are left with no choice but to consult a lawyer about the scope of the threat they face. However, most startups don't have an in-house lawyer at all, let alone one who specializes in patents, so getting this information can cost tens or even hundreds of thousands of dollars. The PATENT Act would fix that, requiring patent holders to provide this basic



information at the outset of litigation and also require patent holders to tell the Patent Office when they transfer a patent. Only with this basic information can parties make informed decisions about how they should proceed. If a party legitimately cannot find some of this information after making a "reasonable inquiry", it may still file a suit, an important caveat protecting the responsible patent holder.

- Because the high cost of discovery is a cudgel of leverage, the PATENT Act rightfully places reasonable limits on discovery, by staying discovery until after the court has a chance to hear early dispositive motions. When startups face companies solely in the business of licensing and litigation (oftentimes a patent troll), they find themselves facing outrageously expensive motion practice that has little to no impact on their adversary. Reasonable limits on initial discovery will help incentivize startups to fight the trolls in court.
- Because current law allows for the awarding of attorneys' fees only in "exceptional" cases, a startup has almost no chance of recovering fees and costs even if it fights and wins. It is nearly impossible for a startup to find the resources to fight a patent suit. The promise of seeing some of that money back at the end makes securing the resources easier. Furthermore, meaningful fee shifting will discourage the most egregious actors — those without meritorious cases — from suing in the first place. This is why it is so important that the PATENT Act gives judges real discretion to award attorney fees and costs to a prevailing party when the behavior and conduct of a losing party was not objectively reasonable or substantially justified and the proper tools to ensure recovery of that award. A fee-shifting provision like this should in no way discourage or hamper the ability of a patent holder to assert any valid claims, but would provide some downside risk to trolls who are otherwise free to engage in frivolous litigation with impunity. Importantly, the fee-shifting provision is accompanied by a provision that enables the party to whom fees are awarded to recover by holding the real party in interest liable; otherwise, the fee-shifting provision would be toothless against a shell plaintiff with no assets.<sup>12</sup>
- Because trolls are increasingly suing consumers and other users for infringement to gain further leverage, the PATENT Act rightfully shields

<sup>12</sup> Lumen View's suit against FindTheBest is a good example. The judge found the patent invalid and ordered the plaintiff to pay FindTheBest's legal fees and costs, deeming the case "exceptional" because of LumenView's egregious behavior. But FindTheBest has been unable to collect the fees awarded by the court because the plaintiff is a shell entity with no assets. Attempting to pierce the corporate veil to hold the ultimate owners liable could end up costing more than the fee award. FindTheBest has the resources to fight the case through litigation whereas most startups don't, and even they have been unable to collect the attorney fees awarded by the court. (Mullin, Joe. "Patent troll ordered to pay \$300K to FindTheBest in 'matchmaking' case." *Ars Technica*, 29 October 2014. <http://arstechnica.com/tech-policy/2014/10/patent-troll-ordered-to-pay-300k-to-findthebest-in-matchmaking-case/> )



innocent users with a "customer stay" provision that halts such actions and allows manufacturers to defend the infringement allegations.

- Because trolls notoriously deploy abusive and opaque demand letters that lack any information about the alleged infringement, we were pleased to see the PATENT Act's provisions that require specificity and clarity in demand letters. This will allow startup targets to understand why they are being threatened, how they are alleged to be infringing, and whether the claim has any merit.

Notably, the PATENT Act contains all of these core elements to reduce existing incentives in the patent assertion system that enable trolls to threaten startups with baseless infringement claims. Unless these patent litigation reforms are enacted, patent trolls will continue to be free to exploit dubious patent claims and the high cost of litigation to extort settlements from startups.

Opponents of robust reform legislation argue that the proposed changes in the law would have the unintended consequence of making it harder to assert valid claims. In fact, nothing in the PATENT Act would hinder an inventor from monetizing, asserting, or enforcing valid patents, or making claims that are substantially justified or objectively reasonable. The proposed legislation strikes the right balance and ensures that the law in no way would prejudice valid patents or meritorious claims made in good faith. The fact remains that the current litigation playing field is disproportionately skewed in favor of patent holders. It is therefore not surprising that companies that are likely to be patent plaintiffs, and the patent bar—which profits from ballooning patent litigation—would exaggerate potential unintended consequences in an effort to maintain their own existing advantages. The PATENT Act would create an equal playing field for plaintiffs and defendants; its passage is essential to curbing abuse and giving startups a fair shot at defending themselves against frivolous suits that extort inventors.

To be certain, the PATENT Act is not perfect. There are a number of areas that we think should be made stronger to ensure some of the most flagrant abuses of the system are actually addressed and that we do not find ourselves back before Congress in a few years asking for additional reforms:

- We wish the discovery reforms went farther, clearly providing in-statute limits on discovery to those documents directly related to the questions before the court related to scope of the patent and infringement. Specifically, we wish the legislation mandated sharing of certain core documentary evidence, along with a breakdown of who should bear the costs of exchanging evidence beyond those core documents. These provisions would really limit the ways a party can drive up discovery costs and provide greater efficiency in our patent legal system.
- We also would like to see language included to address one of the most flagrant abuses of the patent system: venue. There is no arguing that some districts are friendlier to patent cases than others. We would like to see Congress take back up the



question of transfer of venue and make it easier for parties to move a case out of the Eastern District of Texas, where nearly half of patent infringement cases are brought and where judges are notoriously plaintiff-friendly.

- We remain concerned that the current customer stay provision only kicks in when the manufacturer is already involved in litigation. We think improvements could be made to make it easier for any manufacturer to actively step in on behalf of its customers.
- Finally, we think the bill should also make it easier and cheaper for parties to challenge low-quality patents at the Patent Office through a process called inter partes review (IPR). For many parties, seeing a case all the way through to a final decision is not an economic reality, even with the above discussed reforms. IPR provides a valuable means for a startup or party with limited financial resources to invalidate or narrow the scope of an otherwise overly broad patent. This program should be not just available, but also accessible to companies large and small.

### **Conclusion**

We applaud the committee for taking up this important issue. In particular, we thank Chairman Grassley, Ranking Member Leahy, Senators Cornyn and Schumer, and the other co-sponsors of the PATENT Act who have spent nearly two years crafting numerous compromises that both address the patent troll problem and protect legitimate users of the patent system. We encourage this committee to move forward expeditiously with passing comprehensive patent reform legislation and return the patent system to its rightful place of incentivizing innovation in America.

Prepared Statement of Sen. Chuck Grassley of Iowa  
 Chairman, Senate Judiciary Committee  
 Hearing on “S. 1137, the PATENT ACT –  
 Finding Effective Solutions to Address Abusive Patent Practices”  
 Thursday, May 7, 2015

Good morning. We’re here to discuss the problem of abusive patent practices and the solutions offered by S. 1137, the PATENT Act. Abusive patent litigation is having a serious impact on small companies, innovators, manufacturers, Main Street businesses, high tech firms, and consumers. The patent troll problem is being felt across every sector of the economy, and from small town Iowa to Silicon Valley. It’s critical that we enact reforms to prevent this from further stifling the innovation and entrepreneurship that our patent system is designed to protect.

The volume of abusive patent litigation has exploded in recent years. By some accounts it’s costing the U.S. economy upwards of \$80 billion annually. Bad actors are exploiting the high costs of patent litigation and using deceptive tactics to prey on businesses.

Last week, several of us on the Judiciary Committee introduced the bipartisan PATENT Act. Since the process started in the last Congress, we’ve engaged stakeholders that have been targeted by patent abuse. In addition, we’ve sought to be responsive to concerns raised by other industries and constituencies. Because of this, we’ve made significant progress. As I’ve maintained from day one, patent holders have a very legitimate right to enforce their patents against infringement. Our efforts must strike the right balance.

As a result of these efforts, the PATENT Act has received a tremendously positive response. The bill has the support of groups as diverse as hotels, retailers, tech companies, realtors, automakers, broadcasters, homebuilders, and restaurants. Further, other stakeholders such as the associations representing higher education and universities, the Coalition for 21st Century Patent Reform, and the Biotechnology Industry Organization have recognized our commitment to finding effective solutions that don’t produce unintended consequences or impinge upon the ability of good-faith actors to enforce their patent rights. I ask unanimous consent to put several letters and statements in the record in support of the bill.

The PATENT Act deters abusive litigation through a series of targeted reforms. Let me state briefly some of the key provisions contained in the bill. The PATENT Act establishes clear uniform pleading standards in patent infringement lawsuits and gives defendants clear notice of the claims against them. It increases transparency of the parties bringing lawsuits.

It places standards on demand letters and clarifies that the widespread sending of deceptive demand letters are covered by Section 5 of the FTC Act. The bill also allows manufacturers – rather than end users – to litigate cases in order to protect customers who are targeted for patent infringements cases just because they use a product they purchased off the shelf.

Further, the bill deters frivolous suits and abusive litigation practices by allowing the award of attorney fees if a court determines the position or conduct of a non-prevailing party was not objectively reasonable. It creates a mechanism for a court to recover fees where an abusive

litigant is judgment-proof. Finally, in order to deal with asymmetries in discovery burdens and litigation costs, the bill requires courts to stay discovery pending the resolution of certain preliminary motions such as motions to dismiss and transfer venue.

Because of the wide-ranging positive reactions to the PATENT Act, I'm comfortable with where we are on the language contained in the bill. However, I'm also aware of concerns about processes at the Patent and Trademark Office that have been recently raised by patent holders. They worry that administrative proceedings created by the America Invents Act – the inter partes review (IPR) and post-grant review (PGR) proceedings – are being abused and are stacked against patent holders. Other stakeholders however are of the view that these new proceedings have been very effective at weeding out weak patents.

I've committed to looking at these concerns, determining whether they are valid or not, and working with my colleagues to see what can be done to improve this process.

We'll be hearing from the witnesses on where they stand on these proceedings, so we'll be able to evaluate what should and can be done to ensure that they are fair to all parties.

As we move forward on this legislation, it's important that we continue the collaborative process that has characterized its creation. Again, I thank my colleagues for their dedication and constructive engagement on this bill.

**Statement of Senator Patrick Leahy (D-Vt.),  
Ranking Member, Senate Judiciary Committee,  
Hearing on “S. 1137, the “PATENT ACT” – Finding Effective Solutions to Address  
Abusive Patent Practices”  
May 7, 2015**

Last week, seven bipartisan members of this Committee came together to introduce legislation to address abusive conduct in our patent system. This Committee now has been working on this issue for almost two years. Senator Lee and I introduced bipartisan legislation in the fall of 2013 that has been included in this package. Last Congress, Senators Cornyn and Grassley, Hatch, Schumer, and Feinstein all had individual bills. After long negotiations, I believe we have crafted a strong and fair compromise that will address abusive conduct while preserving the strength of our patent system.

Legislation is sorely needed on this issue. Small businesses in Vermont and across the country have been threatened with patent suits simply for using equipment they purchased off-the-shelf. Website owners have faced costly litigation for using basic software in e-commerce. Predatory conduct that takes advantage of the complexity of patent law does not serve the important goal for which our patent system was intended, to advance science and the useful arts.

Writing legislation that impacts our patent system requires care and balance. Congress spent years developing what ultimately became the Leahy-Smith America Invents Act of 2011. Throughout our negotiations on this patent abuse bill, I have emphasized the need to work with manufacturers, universities, and other patent holders to ensure we get the right balance. A number of those groups have now written to the Committee to welcome the substantial changes in the Senate bill. The Administration has praised this legislation, and yesterday, The New York Times Editorial Board came out in support of the bill.

It is worth highlighting some of the changes that have been made to the bill to respond to concerns raised by patent holders and others; changes which were personally important to me as we negotiated this legislation. The language in the PATENT Act provides for fee shifting only in cases where the court finds that the losing party was not “objectively reasonable.” This is an important change from the approach of “presumptive loser pays” contained in the House’s patent reform bill, the Innovation Act. It promotes judicial discretion and ensures the burden is on the party seeking fees to show that fees should be awarded. An additional exception allows the court to refrain from awarding fees if such an award would be unjust – cases that, in my view, would include causing undue financial harm to an individual inventor or a public institution of higher education.

The PATENT Act simplifies the pleading requirements that are contained in the Innovation Act, and ensures that a plaintiff is not required to plead information that is not accessible to them. I am grateful that the other authors of this bill worked with me to ensure that the standard of what a plaintiff is required to plead about infringement of their patent claims tracks Rule 8 of the Federal Rules of Civil Procedure, without creating a higher standard for plaintiffs to plead a plausible claim for relief.

I am also grateful for the significant work that was done to streamline the discovery provisions of the bill, to protect litigants from costly discovery while ensuring that legitimate plaintiffs are not prejudiced by unreasonable limitations on their ability to access information. Under the PATENT Act, discovery is stayed while the court resolves early, pre-answer motions about whether the case has been brought in the correct venue, against the correct defendants, and whether the complaint states a plausible claim for relief. Discovery is permitted if necessary to resolve those motions, to resolve a motion for preliminary relief, or if failure to allow discovery would cause specific prejudice to a party.

Taken together, these provisions will help promote efficiency in patent suits while ensuring that patent holders can fairly protect their rights in court. While the provisions are not perfect, they strike a meaningful balance that I am happy to support given the unusual complexities of patent litigation.

As this legislation proceeds to markup, we should continue to work on reasonable amendments to improve the bill. For example, some have raised concerns about unfair practices that are taking place in the “post-grant review” proceedings at the Patent and Trademark Office. Those proceedings are an important tool to improve patent quality, but if they are being misused, we should address those concerns. We are already working on those ideas, and I expect we will discuss them today.

Abusive practices by bad actors are a discredit to our strong patent system. It is in no one’s interest that they continue. We should act on behalf of Main Street and the patent system alike.

I welcome the witnesses to today’s hearing. I also want to recognize the many businesses and individuals in Vermont and across the country who have worked with us, and will continue working with us, to enact this bill into law. Main street businesses have shared their stories and worked with us to identify reasonable reforms that can address abuses in the system. Universities like the University of Vermont have worked with us and other patent holders to make sure we get the balance right. We value that input, and the bill is better as a result.

I look forward to this bill’s swift consideration by the Committee.

####

Chairman Chuck Grassley  
Questions for the Record

Hearing on “S. 1137, the “PATENT Act” – Finding Effective Solutions to Address  
Abusive Patent Practices”

United States Senate Committee on the Judiciary

May 7, 2014

Mark Chandler, Senior Vice President and General Counsel, Cisco Systems, Inc.

1. We have heard about perceived inequities with the Patent and Trademark Office’s IPR and PGR proceeding. Some are concerned that the proceedings are unfair and put patent holders at a disadvantage. Do you share these concerns? In your opinion, are the proceedings working as intended by the America Invents Act?
2. In its last term, the Supreme Court handed down two decisions, *Octane Fitness* and *Highmark*, which provide district courts with greater authority to award attorney fees. As the general counsel of a company that enforces patents against infringement and also defends against infringement claims, do you believe that the PATENT Act’s fee shifting provision will act as a more effective mechanism to prevent abusive patent litigation?

Kevin Rhodes, President, 3M Innovative Properties Company and Chief Intellectual Property Counsel,  
3M Company

1. We have heard about perceived inequities with the Patent and Trademark Office’s IPR and PGR proceeding. Some are concerned that the proceedings are unfair and put patent holders at a disadvantage. What do you believe is the most important issue that must be dealt with to make these proceedings more balanced for both patent holders and petitioners?
2. How do we strike the right balance to ensure that IPR proceedings – which many see as valuable in terms of invalidating weak patents – are not rendered ineffective?
3. In its last term, the Supreme Court handed down two decisions, *Octane Fitness* and *Highmark*, which provide district courts with greater authority to award attorney fees. As the Chief Intellectual Property Counsel of a company that enforces patents against infringement and also defends against infringement claims, do you believe that the PATENT Act’s fee shifting provision will act as a more effective mechanism to prevent abusive patent litigation?

Diane K. Lettelleir, Senior Managing Counsel - Litigation, JCPenney Corporation, Inc.

1. We have heard about perceived inequities with the Patent and Trademark Office's IPR and PGR proceeding. Some are concerned that the proceedings are unfair and put patent holders at a disadvantage. Do you share these concerns? In your opinion, are the proceedings working as intended by the America Invents Act?

Henry Hadad, Senior Vice President & Deputy General Counsel - Intellectual Property, Bristol-Myers Squibb

1. We have heard about perceived inequities with the Patent and Trademark Office's IPR and PGR proceeding. Some are concerned that the proceedings are unfair and put patent holders at a disadvantage. What do you believe is the most important issue that must be dealt with to make these proceedings more balanced for both patent holders and petitioners?
2. How do we strike the right balance to ensure that IPR proceedings – which many see as valuable in terms of invalidating weak patents – are not rendered ineffective?

Julie P. Samuels, Executive Director and President of the Board, Engine

1. We have heard about perceived inequities with the Patent and Trademark Office's IPR and PGR proceeding. Some are concerned that the proceedings are unfair and put patent holders at a disadvantage. Do you share these concerns? In your opinion, are the proceedings working as intended by the America Invents Act?

Mark Chandler Responses To Questions For The Record  
June 9, 2015

**MARK CHANDLER'S RESPONSES TO  
SENATOR GRASSLEY'S QUESTIONS FOR THE RECORD  
HEARING ON "S. 1137, THE "PATENT ACT" – FINDING EFFECTIVE SOLUTIONS TO  
ADDRESS ABUSIVE PATENT PRACTICES"  
UNITED STATES SENATE COMMITTEE ON THE JUDICIARY  
MAY 7, 2015**

- 1. We have heard about perceived inequities with the Patent and Trademark Office's IPR and PGR proceeding. Some are concerned that the proceedings are unfair and put patent holders at a disadvantage. Do you share these concerns? In your opinion, are the proceedings working as intended by the America Invents Act?**

The Patent and Trademark Office's IPR and PGR proceedings are fair to patent owners. The proceedings are contested and patent owners have a full opportunity to tell their side of the story. The challenged patents are examined twice by a panel of three judges, first at the institution decision (approx. six months after filing) and second at the final written decision (approx. 18 months after filing). These decisions are made by Administrative Patent Judges who have both legal and technical training. In fact, the PTAB has found 62% of challenged claims to be valid either through termination in a denial of institution or in final written decision.<sup>1</sup> The patent owner has the right to appeal an unfavorable decision by the PTO.

Many of the concerns that have been raised do not take into account that typically only the weakest patents are subject to the procedure. Unlike district court litigation, IPR and PGR procedures are optional. Petitioners file IPRs and CBMs only after evaluating the prior art and analyzing whether an IPR is justified. Pursuing an IPR or PGR is expensive for the petitioner and means foregoing many arguments in litigation due to estoppel. Since the inception of the AIA in 2012, only 12% of the almost 13,000 litigated patents in district courts have been challenged in AIA proceedings.<sup>2</sup>

When the AIA was enacted it was widely understood that the massive proliferation of low quality patents imposed tremendous costs in wasteful abusive litigation and foregone innovation. The proceedings were created to promote patent quality and are working as intended by providing an efficient and cost-effective process for invalidating weak patents.

- 2. In its last term, the Supreme Court handed down two decisions, *Octane Fitness* and *Highmark*, which provide district courts with greater authority to award attorney fees. As the general counsel of a company**

<sup>1</sup> <http://unifiedpatents.com/2015-ptab-update/>

<sup>2</sup> *Id.*

Mark Chandler Responses To Questions For The Record  
June 9, 2015

**that enforces patents against infringement and also defends against infringement claims, do you believe that the PATENT Act's fee shifting provision will act as a more effective mechanism to prevent abusive patent litigation.**

The PATENT Act's fee shifting provisions will act as a more effective mechanism to prevent abusive patent litigation.

Although *Octane Fitness and Highmark* improved fee shifting jurisprudence, the current 35 USC 285 still only allows fee shifting in "exceptional" cases. Unfortunately, abusive litigation conduct is commonplace today rather than exceptional. The PATENT Act instead focuses on whether the conduct and positions of the losing litigant were objectively reasonable. Having an objective standard will promote uniformity between judicial districts. The Federal Circuit Bar Association notes that district courts have awarded attorneys fees more often *post Octane*. In the eleven months *post Octane* and *Highmark*, district courts granted 36% of motions for fees<sup>3</sup> under 35 U.S.C. § 285 versus 13% in the twelve months *pre Octane*. However, the data also shows that different courts have applied the standard very inconsistently, thus encouraging forum shopping and continued abusive patent litigation. A standard based on objective reasonableness will drive uniformity and deter abusive patent suits nationally.

Next, the legislation addresses judgment-proof patent assertion entities. NPEs are frequently thinly capitalized shell entities that own few assets other than the patents at suit. Fee shifting will not serve as a deterrent if the speculators and manipulators behind the NPEs can hide behind judgment-proof shells. The PATENT Act wisely addresses this problem directly. A party whose primary business is the assertion of patents through litigation must certify that it would be able to pay attorneys fees if awarded or give notice to other parties with a financial interest that they may be on the hook for such an award. The PATENT Act will deter abusive patent litigation both by creating an objective and uniform fee shifting standard but also by assuring that fee awards cannot be avoided through shell games.

---

<sup>3</sup> Federal Circuit Bar Association. *A Comparison of Pre Octane and Post Octane District Court Decisions on Motions for Attorney's Fees Under Section 285*. April 13, 2015.

**Chairman Chuck Grassley  
Questions for the Record**

**Hearing on “S. 1137, the “PATENT Act” – Finding Effective Solutions to  
Address Abusive Patent Practices”  
United States Senate Committee on the Judiciary  
May 7, 2014**

**Henry Hadad, Senior Vice President and Deputy General Counsel,  
Bristol-Myers Squibb Corporation**

- 1. We have heard about perceived inequities with the Patent and Trademark Office’s IPR and PGR proceeding. Some are concerned that the proceedings are unfair and put patent holders at a disadvantage. What do you believe is the most important issue that must be dealt with to make these proceedings more balanced for both patent holders and petitioners?*

**Answer:**

The IPR and PGR provisions enacted under the AIA were intended to provide a faster and less costly means to adjudicate patent validity than in the district courts. However, in an effort to timely address a deluge of IPR and PGR petitions, these proceedings have been implemented in a manner that lack basic due process protections and unfairly prejudices patent owners as evidenced by higher invalidity rates than found in district court. This concern is particularly acute in the biopharmaceutical industry, where Congress has already enacted specific patent litigation frameworks in district court in the Hatch-Waxman Act and the Biologics Price Competition and Innovation Act, both of which reflect a careful balance of the interests of the parties and the public. The stakes are high—if there is a reduced confidence in the patent system, the biopharmaceutical industry will innovate less, invest less, and employ fewer. To that end, there will fewer ground-breaking therapies for patients.

While there are number of potential improvements that would level the playing field with respect to these proceedings that I discuss below, the most fundamental issue is the differences in claim construction and evidentiary standards applied by the USPTO’s Patent Trial & Appeal Board (PTAB) and the district courts. The PTAB construes patents claims by their “broadest reasonable interpretation” (BRI) rather than the district court approach of construing a patent claim in view of its ordinary and customary meaning to one skilled in the art. Moreover, the PTAB determine patents validity by a preponderance of the evidence standard, rather than by the more rigorous clear and convincing standard applied by the district courts to granted patents. Last, district courts recognize that a granted patent has a presumption of validity and that the burden of proof to the contrary remains on the challenger throughout litigation. Taken together, the lack of uniform standards tilts IPR and PGR proceedings in favor of the challenger.

Legislation that clearly requires the courts and the PTAB to apply uniform standards will increase fairness and predictability in these proceedings. It would reduce potential gamesmanship by ensuring that both venues are viewed equally from a merits-perspective, and reduce duplicative proceedings as each venue would respect the other's finding since they are applying equivalent standards. Most importantly, it would restore confidence in a patent system that has encouraged innovators to invent, invest and employ since our country began.

2. *How do we strike the right balance to ensure that IPR proceedings – which many see as valuable in terms of invalidating weak patents – are not rendered ineffective?*

**Answer:**

Providing basic fairness to IPR and PGR proceedings is an important step in restoring the promise of the AIA to provide a faster and less costly means to challenge patent validity, in a manner that provides due process for both the patent holder and challenger. There are three procedural changes that, if enacted together, would more fairly balance these proceedings, aid in their efficient adjudication to the benefit of both patent owners and challengers, and provide faith and predictability in a patent system.

*First*, as discussed in my answer to question 1, the PTAB should apply the same claim construction standard as district courts, rather than the BRI standard. The PTAB should also respect the presumption of validity for granted patents, and apply the same “clear and convincing” evidentiary standard as applied in district courts for establishing invalidity of a patent, rather than the more lenient “preponderance of the evidence” standard.

*Second*, patent owners should be permitted to make minor amendments to claims during an IPR/PGR proceeding. If a patent owner wants to have an opportunity to make more substantial amendments, the patent owner may remove any of the challenged claims by filing a request for reissue or reexamination prior to institution of the IPR/PGR.

*Third*, the procedural rules governing IPR and PGR should be revised to ensure equal opportunity to submit evidence, reduce potential bias by having someone other than the PTAB merits panel decide whether to institute the petition, and by permit live testimony on key issues where warranted.

These changes do not tilt the results in favor of the patent holder, but rather put both parties on equal footing as Congress intended when enacting the AIA. “Weak” patents will be found invalid in a fair proceeding, and closer cases will be properly decided based on the evidence and standards that have been historically applied and available to granted patents in the courts. The above-proposed changes strike the right balance by increasing fairness and predictability, supporting consistency in outcomes in each venue, and reducing duplicative proceedings.

United States Senate  
Committee on the Judiciary

Questions for the Record

“S. 1137, the ‘PATENT ACT’ – Finding Effective  
Solutions to Address Abusive Patent Practices”

Diane Lettelleir  
Senior Managing Counsel - Litigation  
J.C. Penney Corporation, Inc.

May 7, 2015

Answers to questions offered by Chairman Grassley

**1. We have heard about perceived inequities with the Patent and Trademark Office’s IPR and PGR proceeding. Some are concerned that the proceedings are unfair and put patent holders at a disadvantage. Do you share these concerns? In your opinion, are the proceedings working as intended by the America Invents Act?**

J. C. Penney does not perceive that either the Patent Trademark Office’s IPR or PGR proceedings, as administered under current law and rules, operate in an inequitable manner. I am familiar with the statistics that are cited in support of such claimed perceptions, but those statistics do not support the conclusions detractors would have this Committee draw for several reasons. First, the grounds on which a petitioner may rely to invalidate patent claims in these proceedings are limited to two of the most straightforward bases for invalidation – anticipation or obviousness proven by prior patents or printed publications. Patent validity issues litigated in district court cases include several other bases for challenging validity, some of which are more complicated to present. Second, due to the harsh collateral estoppel consequences of a failed challenge in an IPR or PGR proceeding, a petitioner typically only files an IPR or PGR petition if it has a very strong, straightforward case of invalidity under sections 102 or

103. To draw a basketball analogy, a party considering a post grant petition does not file an IPR or PGR unless it has a high percentage shot – such as an open shot under the basket. It is very unusual for a party to file an IPR or PGR petition if it has a low percentage shot – such as a shot taken when double teamed from the corner. Third, the administrative law judges in an IPR or PGR are singularly focused on the issue of validity. In district court proceedings, juries are most commonly asked to render judgment on combined issues of infringement, invalidity and damages. Finally, the rate of settlement of district court patent litigation is far higher than the settlement rate of IPR and PGR proceedings, so there are fewer reported determinations on the merits from district court litigation to evaluate as a percentage of the total number of district court patent cases. Logically, district court cases in which defendants have mustered strong invalidity defenses settle at a higher rate than other cases, further skewing the data. For these reasons, it should be expected that IPR and PGR proceedings would result in the cancellation of a greater number of patent claims than patent claims challenged in district court proceedings.

The latest reported statistics relating to IPRs published by the Office, show that as of April 30, 2015, IPR proceedings have been instituted on 65% of claims challenged, and that 38% of claims on which review was instituted were found unpatentable. Thus, only 25% of claims challenged have been found to be unpatentable through IPR proceedings. These statistics do not support the claims of inequitable treatment before the Office.<sup>1</sup> It is also important to note that while we have decades of data relating to district court patent litigation, IPR and PGR proceedings are still relatively new and there is far less data from which to draw conclusions.

In my opinion, the IPR and PGR proceedings are working as intended by the America Invents Act. IPRs and PGRs allow the Patent and Trademark Office (the “Office”) to improve patent quality in two important ways. First, they empower the Office’s most capable experts—dedicated administrative law judges with both legal and patent expertise—to review the Office’s original work and to correct any mistakes made during the application review process. And second, IPRs and PGRs enable the Office to reduce uncertainty about the validity of granted patents caused by changes in the law or the discovery of new prior art not previously considered by the Office. Congress recognized that granting the Office the authority to check its own work in this manner was essential to improving the quality of U.S. patents. The IPR and PGR processes create an opportunity for the U.S. public to assist the Office by raising questions about the patentability of specific patent claims and bringing undiscovered or unnoticed prior art to the Office’s attention. Once the public raises these issues through IPR or PGR petitions, the Office resolves them through the application of its experience and expertise. Although not yet three years old, the IPR and PGR processes have already proven to be

<sup>1</sup> See Office report of Inter Partes Review Petitions Terminated to Date: [http://www.uspto.gov/sites/default/files/documents/inter\\_partes\\_review\\_petitions\\_%2004%2030%202015\\_0.pdf](http://www.uspto.gov/sites/default/files/documents/inter_partes_review_petitions_%2004%2030%202015_0.pdf)

important tools for improving patent quality by authorizing the Office to determine when, in its expert view, patent claims should never have been granted by the Office in the first place. Congress should allow the Office to continue to evolve IPR and PGR proceedings without interference. The continued availability of these cost effective paths as alternatives to expensive district court litigation is critical to Main Street businesses like J. C. Penney.

Like any new process, there has been a learning curve – both for the Office and for practitioners. The Office has done an admirable job of monitoring the progress of proceedings, soliciting comments and feedback from patent owners and practitioners, and hosting informational webinars and presentations at various locations around the country. The Office has already made one round of rule changes to address concerns about certain aspects of the IPR process and has provided a road map of future rule changes under consideration. The Office has demonstrated diligent stewardship of the innovative solution that Congress enacted in the America Invents Act. The Office, as the expert administrators of the U.S. patent system, should be allowed to adjust its rules and improve its procedures in a thoughtful and deliberate manner to address isolated concerns so that the promise of the America Invents Act will be fully realized. To make significant changes to the original legislative scheme at this juncture would be disruptive and derail the important progress made to date toward improving patent quality.

**Chairman Chuck Grassley  
Questions for the Record**

**Hearing on “S. 1137, the “PATENT Act” – Finding Effective Solutions to  
Address Abusive Patent Practices”  
United States Senate Committee on the Judiciary  
May 7, 2014**

**Kevin Rhodes, President, 3M Innovative Properties Company and Chief  
Intellectual Property Counsel, 3M Company**

- 1. We have heard about perceived inequities with the Patent and Trademark Office's IPR and PGR proceeding. Some are concerned that the proceedings are unfair and put patent holders at a disadvantage. What do you believe is the most important issue that must be dealt with to make these proceedings more balanced for both patent holders and petitioners?*

**Answer:**

Unfortunately, many of the problems we see in IPR and PGR reviews today are a direct result of the PTO's implementation of IPR and PGR proceedings in a manner that deviated in several important aspects from the framework established by the AIA and sound patent policy. Congress created these AIA reviews as faster, less expensive alternatives to litigation to adjudicate patent validity, not as a means to invalidate patents that could not be invalidated in a court applying balanced and fair rules that afford due process to all participants. Contrary to Congressional intent when the AIA was enacted, patent owners have been put at a distinct disadvantage in these proceedings as compared to litigation, leading to high patent invalidation rates and the widespread belief that the playing field is tilted against patent owners.

In my view, therefore, the most important issue that must be dealt with to make these proceedings more balanced, for both patent holders and petitioners alike, is legislation requiring the PTO to apply the same standards as courts apply in adjudicating patent validity. The current dichotomy between how the validity of patent claims is adjudicated in courts and in the PTO is an invitation to gamesmanship and serial challenges to patent rights. Because the overwhelming majority of patents involved in IPR proceedings involve patents that are in concurrent district court litigation, applying

different standards to patents adjudicated in the different forums invites duplicative proceedings and inconsistent outcomes. Requiring the courts and the PTO to apply the same patent claim construction standard (the ordinary and customary meaning of the claim terms to one skilled in the art), burden of proof to invalidate patent claims (clear and convincing evidence), and presumption of validity (patent claims are presumed valid and the burden to prove invalidity always rests on the challenger) will achieve increased fairness, predictability, and uniformity among proceedings involving granted patents.

Legislation that imparts consistency among challenges to the validity of patent rights in courts and the PTO will remove the current questions and uncertainty that exist concerning the fairness of the procedures used in AIA review proceedings. By enacting such legislation, Congress will reassure the innovation community that patents can be relied upon to protect and support the investments in research, development, commercialization, technology transfer, and collaboration that are so essential to future innovation.

2. *How do we strike the right balance to ensure that IPR proceedings – which many see as valuable in terms of invalidating weak patents – are not rendered ineffective?*

**Answer:**

What was true when Congress enacted the AIA is still true today – IPR and PGR proceedings are important elements in the overall framework of a properly functioning patent system when they provide faster and less expensive alternatives to litigation to determine the validity of issued patents. But that is only true when those proceedings are conducted in a manner that is equitable and fair to all participants, not when they are so skewed against patent owners that they undermine public confidence and investments in patent rights, and invite gamesmanship and abuse, which regrettably is the case today.

The reforms I proposed in my testimony to the Committee will restore basic balance and fairness to AIA review proceedings, while retaining their vitality as alternatives to litigation to determine the validity of issued patents. Just as patent litigation reforms must be measured and balanced to ensure that they do not unduly undermine the rights of patent owners to assert their patents against infringers, so too must reforms to AIA review proceedings be measured and balanced to ensure that these reviews retain their intended purpose of providing viable alternatives to litigation for challengers to determine the

validity of issued patents. In my testimony, I proposed three areas of legislative changes to restore balance and fairness to AIA review proceedings while ensuring that the proceedings will continue to be effective to invalidate weak patents:

- (1) Reforming the procedures used when the PTO is considering whether to institute an IPR or PGR proceeding, to provide a level playing field and basic fairness for all parties;
- (2) Allowing patent owners to have the issues raised in newly-filed petitions first considered in reissue or reexamination proceedings, where they may make narrowing amendments to the claims prior to institution of any IPR or PGR (as they could in the initial examination) and where any such amended claims will be construed using BRI (as they would be in the initial examination); and
- (3) Reviewing the validity of granted patent claims, and any narrower substitute claims containing only originally issued claim limitations, by applying the same standards in IPR and PGR proceedings as are applied in courts, including claim construction, burdens of proof, and presumptions.

These changes simply restore the proceedings to what Congress intended them to be – faster and less expensive alternatives to litigation in administrative reviews that are fair to both challengers and patent owners, applying balanced rules that afford due process to all participants. The changes I proposed will increase predictability and uniformity among patent validity challenges in the courts and the PTO, and will reduce duplicative and inconsistent outcomes. None of these changes would in any way undermine the ability of the PTO to invalidate “weak” patents.

3. *In its last term, the Supreme Court handed down two decisions, Octane Fitness and Highmark, which provide district courts with greater authority to award attorney fees. As the Chief Intellectual Property Counsel of a company that enforces patents against infringement and also defends against infringement claims, do you believe that the PATENT Act's fee shifting provision will act as a more effective mechanism to prevent abusive patent litigation?*

**Answer:**

Yes. I have long viewed more frequent fee-shifting in patent cases as the single most effective measure that Congress could enact to address abusive behavior in patent litigation. Applied in a balanced, principled manner, targeting unreasonable positions or conduct on the part of any litigant, more frequent fee-shifting can encourage meritorious litigation behavior, and can discourage the filing of unfounded cases and litigation misconduct.

Although the Supreme Court, during its last term, handed down two unanimous decisions, in *Octane Fitness v. ICON Health & Fitness* and *Highmark v. Allcare Health Management System*,<sup>1</sup> which provided district courts with greater authority and discretion to award attorney's fees, the clarity that the Court could provide to a company like 3M, which enforces patents against infringement and also defends against infringement claims, was limited by the fact that the Court was interpreting the current "exceptional cases" language of 35 U.S.C. § 285. The Court defined an "exceptional case" for purposes of Section 285 as follows:

We hold, then, that an "exceptional" case is simply one that stands out from others with respect to the substantive strength of a party's litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated.<sup>2</sup>

I believe that all litigants would benefit from clarity beyond what this definition of "exceptional case" can provide. Trying to decide whether a case "stands out from others" leaves too much room for interpretation and variability among judges and courts. The

---

<sup>1</sup> *Octane Fitness LLC v. ICON Health & Fitness Inc.*, 134 S. Ct. 1749 (2014) and *Highmark Inc. v. Allcare Health Mgmt. Sys. Inc.*, 134 S. Ct. 1744 (2014).

<sup>2</sup> *Octane Fitness*, 134 S. Ct. at 1756.

standard for defining which cases warrant fee shifting does need to afford discretion and flexibility to district court judges, who are in the best position to assess the positions and conduct of the litigants, but the standard needs more clarity and certainty than “exceptional cases” can provide, even after the Supreme Court rulings. Thus, legislation is still needed to provide clearer and more consistent standards for patent owners and accused infringers alike regarding when fee-shifting is appropriate in patent infringement cases.

In enacting such legislation, two fundamental principles should be met. First, fee-shifting should be applied in a balanced fashion, seeking to curtail abusive litigation behavior whether it comes from a plaintiff or a defendant. Such behavior should be targeted regardless of the party that engages in it, and any litigant asserting unreasonable litigation positions or who engages in misconduct should face the prospect of financial penalties. Second, to avoid unduly chilling the ability of patent owners to bring and pursue objectively reasonable claims for infringement of their rights, and to ensure that defendants can assert and litigate objectively reasonable defenses, it is important not to adopt an automatic “loser pays” regime for patent cases. Rather, fee shifting should be premised on objectively unreasonable positions or misconduct of the losing party, which will target abusive behavior while not making litigation to assert well-founded claims of patent infringement, or the assertion of defenses to infringement, too financially risky.

Section 7 of the PATENT ACT adheres to each of these two principles. It applies equally to plaintiffs and defendants. And it does not impose automatic fee shifting. Rather, it provides that reasonable attorney fees will be awarded if a court determines the position or conduct of the non-prevailing party was not objectively reasonable, unless special circumstances make an award unjust.

I also note that those concerned with the impact of fee shifting on the ability of smaller patent owners to enforce their rights against infringement should view Section 7 of the PATENT ACT as an improvement over existing law. As compared to the interpretation of existing Section 285 by the Supreme Court, Section 7 makes clear that fees may be awarded only if the court makes a determination and finding that the “position of the non-prevailing party was not objectively reasonable in fact or law or that the conduct of the nonprevailing party was not objectively reasonable.” Moreover, even after making such a finding, the court has the discretion to decline to award fees if “special circumstances would make an award unjust,” which presumably would take into account the financial impact on a litigant of a fee award. All of this language provides safeguards beyond the current language of Section 285 to litigants who assert or defend patent cases in good faith.

Thus, I believe that the amendments Section 7 make to Section 285 represent an improvement over current fee-shifting law in patent cases and will provide a more effective deterrent to litigation misconduct.

**Hearing on “S. 1137, the “PATENT Act” – Finding Effective Solutions to Address  
Abusive Patent Practices”**

**Responses to Questions for the Record from Julie Samuels**

**We have heard about perceived inequities with the Patent and Trademark Office’s IPR and PGR proceeding. Some are concerned that the proceedings are unfair and put patent holders at a disadvantage. Do you share these concerns? In your opinion, are the proceedings working as intended by the America Invents Act?**

We do not share the view that the Patent Office’s (PTO) IPR and PGR proceedings are flawed or unfair. We believe that they are functioning well and in the manner intended by the America Invents Act. The claims that IPR, in particular, has been implemented in a manner that is unfair to patent holders is simply not supported by the evidence.

First, the assertion that the Patent Trial and Appeals Board’s (PTAB or Board) invalidation rates have been “overly high” is not borne out by the PTO’s own public statistics. The facts are as follows: just over 600 petitions (encompassing an aggregate 20,000 or so claims) have been concluded to date. The Board has instituted proceedings against 68 percent of claims challenged, and declined to institute them against 32 percent. The Board has invalidated 36 percent of these claims. The invalidation rate of *total* claims challenged, encompassing all claims that challengers have sought to invalidate in an IPR, is even lower—24 percent.<sup>1</sup>

Moreover, the critics of IPR fail to acknowledge that these proceedings were carefully designed to deter challenges to high-quality patents. The Board only institutes IPR proceedings if it has first determined that there is a “reasonable likelihood” that the challenge will be successful. Given this high bar, a high percentage of invalidated claims should not be surprising. In fact, it should be expected. If invalidation rates were low, that would indicate a real problem: it would reflect poorly on the Board’s decisions to institute proceedings, and would mean that too many good patents were being targeted for challenge.

It is also important to note that these proceedings have an estoppel provision which discourages the filing of weak challenges. Once an IPR is instituted, the challenger is barred from seeking judicial review of any matter that was—or could have been—raised in the IPR. Filing an IPR without strong grounds will result in having the petition denied, which effectively “gold plates” the challenged patent and renders it very hard to attack in the future. In addition, the proceedings were designed to be costly and front-loaded. This hinders bad faith petitioners who would file anything and everything as a means of intimidation—instead, they

---

<sup>1</sup> “Inter Partes Review Petitions Terminated to Date, As of 1/15/2015.” United States Patent and Trademark Office. Available at: [http://www.uspto.gov/sites/default/files/documents/inter\\_partes\\_review\\_petitions\\_terminated\\_to\\_date%201%202015.pdf](http://www.uspto.gov/sites/default/files/documents/inter_partes_review_petitions_terminated_to_date%201%202015.pdf).

must think strategically about which patents to challenge. In fact, the invalidation rates as reported by the PTO have been relatively modest, and the PTAB has “gold plated” many more claims than it has invalidated.

Those who want to upend the IPR proceedings point to challenges filed by Kyle Bass, who is using the IPR program with the intention of manipulating the stock market. He challenges the validity of pharmaceutical patents at the PTAB in order to drive the patent holder’s stock down and then strategically buy competitor’s stock that would, in turn, increase in value. While we are troubled by those exploiting any aspect of the patent system (such as, of course, patent trolls), the act of finding ways to short a company’s stock is something that should be addressed by the Securities and Exchange Commission, not patent law. To be clear: the problem with Mr. Bass’ “business model” is that he is manipulating markets, not that he is challenging patents. Moreover, we note that it does not appear that the PTAB has agreed to institute any proceedings relating to Bass challenges to date.


If the IPR program is up for debate, we should strive to ensure that it is truly serving in the purpose it was intended to serve (an affordable way to challenge questionable patents in light of patentability changes and rising costs of litigation). To that extent, we would make the following recommendations, as set out by a letter we sent the Committee on 21 May 2015:<sup>2</sup>

1. **Lower petition fees for small and micro entities** for which IPR is still an unaffordable tool.
2. **Allow petitioners to file replies** in light of the ability for patent owners to raise new, unexpected arguments when they initially respond to the petitioner’s challenges.
3. **Allow petitioners the right to appeal PTAB decisions** at the Federal Circuit just as patent holders can.
4. **Allow petitioners to raise challenges under 35 USC §§ 101 (abstractness) and 112 (indefiniteness)** in light of the Supreme Court’s *Alice* and *Nautilus* decisions made post-AIA, which have the effect of invalidating many issued patents if challenged.

Thank you again for allowing me the opportunity to testify before the Senate Judiciary Committee. We looking forward to working with you and the rest of the Committee to improve the IPR process to ensure that it incentivizes good quality patent challenges while avoiding substantial changes in the law.

---

<sup>2</sup> Available at: <http://engine.is/wp-content/uploads/IPRDemandsLetterEnginePKEFFRSt.pdf>.

	H.R. 9 Goodlatte	S. 632 Coons	
Patent Pleading Specificity	✓		
Attorneys Fees Award	✓		
Attorneys Fees Recovery	✓		
Covenant Not to Sue	✓		
Joinder of Interested Parties	✓		
Stay of Discovery	✓		
Transparency of Patent Ownership	✓		
Customer-Suit Exception (Stay)	✓		
Judicial Conference: Procedures & Practices to Implement Discovery Burdens & Costs, Case Management and Form 18	✓	✓	
Protection of IP Licenses In Bankruptcy	✓		
PGR Amendment (Judicial Estoppel Correction)	✓		
Use of District Court Claim Construction in PGR/IPR	✓	✓	
Amendment of Claims		✓	
Burden of Proof		✓	
Standing		✓	
Discovery of Real Party in Interest		✓	
Preliminary Response Evidence		✓	
Coordination of Proceedings		✓	
Composition of PGR/IPR Panels		✓	
Re-Examination of Patents		✓	
Willful Infringement		✓	
Divided Infringement		✓	
Demand Letters	✓	✓	
Codification of Double Patenting	✓		
Elimination of USPTO Fee Diversion		✓	
<a href="http://www.patentmatter.com">www.patentmatter.com</a>			

✓ Provision Included

21C Supports

Amendments Needed

21C Opposes



May 7, 2015

Senator Charles Grassley  
 Chairman, Senate Committee on the Judiciary  
 United States Senate  
 224 Dirksen Senate Office Building  
 Washington, DC 20510

Senator Patrick Leahy  
 Ranking Member, Senate Committee on the Judiciary  
 224 Dirksen Senate Office Building  
 Washington, DC 20510

Dear Chairman Grassley and Ranking Member Leahy,

On behalf of the National Venture Capital Association (NVCA), I would like to offer the perspective of the venture capital industry regarding S.1137. We consider it important that members of the Senate Judiciary Committee be aware of our views in order to best inform this hearing on patent reform. NVCA does appreciate the effort made by the bill's sponsors and their staffs in listening to our belief that overly broad patent reform efforts will have unintended consequences that disrupt the entrepreneurial ecosystem. We believe that S. 1137 is a step in the right direction from similar House legislation, H.R. 9. There remain, however, some important aspects of S.1137 that will require revision in order to avoid disruption of the robust progress of entrepreneurial innovation that Americans have enjoyed for three decades. We think that S.1137, as presently worded, will raise the cost and risk of patent litigation for startups that need to defend their intellectual property against much larger incumbents and will discourage investment in any new company that wants to enter line of business where patents may be important.

We look forward to engaging in a productive dialogue with the Committee to improve S. 1137 so that it can effectively target abusive patent litigation without significant unintended consequences. It is important to recognize that a patent is only as strong as the owner's ability to enforce it and the awareness of others of that ability. If the bill as written were to pass, NVCA believes that both of these parameters will be impaired, thus making it more difficult to invest in early stage companies working on lifesaving cures or significant technological breakthroughs. Further, it will pose a more difficult choice for a potential entrepreneur to leave a steady job in order to pursue the risky venture of founding a new company in an industry dominated by entrenched incumbents. Often, the only asset an investor can see in early stage companies is the

energy and talent of the entrepreneur founders and the quality of their ideas as protected by patents. The ability for a small inventor to use the American patent system to protect an innovative idea has been absolutely central to American leadership for over two centuries and remains even more so in this one. NVCA stands ready to work with all stakeholders here to solve the issue of abusive patent litigation practices, but we must be careful not to achieve that goal at the expense of the next generation of American inventors and companies.

We appreciate the good faith efforts to more appropriately target this legislation. NVCA looks forward to working with the bill sponsors to make S. 1137 the most effective bill possible.

Bobby Franklin

A handwritten signature in cursive script that reads "Bobby Franklin".

President & CEO

## The Federal Circuit Bar Association

BENCH & BAR

**PRESIDENT**  
Jeanne E. Davidson, Esquire  
United States Department of Justice

**PRESIDENT-ELECT**  
Edgar Haug, Esquire  
Frommer Lawrence & Haug LLP

**TREASURER**  
Nicholas Groombridge, Esquire  
Paul, Weiss, Rifkind, Wharton  
& Garrison LLP

**SECRETARY**  
Deborah Miron, Esquire

**BOARD OF DIRECTORS**  
Meredith (Mimi) Addy, Esquire  
Steptoe & Johnson LLP  
Jeff Bove, Esquire  
Novak Druce Connolly Bove  
& Quigg LLP  
Eric Cohen, Esquire  
Katten Muchin Rosenman LLP  
William Colwell, Esquire  
Northrop Grumman Corporation  
Chris Cotropta, Esquire  
Richmond Law School  
Patrick J. Coyne, Esquire  
Finnegan, Henderson, Farabow,  
Garrett & Dunner, LLP  
Andy Culbert, Esquire  
Microsoft Corporation  
Robert Debernardine, Esquire  
Sanoil  
Michael Esch, Esquire  
Wilmer Cutler Pickering Hale & Dorr LLP  
Daniel Graham, Esquire  
Wiley Rein LLP  
Martin Hockey, Esquire  
United States Department of Justice  
Robert Huffman, Esquire  
Akin Gump Strauss Hauer & Feld LLP  
Sonal Mehta, Esquire  
Weil, Gotshal & Manges LLP  
David Ralston, Esquire  
Foley & Lardner LLP  
Neal Reynolds, Esquire United States  
International Trade Commission  
Emily Tait, Esquire  
Honigman Miller Schwartz and Cohn LLP  
Jamie Underwood, Esquire  
Alston & Bird LLP  
Kristin Yohannan, Esquire  
Cadwalader Wickersham & Taft LLP

**EX OFFICIO**  
Daniel E. O'Toole, Circuit Executive  
United States Court of Appeals  
for the Federal Circuit

**FOUNDING EXECUTIVE DIRECTOR**  
George E. Hutchinson, Esquire

**EXECUTIVE DIRECTOR**  
James E. Brookshire, Esquire

**DELEGATE TO ABA**  
Laura Nasurovsky, Esquire  
Finnegan, Henderson, Farabow,  
Garrett & Dunner, LLP

April 13, 2015

Chairman Bob Goodlatte  
Committee on the Judiciary  
United States House of Representatives  
2138 Rayburn House Office Building  
Washington, D.C. 20515

Ranking Member John Conyers, Jr.  
Committee on the Judiciary  
United States House of Representatives  
B-351 Rayburn House Office Building  
Washington, DC 20515

Dear Chairman Goodlatte and Ranking Member Conyers:

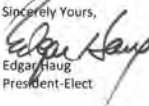
We again write on behalf of the Federal Circuit Bar Association on H.R. 9, The Innovation Act. This Association has worked closely with intellectual property issues since 1985 and has focused on effective litigation techniques, including those in the United States Court of Appeals for the Federal Circuit, the district courts, and other tribunals reviewed by the Circuit. Our membership, both national and international, includes litigators and business representatives and draws from the most sophisticated and experienced intellectual property sectors in the world. When addressing legislative matters we do not speak on behalf of government members. They were not involved in this topic.

We pointed out in our letter of February 20, 2015, (attached) that the recent Supreme Court rulings in *Octane* and *Highmark* (collectively, "*Octane*") relaxed the standard for recovering attorney's fees under section 285, and thus rendered the fee-shifting provisions of H.R. 9 unnecessary. Testimony presented to this Committee on February 12, 2015, incorrectly reported, "in the most recent three months, the rate of full denials of attorneys' fees motions is about the same as it was before the Supreme Court decided *Highmark* and *Octane*." Testimony of Krish Gupta at 12-13.

We have reviewed each district court decision between the date of the *Octane* decision and March 31, 2015, which substantively ruled on a motion for fees under section 285. The results are summarized in the attached paper, "*A Comparison of pre-Octane and post-Octane District Court Decisions on Motions for Attorneys' Fees Under Section 285*." The data establishes that motions for attorney's fees under section 285 after *Octane* were granted at a rate almost three times as high as in the year preceding *Octane*. In addition, the data establishes—contrary to the witness's testimony—that 50% of motions for fees under section 285 filed by accused infringers were granted between January 1, 2015, and March 31, 2015. In contrast, in the 12 months preceding *Octane*, only 13% of such motions were granted.

The mandatory fee-shifting proposed by H.R. 9 materially changes the law and will substantially impair the ability of certain patent holders to enforce their rights. Please contact our Executive Director, James E. Brookshire, at [brookshire1@fedcirbar.org](mailto:brookshire1@fedcirbar.org), if there is anything we can do assist you or your staff in this important effort.

Sincerely Yours,

  
Edgar Haug  
President-Elect

Enclosures



April 29, 2015  
For Immediate Release

Contact Information:  
Nicole Roeberg, Director of Communications  
Office: 202-525-5726  
Email: [nroeberg@rstreet.org](mailto:nroeberg@rstreet.org)

## **R Street applauds introduction of bipartisan patent reform bill in the Senate**

WASHINGTON (April 29, 2015) – The R Street Institute welcomed today’s introduction of the PATENT Act, which seeks to address the problem of rampant patent litigation abuse, which drains billions of dollars each year away from American businesses.

Like H.R. 9, the Innovation Act, which was introduced earlier this year, the Senate bill includes a comprehensive package of civil-litigation reforms designed to tackle widespread litigation abuse. Introduced jointly by a bipartisan group of senators led by Senate Judiciary Committee Chairman Chuck Grassley, R-Iowa, and Ranking Member Patrick Leahy, D-Vt, the measure differs from the Innovation Act in some notable ways and includes several significant improvements.

“We’re grateful that the chairman and the ranking member have offered both a comprehensive and a balanced framework for patent-litigation reform,” said Mike Godwin, R Street’s director of innovation policy and general counsel. “We also recognize the profound and ongoing contributions to the PATENT Act from Sens. John Cornyn, Mike Lee, Chuck Schumer, Orrin Hatch and Amy Klobuchar.”

“This legislation incorporates and refines the core ideas of the Innovation Act,” Godwin said, adding that, “the bill carefully threads the needle — limiting the abusive behavior of bad actors while maintaining protections for legitimate rights-holders.”

Beyond civil-litigation reform, the PATENT Act also has a provision to address unfair and deceptive demand letter abuse in patent assertion claims. While R Street has voiced opposition to the TROL Act, a bill introduced earlier this year to address demand letter abuse, Godwin clarified that “R Street’s opposition was based on concerns with loopholes in this particular bill and its preemption of stronger state laws.” As a result, Godwin said, “we strongly support the demand letter reform provisions of the PATENT Act, which don’t suffer these flaws.”



April 29, 2015

The Honorable Chuck Grassley  
Chairman  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable John Cornyn  
Member  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable Orrin Hatch  
Member  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable Michael Lee  
Member  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable Patrick Leahy  
Ranking Member  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable Charles Schumer  
Member  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable Amy Klobuchar  
Member  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

Dear Chairman Grassley, Ranking Member Leahy, Senator Cornyn, Senator Schumer, Senator Hatch, Senator Klobuchar, and Senator Lee:

Thank you for introducing the PATENT Act. The introduction of this legislation demonstrates your steadfast leadership in the critical area of patent reform. American businesses and consumers need relief from the growing problem of abusive patent litigation, which has cost the U.S. economy nearly \$500 billion over the past two decades.

Despite the passage of the America Invents Act and several Supreme Court rulings, patent troll lawsuits are again on the rise, spiking since the end of 2014. Patent trolls have been increasingly free to impose huge costs on defendants, diverting precious resources away from research and

development, job creation, and livelihoods. This bipartisan bill levels the playing field and improves the legal process by requiring demand letter substance, controlling discovery costs, raising pleading standards, and using the potential for fee shifting in egregious cases to deter meritless claims.

America's most productive companies need to focus on creating new products and jobs rather than fighting frivolous patent suits. We appreciate your taking the lead in pursuit of legislation that strengthens the integrity of our system of patent litigation. The introduction of this bill marks a significant first step and we look forward to working with you as this important legislation progresses.

Sincerely yours,

A handwritten signature in black ink that reads "Kent Walker". The signature is written in a cursive, slightly stylized font.

Kent Walker  
Senior Vice President & General Counsel



April 29, 2015

The Honorable Chuck Grassley  
Chairman  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable John Cornyn  
Member  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable Orrin Hatch  
Member  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable Michael Lee  
Member  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable Patrick Leahy  
Ranking Member  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable Charles Schumer  
Member  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable Amy Klobuchar  
Member  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

Dear Chairman Grassley, Ranking Member Leahy, Senator Cornyn, Senator Schumer,  
Senator Hatch, Senator Klobuchar, and Senator Lee:

On behalf of J. C. Penney Corporation, Inc., I want to thank you for introducing the Protecting American Talent and Entrepreneurship (PATENT) Act of 2015, which targets the abusive lawsuits filed by an ever growing group of sophisticated and well financed patent trolls. This legislation will help stem these meritless lawsuits and allow companies like JCPenney to focus on growth, investment and job creation.

For over 113 years JCPenney has been serving American consumers by providing quality apparel, footwear, jewelry and home products. The Company has over 1,000 locations in 49 states and Puerto Rico employing over 116,000 associates. Unfortunately, this success has resulted in JCPenney becoming a target of patent trolls.

6501 Legacy Drive  
Plano, TX 75024  
jcp.com

April 29, 2015  
Page 2

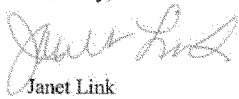
While JCPenney continues to be the target of frivolous and expensive lawsuits, patent trolls have increasingly targeted other Main Street businesses, i.e. realtors, homebuilders, restaurants, convenience stores, hoteliers and grocers. In fact, since 2012, patent trolls have sued more non-tech Main Street companies than tech companies. This is no accident. Patent trolls have created a business model that targets retail and other Main Street businesses because they often lack the legal resources and technical expertise to fight patent infringement claims. The trolls carefully calibrate the cost of the proposed settlement, which has no relation to the value of the technology, to be below the cost of litigation. The high cost of defense is why so many of these cases settle without a decision on the merits.

The core of the problem is that patent trolls often purchase patents that are near expiration and attempt to expand the reach of the issued patent far beyond their original scope. As we explained before the House Judiciary Committee, we have been sued for displaying catalog images and having drop down menus on our website, activating a gift card at the point of sale, browsing a website on a mobile phone or enabling a customer to put her purchases in an electronic shopping bag. Many of these patents date back to the 1980's and 1990's and all have had multiple owners with minimal or no continuing involvement of the actual inventor. Currently, there is little downside to the patent trolls filing a lawsuit and that is why this legislation is so important.

This legislation will remove the asymmetries, and strengthen and restore a balance that has been missing for years in patent litigation. We commend you on your leadership on this issue, which is highlighted by the diverse and broad coalition of supporters: Main Street businesses like JCPenney, technology companies, consumer groups, states attorneys' general, state legislators and economists.

Again, we thank you for your time, interest and leadership on this important issue. We look forward to working with you to get this legislation enacted into law.

Sincerely,



Janet Link  
Vice President  
Interim General Counsel



April 29, 2015

The Honorable Chuck Grassley  
Chairman  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable John Cornyn  
Member  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable Orrin Hatch  
Member  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable Michael Lee  
Member  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable Patrick Leahy  
Ranking Member  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable Charles Schumer  
Member  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable Amy Klobuchar  
Member  
Committee on the Judiciary  
United States Senate  
Washington D.C. 20510

Dear Chairman Grassley, Ranking Member Leahy, Senator Cornyn, Senator Schumer, Senator Hatch, Senator Klobuchar, and Senator Lee:

On behalf of the membership of the Latino Coalition, I write today to thank you for introducing the Protecting American Talent and Entrepreneurship (PATENT) Act of 2015. This legislation demonstrates your steadfast leadership in the complex and crucial area of patent reform.

As an organization representing Latino small-business owners from across America, we strongly support your efforts to help protect American job creators from patent trolls while reaffirming this nation's commitment to innovation, entrepreneurship and consumer welfare.

This bill is especially important to Latino business owners and entrepreneurs, many of whom are pursuing the American Dream by starting their own businesses, often in historically depressed communities. All businesses—from national realty, construction, auto, apparel, trucking and technology companies to Main Street homebuilders, retail shops, hotels, grocers, and

NATIONAL HEADQUARTERS: 1455 PENNSYLVANIA AVENUE NW • SUITE 400 • WASHINGTON, D.C. 20004  
ADMINISTRATIVE OFFICE: 8855 RESEARCH DRIVE • IRVINE, CA 92618  
OFFICE (TOLL FREE): 1 (855) 852-1995 • FAX: (866) 496-1944



restaurants—can become targets of patent trolls. It would be a tragedy if the continued abuse of the current patent litigation system were to steal away the dream of thousands of Latino entrepreneurs seeking a better life for their families and their communities.

This abuse also endangers our nation's economic health and technological development. Despite the passage of the America Invents Act and several recent positive rulings from the Supreme Court, patent trolls continue to file lawsuits at historically high rates, forcing businesses, large and small and across many industries, to divert billions in resources that could otherwise go towards innovation and job growth.

The comprehensive reforms proposed in the PATENT Act will strengthen and restore an essential balance to the patent litigation system that has been urgently needed for years.

Your bill demonstrates that there is a bipartisan consensus that the problems caused by patent trolls and abusive patent litigation must be addressed. A diverse group that includes businesses, consumer groups, legal scholars, economists, state legislatures and attorneys general have all come out in support of strong patent reform legislation.

You have taken an historic and important step forward with the introduction of your common sense reform proposal. As your legislation moves forward, we look forward to continuing to work with you to get this legislation enacted into law

Sincerely,

Allen Gutierrez  
National Executive Director  
The Latino Coalition

cc: The Honorable Mitch McConnell, Majority Leader, United States Senate  
The Honorable Harry Reid, Minority Leader, United States Senate  
The Honorable Members of the Senate Committee on the Judiciary

NATIONAL HEADQUARTERS: 1455 PENNSYLVANIA AVENUE NW • SUITE 400 • WASHINGTON, D.C. 20004  
ADMINISTRATIVE OFFICE: 8855 RESEARCH DRIVE • IRVINE, CA 92618  
OFFICE (TOLL FREE): 1 (855) 852-1995 • FAX: (866) 496-1944

[WWW.LATINOCOALITION.ORG](http://WWW.LATINOCOALITION.ORG)



Chita Polychron, CIPS, CRS, GRI  
2015 President

Dale A. Simon  
Chief Executive Officer

**GOVERNMENT AFFAIRS  
DIVISION**

Jerry Giovannelli, Senior Vice President  
Gary Weaver, Vice President  
Joe Ventrone, Vice President  
Scott Reiter, Vice President  
Jamie Gregory, Deputy Chief Lobbyist

500 New Jersey Ave., NW  
Washington, DC 20001-2020  
Ph. 202-383-1194 Fax 202-383-7580  
www.NAR.org

April 29, 2015

The Honorable Chuck Grassley  
Chairman  
U.S. Senate Committee on the Judiciary  
135 Hart Senate Office Building  
Washington, D.C. 20510

The Honorable John Cornyn  
Member  
U.S. Senate Committee on the Judiciary  
517 Hart Senate Office Building  
Washington, D.C. 20510

The Honorable Amy Klobuchar  
Member  
U.S. Senate Committee on the Judiciary  
302 Hart Senate Office Building  
Washington, DC 20510

The Honorable Charles E. Schumer  
Member  
U.S. Senate Committee on the Judiciary  
322 Hart Senate Office Building  
Washington, D.C. 20510

The Honorable Patrick Leahy  
Ranking Member  
U.S. Senate Committee on the Judiciary  
437 Russell Senate Office Building  
Washington, DC 20510

The Honorable Orrin Hatch  
Member  
U.S. Senate Committee on the Judiciary  
104 Hart Office Building  
Washington, DC 20510

The Honorable Mike Lee  
Member  
U.S. Senate Committee on the Judiciary  
361A Russell Senate Office Building  
Washington, D.C. 20510

Dear Chairman Grassley, Ranking Member Leahy, Senators Cornyn, Hatch, Klobuchar, Lee and Schumer:

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 the "Protecting American Talent and Entrepreneurship Act (PATENT Act)." We view the reforms in this bill as a meaningful way to protect American businesses from broad claims of patent infringement based on patents of questionable validity.

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 a result, NAR members know firsthand that "patent trolls" divert significant time and money from their businesses and strongly support legislation to curb patent troll abuses.

Without needed reforms that assure that asserted patent rights are legitimate, 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.

REALTORS® continue to experience the pain that patent trolls inflict as they continue to file lawsuits at historically high rates, forcing our members large and small to divert resources that could otherwise go towards innovation and growth. The comprehensive reforms



REALTOR® is a registered collective membership mark which may be used only by real estate professionals who are members of the NATIONAL ASSOCIATION OF REALTORS® and subscribe to its strict Code of Ethics.

proposed in the PATENT Act will strengthen and restore an essential balance to the patent litigation system that has been urgently needed for years.

Parties across the political and economic spectrum agree that the problems caused by patent trolls and abusive patent litigation must be addressed. A diverse group that includes businesses, consumer groups, legal scholars, economists, state legislatures and attorneys general have all come out in support of strong patent reform legislation.

We thank you for this important first step and look forward to working with you on this issue.

Sincerely,

A handwritten signature in black ink, appearing to read "C. Polychron".

Chris Polychron  
2015 President, National Association of REALTORS®

cc: United States Senate Committee on the Judiciary



April 29, 2015

Senator Chuck Grassley  
Chairman  
Committee on the Judiciary  
United States Senate  
Washington, DC 20510

Senator John Cornyn  
Committee on the Judiciary  
United States Senate  
Washington, DC 20510

Senator Patrick Leahy  
Ranking Member  
Committee on the Judiciary  
United States Senate  
Washington, DC 20510

Senator Charles Schumer  
Committee on the Judiciary  
United States Senate  
Washington, DC 20510

Senator Orrin Hatch  
Committee on the Judiciary  
United States Senate  
Washington, DC 20510

Senator Amy Klobuchar  
Committee on the Judiciary  
United States Senate  
Washington, DC 20510

Senator Mike Lee  
Committee on the Judiciary  
United States Senate  
Washington, DC 20510

Dear Chairman Grassley, Ranking Member Leahy, Senator Cornyn, Senator Schumer, Senator Hatch, Senator Klobuchar and Senator Lee:

On behalf of the members of the National Council of Chain Restaurants (NCCR), thank you for introducing the PATENT Act. Abusive patent litigation has long been a thorn in the side of American small businesses, including large numbers of chain restaurants and franchisees who operate local restaurants all across the country. Your legislation will make great strides toward protecting these small businesses from the worst patent troll abuses. We applaud your effort and we support this comprehensive reform.

Our member companies have shared with us numerous examples of patent trolls' abuses going back several years. As you well know, troll's claims are often presented as vague claims of ownership of common technologies and processes used in nearly every business. These tactics include "demand letters" from trolls which are harassing and intimidating to the average chain restaurant franchisee.

NATIONAL RETAIL FEDERATION  
1101 New York Avenue, NW, Suite 1200  
Washington, DC 20005  
[www.nrf.com/nccr](http://www.nrf.com/nccr)

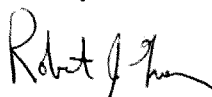
Patent Litigation Letter  
April 29, 2015  
Page Two

Small business owners frequently lack the time and resources to pursue defenses against patent trolls' threats, even in cases where the claims may be frivolous and without merit. Oftentimes, the less costly and time-consuming path for a franchise business owner is to simply succumb to the troll's demands by paying a fee to settle the claim. Not only is this a waste of valuable resources that could otherwise be used to invest in the business and create jobs, but it's also a distortion of the legal system which unjustly enriches individuals who had no role in the development of the technologies in which they claim an interest. The PATENT Act is a common sense bill that will make it more difficult for trolls to accuse small businesses of patent infringement simply to extort egregious settlements.

The National Council of Chain Restaurants, a division of the National Retail Federation, is the leading organization exclusively representing chain restaurant companies. For more than 45 years, NCCR has worked to advance sound public policy that serves restaurant businesses and the millions of people they employ. NCCR members include the country's most respected quick-service and table-service chain restaurants.

We appreciate your leadership and thoughtful work on this bipartisan legislation which we are pleased to support. We look forward to the PATENT Act advancing through the legislative process.

Sincerely,



Robert J. Green  
Executive Director

cc: Members of Senate Leadership  
Members of the Senate Judiciary Committee



April 29, 2015

The Honorable Chuck Grassley  
Chairman  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable Patrick Leahy  
Ranking Member  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

Dear Chairman Grassley and Ranking Member Leahy:

On behalf of our nation's restaurant and foodservice industry, the National Restaurant Association applauds your bipartisan introduction of the Protecting American Talent and Entrepreneurship (PATENT) Act along with Senators John Cornyn, Chuck Schumer, Orrin Hatch, Mike Lee and Amy Klobuchar.

The restaurant industry continues to be a target of ill-founded patent infringement demand letters and costly litigation over the use of basic technologies in our establishments, on our websites, and on individuals' smartphones. The restaurant industry is constantly evolving to provide exceptional service to our customers. But the threat of litigation from patent assertion entities 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.

The legislation you have introduced strikes a balance between legitimate patent holders and end users like the National Restaurant Association's members. It contains crucial reforms to shift the overall economic incentives away from trolls making baseless claims. In particular, we are pleased with provisions that address the scourge of vague and deceptive demand letters, increase transparency in pleadings as well as patent ownership, allow companies to step in when their customers are being sued for infringement, and enhance the likelihood of recovering reasonable attorney fees where appropriate.

We look forward to continuing to work with you in support of this critical legislation.

Sincerely,

A handwritten signature in black ink that reads "Matt J. Walker".

Matt Walker  
Vice President, Government Affairs  
National 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



April 29, 2015

The Honorable Chuck Grassley  
Chairman  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable Patrick Leahy  
Ranking Member  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable John Cornyn  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable Charles Schumer  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable Orrin Hatch  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable Amy Klobuchar  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable Mike Lee  
Committee on Judiciary  
United States Senate  
Washington, D.C. 20510

Dear Chairman Grassley, Ranking Member Leahy, Senator Cornyn, Senator Schumer, Senator Hatch, Senator Klobuchar, and Senator Lee:

On behalf of the members of the National Retail Federation (NRF), thank you for introducing The Protecting American Talent and Entrepreneurship (PATENT) Act. Abusive patent litigation is a significant and growing problem for retailers, and we strongly support this comprehensive reform. The PATENT Act will help protect retailers from patent trolls, while reaffirming this nation's commitment to American innovation, entrepreneurship, and consumer welfare.

Retailers are victimized by patent trolls' abusive practices more often than any other businesses. Patent trolls divert vital resources from retailers that they could otherwise use to invest and grow their businesses, further innovation, and create jobs. The PATENT Act proposes common sense reforms that will make it more difficult for trolls to abuse the asymmetry in patent litigation to extort retailers.

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

NATIONAL RETAIL FEDERATION  
1101 New York Avenue, NW, Suite 1200  
Washington, DC 20005  
[www.nrf.com](http://www.nrf.com)

National Retail Federation  
April 29, 2015  
Page 2

nation's largest private sector employer, supporting one in four U.S. jobs – 42 million working Americans. Contributing \$2.6 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.

We appreciate your commitment to addressing the harmful impact patent trolls have on retailers and the overall American economy. We thank you for your leadership and look forward to continuing our work together on this issue.

Sincerely,

A handwritten signature in black ink, appearing to read "David French", with a stylized flourish at the end.

David French  
Senior Vice President  
Government Relations

cc: Members of Senate Leadership  
Members of the Senate Judiciary Committee

ORACLE

500 Oracle Parkway phone 650.506.5500  
Redwood Shores fax 650.506.7114  
California 94065 oracle.com

April 29, 2015

The Honorable Chuck Grassley  
Chairman, Committee on the Judiciary  
United States Senate  
Washington, DC 20510

The Honorable Patrick Leahy  
Ranking Member, Committee on the Judiciary  
United States Senate  
Washington, DC 20510

The Honorable Orrin Hatch  
Member  
Committee on the Judiciary  
United States Senate  
Washington, DC 20510

The Honorable Charles Schumer  
Member  
Committee on the Judiciary  
United States Senate  
Washington, DC 20510

The Honorable John Cornyn  
Member  
Committee on the Judiciary  
United States Senate  
Washington, DC 20510

The Honorable Amy Klobuchar  
Member  
Committee on the Judiciary  
United States Senate  
Washington, DC 20510

The Honorable Mike Lee  
Member  
Committee on the Judiciary  
United State Senate  
Washington, DC 20510

Dear Chairman Grassley, Ranking Member Leahy, Senator Cornyn, Senator Schumer,  
Senator Hatch, Senator Klobuchar, and Senator Lee:

I write to you today to thank you for the introduction of the Protecting American Talent  
and Entrepreneurship (PATENT) Act of 2015. Abusive patent troll litigation continues to  
be a major problem for Oracle and countless other innovative companies, diverting  
hundreds of millions of dollars away from innovation, product development, solving

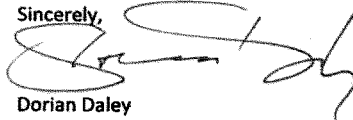
**ORACLE**

customers' technology needs, and business expansion. Oracle's R&D budget in the current fiscal year is well over \$5 billion, and we now hold over 15,000 patents, reflecting decades of innovation in enterprise software and systems. A strong patent system is essential to protect these substantial R&D investments.

At the same time, our market-leading enterprise software and hardware products and strong balance sheet have made us a popular target for speculative patent troll litigation. Of the dozens of patent cases filed against Oracle in the past decade, only two have involved actual competitors in the market. In addition, trolls have expanded their litigation strategy to target users of products and services, going after our enterprise customers across a broad spectrum of industries. In the past few years alone, we have received hundreds of indemnification demands from customers.

On behalf of Oracle, we strongly support the legislation introduced today, which will have a significant impact in addressing the disparities in the patent system that trolls are manipulating and exploiting. We are looking forward working with you and your colleagues to pass the PATENT Act.

Sincerely,

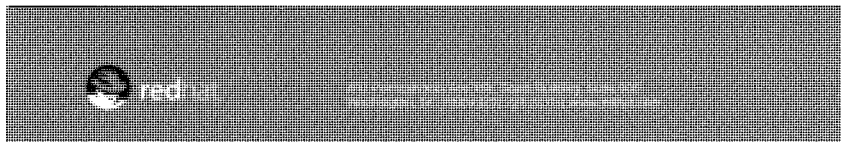


Dorian Daley

Executive Vice President, General Counsel  
and Corporate Secretary

DD:lcs

CC: The Honorable Mitch McConnell, Majority Leader, United States Senate  
The Honorable Harry Reid, Minority Leader, United States Senate  
The Honorable Members of the Senate Committee on the Judiciary



April 29, 2015

The Honorable Charles E. Grassley, Chairman  
Committee on the Judiciary  
United States Senate  
Washington, DC 20510

The Honorable Patrick J. Leahy, Ranking Member  
Committee on the Judiciary  
United States Senate  
Washington, DC 20510

The Honorable Orrin Hatch  
Committee on the Judiciary  
United States Senate  
Washington, DC 20510

The Honorable Charles Schumer  
Committee on the Judiciary  
United States Senate  
Washington, DC 20510

The Honorable John Cornyn  
Committee on the Judiciary  
United States Senate  
Washington, DC 20510

The Honorable Amy Klobuchar  
Committee on the Judiciary  
United States Senate  
Washington, DC 20510

The Honorable Mike Lee  
Committee on the Judiciary  
United States Senate  
Washington, DC 20510

Dear Chairman Grassley, Ranking Member Leahy, Senator Hatch, Senator Cornyn, Senator Schumer, Senator Lee and Senator Klobuchar:

I am writing on behalf of Red Hat, Inc., to express our deep appreciation for your introduction of the PATENT Act (the Protecting American Talent and Entrepreneurship Act of 2015). Your bi-partisan effort is an important step to restore balance and confidence in our patent system.

As the most successful company delivering mission-critical open-source software to enterprises and governments around the world, Red Hat faces significant challenges from abusive patent litigation. Unfortunately, rather than promoting innovation, "patent trolls" and others use a broken system and poor quality patents to impose significant costs on those entities working to create jobs and grow our nation's economy.

The PATENT Act represents an important opportunity to improve the patent system at the present time and we look forward to working with you as the bill progresses through Committee.

Please do not hesitate to contact me if you have any questions, or if I can provide further information.

Sincerely,

Mark Bohannon  
Vice President, Global Public Policy &  
Government Affairs



**SAMSUNG ELECTRONICS AMERICA, INC.**  
 US Public Affairs  
 1200 New Hampshire Avenue, NW  
 Suite 650  
 Washington, DC 20036

April 29, 2015

The Honorable Chuck Grassley  
 Chairman  
 Committee on the Judiciary  
 United States Senate  
 Washington, D.C. 20510

The Honorable Patrick Leahy  
 Ranking Member  
 Committee on the Judiciary  
 United States Senate  
 Washington, D.C. 20510

The Honorable Mike Lee  
 Member  
 Committee on the Judiciary  
 United States Senate  
 Washington, D.C. 20510

The Honorable Amy Klobuchar  
 Member  
 Committee on the Judiciary  
 United States Senate  
 Washington, D.C. 20510

The Honorable John Cornyn  
 Member  
 Committee on the Judiciary  
 United States Senate  
 Washington, D.C. 20510

The Honorable Charles Schumer  
 Member  
 Committee on the Judiciary  
 United States Senate  
 Washington, D.C. 20510

The Honorable Orrin Hatch  
 Member  
 Committee on the Judiciary  
 United States Senate  
 Washington, D.C. 20510

Dear Chairman Grassley, Ranking Member Leahy, Senator Cornyn and Senator Schumer, Senator Lee, Senator Hatch, Senator Klobuchar:

We write today to thank you for introducing your patent reform bill. The introduction of this legislation demonstrates your steadfast leadership in the complex and critical area of patent reform. The changes in the legislation will go a long way toward restoring a sense of balance and fairness to U.S. patent litigation and protecting the future of innovation and entrepreneurship, competitiveness, and consumer welfare.

The ever-increasing level of patent litigation abuse threatens the health and welfare of the world's largest economy as well as global technological development. Notwithstanding the passage of the America Invents Act and several recent positive rulings from the Supreme Court, patent trolls continue to file lawsuits at historically high rates. This is not without costs – costs to businesses of diverting billions in resources that could otherwise go toward research and development, and costs to consumers of increased prices and decreased choices.

The introduction of your common-sense reforms is a significant progress toward restoring balance to a patent litigation system that has been not been fulfilling its promise or its mission. As this important legislation moves forward, we look forward to continuing to work with you.

Sincerely,  
  
 Joel Wiginton  
 Vice President, Government and Political Relations



April 29, 2015

Senator Chuck Grassley  
Chairman  
Senate Committee on the Judiciary  
Washington, DC 20510

Senator Patrick Leahy  
Ranking Member  
Senate Committee on the Judiciary  
Washington, DC 20510

Senator John Cornyn  
Member  
Senate Committee on the Judiciary  
Washington, DC 20510

Senator Chuck Schumer  
Member  
Senate Committee on the Judiciary  
Washington, DC 20510

Senator Orrin Hatch  
Member  
Senate Committee on the Judiciary  
Washington, DC 20510

Senator Amy Klobuchar  
Member  
Senate Committee on the Judiciary  
Washington, DC 20510

Senator Mike Lee  
Member  
Senate Committee on the Judiciary  
Washington, DC 20510

Re: PATENT Act of 2015

Dear Chairman Grassley, Ranking Member Leahy, and Senators Cornyn, Schumer, Hatch, Klobuchar, and Lee:

On behalf of SAS, I thank you for your leadership on patent litigation reform, and for the introduction of the Protecting American Talent and Entrepreneurship (PATENT) Act of 2015. Like other companies that have been targeted by abusive patent assertions, SAS feels strongly that congressional action is critical to alleviate the economic incentives and asymmetries in the litigation system that allow this kind of egregious behavior to flourish. Introduction of the PATENT Act is a strong first step to restoring balance into the patent litigation system. More important, it is a necessary step to allow companies like SAS to re-commit focus to important activities, such as economic development, innovation, and job creation, instead of the nonproductive extortion that have been the hallmark of patent trolls.

We thank you for your leadership, and look forward to continuing to work with you to ensure a meaningful legislative solution is enacted into law.

Sincerely,

John G. Howell  
Executive Vice President and Chief Legal Officer  
SAS Institute Inc.



## News Release

Sprint  
6200 Sprint Parkway  
Overland Park, Kan. 66251

**Media Contact**  
Jeff Silva  
(301) 237-0515  
[Jeffrey.Silva@sprint.com](mailto:Jeffrey.Silva@sprint.com)

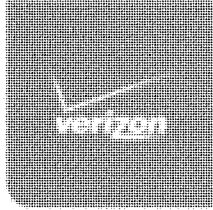
April 29, 2015

### **Sprint Statement on Senate Introduction of the PATENT Act**

"Sprint appreciates the introduction of the PATENT Act of 2015 with strong bipartisan support. We applaud the effort by Chairman Grassley, Ranking Member Leahy, and Sens. Cornyn, Schumer, Hatch, Klobuchar and Lee to lead much needed patent reform legislation. As a leader among U.S. telecom carriers in patent awards, we know firsthand how these reforms are critical to marketplace competition and are long overdue. This legislation will help ensure our limited capital can fund further innovation and not be wasted on fighting the frivolous lawsuits of patent trolls."

#### **About Sprint:**

Sprint (NYSE: S) is a communications services company that creates more and better ways to connect its customers to the things they care about most. Sprint served nearly 56 million connections as of December 31, 2014 and is widely recognized for developing, engineering and deploying innovative technologies, including the first wireless 4G service from a national carrier in the United States; leading no-contract brands including Virgin Mobile USA, Boost Mobile, and Assurance Wireless; instant national and international push-to-talk capabilities; and a global Tier 1 Internet backbone. Sprint has been named to the Dow Jones Sustainability Index (DJSI) North America for the past four years. You can learn more and visit Sprint at [www.sprint.com](http://www.sprint.com) or [www.facebook.com/sprint](https://www.facebook.com/sprint).



## ***NEWS RELEASE***

**FOR IMMEDIATE RELEASE**  
**April 29], 2015**

**Media contact:**  
**Ed McFadden**  
**202-515-2441**  
**edward.s.mcfadden@verizon.com**  
**Twitter: @edmcfadden**

### **Verizon Supports Patent-Litigation Reform Legislation**

**WASHINGTON** – Today (April 29) U.S. Senate Judiciary Chairman Chuck Grassley (R-LA), Ranking Member Patrick Leahy (D-VT), and Sens. John Cornyn (R-TX), Charles Schumer (D-NY), Mike Lee (R-UT), Orrin Hatch (R-UT), and Amy Klobuchar (D-MN), introduced the Protecting American Talent and Entrepreneurship Act of 2015 (PATENT Act), which includes important reforms to the patent-litigation system. The following statement should be attributed to Michael E. Glover, Verizon senior vice president and deputy general counsel, public policy and government affairs:

“Verizon commends Chairman Grassley, Ranking Member Leahy, and Senators Cornyn, Schumer, Lee, Hatch, and Klobuchar for their strong leadership in crafting a balanced, bipartisan bill that preserves innovators’ ability to defend their patents, while cutting down on abusive patent litigation tactics that hurt inventors big and small.

Verizon News Release, page 2

“The PATENT Act recognizes that the goal of patent law is to promote innovation. The problem is that today, some use baseless patent litigation to hinder innovation, not promote it. When they accuse innovators of infringement, they seek not the value of the patent, but some fraction of what the innovator would have to pay to fight them in court. This kind of abuse of the patent litigation system has become a serious problem for American innovators nationwide. The PATENT Act makes patent litigation more efficient, driving down the incentive to bring abusive patent litigation in the first place and helping to restore patent law to its original goal: promoting innovation.”

####

Verizon Communications Inc. (NYSE, Nasdaq: VZ), headquartered in New York, is a global leader in delivering broadband and other wireless and wireline communications services to consumer, business, government and wholesale customers. Verizon Wireless operates America's most reliable wireless network, with more than 108 million retail connections nationwide. Verizon also provides converged communications, information and entertainment services over America's most advanced fiber-optic network, and delivers integrated business solutions to customers worldwide. A Dow 30 company with more than \$127 billion in 2014 revenues, Verizon employs a diverse workforce of 177,300. For more information, visit [www.verizon.com/news/](http://www.verizon.com/news/).

####

VERIZON'S ONLINE NEWS CENTER: Verizon news releases, executive speeches and biographies, media contacts and other information are available at Verizon's online News Center at [www.verizon.com/news/](http://www.verizon.com/news/). The news releases are available through an RSS feed. To subscribe, visit [www.verizon.com/about/rss-feeds/](http://www.verizon.com/about/rss-feeds/).



April 29, 2015

The Honorable Chuck Grassley  
Chairman  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable John Cornyn  
Member  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable Michael Lee  
Member  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable Amy Klobuchar  
Member  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable Patrick Leahy  
Ranking Member  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable Charles Schumer  
Member  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable Orrin Hatch  
Member  
Committee on the Judiciary  
United States Senate  
Washington D.C. 20510

Dear Chairman Grassley, Ranking Member Leahy, Senator Cornyn, Senator Schumer, Senator Lee, Senator Hatch, and Senator Klobuchar:

On behalf of Adobe, thank you for introducing the Protecting American Talent and Entrepreneurship (PATENT) Act of 2015. With over 3,000 patents and pending applications, Adobe is a strong believer in the importance of the patent system to foster innovation. However, the well-documented abuse of the current system has placed an enormous burden on innovative American businesses and threatens the integrity of that system. The reforms proposed in the PATENT Act will help ensure the patent litigation system is being used for its intended purpose: enforcing valid and meritoriously-based claims of patent infringement. It is time to end the practice of using litigation as a business plan, where innovation is merely a catchphrase providing cover for coercion.

We look forward to working with the Committee on strengthening the bill to ensure we are restoring symmetry to litigation costs and ensuring we are using the proper forum to resolve these disputes. We thank the Committee for the hard work on reaching this historic point and look forward to working with this Committee as this legislation moves forward.

Sincerely,

*Dana Rao*

Dana Rao  
Vice-President, IP & Litigation  
Adobe Systems Inc.



## **AGA Applauds Senators for Bipartisan Effort to Fix Antiquated Patent System**

*Association looks forward to partnering with congress to enact meaningful legislation*

April 29, 2015

**Contact:** Chris Moyer

[cmoyer@americangaming.org](mailto:cmoyer@americangaming.org)

(603) 479-1402

**Washington, DC** — American Gaming Association (AGA) Vice President of Government Relations Whit Askew released the following statement after Senate Judiciary Committee leaders introduced important bipartisan patent reform legislation:

"We appreciate Chairman Grassley, Ranking Member Leahy and Senators Cornyn, Schumer, Hatch, Lee and Klobuchar for their bipartisan efforts to restore fairness to the patent litigation system and protect America's employers and innovators. Gaming is an innovative, \$240 billion industry that supports 1.7 million U.S. jobs. Today's introduction of the PATENT Act is an important next step toward eliminating abusive, frivolous and costly behavior that hinders innovation, job creation and economic growth in gaming and other main street industries. AGA looks forward to continuing its partnership with the wide range of coalition partners and congressional leaders to enact meaningful legislation that will once-and-for-all curb deceptive, predatory practices asserted by patent trolls."

**About AGA:** The American Gaming Association is the premier national trade group representing the \$240 billion U.S. casino industry, which supports 1.7 million jobs in 40 states. AGA members include commercial and tribal casino operators, suppliers and other entities affiliated with the gaming industry. It is the mission of the AGA to be the single most effective champion of the industry, relentlessly protecting against harmful and often misinformed public policies, and paving a path for growth, innovation and reinvestment.



FOR IMMEDIATE RELEASE

Contact: Sarah Elliott - [sarah@appdevelopersalliance.org](mailto:sarah@appdevelopersalliance.org)

**App Developers Alliance Encouraged by Comprehensive Patent Reform Bill in Senate**  
*Urges Rapid Action to Protect Startups and App Developers from Patent Trolls*

**Washington, D.C.** (April 29, 2015) –The Application Developers Alliance said today it is encouraged by the comprehensive patent reform bill, the PATENT Act, being introduced by Senators Chuck Grassley (R-IA), Patrick Leahy (D-VT), Chuck Schumer (D-NY), John Cornyn (R-TX), Senators Orrin Hatch (R-UT), Mike Lee (R-UT) and Amy Klobuchar (D-MN) and looks forward to working with the Senate to pass the needed reforms.

"This bill is critical because there is no time to waste. Without legislation, small innovators will continue to make unjustified payments to predatory patent trolls, simply because paying is less costly than hiring expensive patent lawyers," said Jon Potter, President of the App Developers Alliance. "Abusive patent trolls are a tax on innovation and threaten small companies nationwide. We encourage the Senate to move swiftly on this legislation."

The Apps Alliance hosted a dozen companies and held over 30 meetings today with Senate and House offices. Start-ups, innovators and entrepreneurs from across the country told Congress the many ways in which patent trolls have hurt their ability to grow and create jobs. The group cited the uncertainty that frivolous lawsuits create for them as business owners and called on members of Congress to pass patent reform laws in the name of economic growth and job creation.

The Application Developers Alliance supports legislative reforms that undermine the patent troll business model without harming legitimate patent enforcement. The Alliance supports policies that short-circuit frivolous litigation, address the imbalance in litigation burdens, and ensure transparency and specificity in demand letters and complaints.

More information is available at [TrollFighter.com](http://TrollFighter.com).

###

*The Apps Alliance is a non-profit global membership organization that supports developers as creators, innovators, and entrepreneurs. We promote app industry growth and advocate on behalf of our members on public policy and industry issues. The Apps Alliance serves more than 36,000 individual members and more than 200 companies, including app publishers, platforms, wireless carriers, hardware manufacturers, ad networks, enterprise tools and service providers.*



FOR IMMEDIATE RELEASE

Contact: Lucy Tutwiler

(202) 449-9866

## **CCA Commends Senate Introduction of Patent Legislation**

Washington, DC – April 29, 2015 – Today, Senate Committee on the Judiciary Chairman Chuck Grassley (R-IA) and Ranking Member Pat Leahy (D-VT), along with Senators John Cornyn (R-TX), Chuck Schumer (D-NY), Orrin Hatch (R-UT), Amy Klobuchar (D-MN), and Mike Lee (R-UT) introduced the Protecting American Talent and Entrepreneurship Act (the PATENT Act) to address the ever increasing problem of abusive patent litigation. Competitive Carriers Association (CCA) thanks the Senators for their bi-partisan work on this issue, which has become an ever-increasing problem for businesses across the country.

"I thank Chairman Grassley, Ranking Member Leahy, and Senators Cornyn, Schumer, Hatch, Klobuchar, and Lee for their bi-partisan introduction of the PATENT Act. The wireless industry is just one of many industries that have been negatively impacted by the abusive behavior of patent trolls, and this harmful practice must be put to an end. Competitive carriers, especially small carriers with limited resources, want to focus on expanding mobile broadband, not spending valuable time, energy and resources to fight frivolous lawsuits, and it is time for Congressional action."

"I commend Congress for its efforts to introduce legislation that will put an end to patent troll threats and practices. Businesses across the country and the economy will benefit from their work, and we look forward to working with Congress to help advance this bill."

### **About CCA**

CCA is the nation's leading association for competitive wireless providers and stakeholders across the United States. The licensed service area of CCA's more than 100 carrier members covers 95 percent of the nation. Visit [www.competitivecarriers.org](http://www.competitivecarriers.org).



**FOR IMMEDIATE RELEASE**

**CEA Praises Senators for Introduction of the PATENT Act of 2015**

*Legislation will curb patent trolls' legalized extortion, save U.S. economy \$80 billion a year*

**Arlington, VA, April 29, 2015** – The following statement is attributed to Gary Shapiro, president and CEO, Consumer Electronics Association (CEA)\*, regarding the introduction of the Protecting American Talent and Entrepreneurship (PATENT) Act of 2015 by Senate Judiciary Chairman Chuck Grassley (R-IA), Ranking Member Patrick Leahy (D-VT), and Sens. John Cornyn (R-TX), Charles Schumer (D-NY), Orrin Hatch (R-UT), Amy Klobuchar (D-MN) and Mike Lee (R-UT):






“We thank Chairman Grassley, Ranking Member Leahy, and Senators Cornyn, Schumer, Hatch, Klobuchar and Lee for their commitment to comprehensive patent reform. This bipartisan, common-sense bill will close legal loopholes used by those who abuse our patent system. It will stop the legalized extortion of American innovators by patent trolls – individuals or companies that do not manufacture products or supply services, but exist solely to demand payments, threaten litigation and file frivolous lawsuits against those who do. And it will make life easier for legitimate American businesses – especially small businesses, the most frequent targets of patent trolls.

“Patent trolls are an enormous drain on the U.S. economy, siphoning off \$1.5 billion a week –roughly \$110 billion since the House passed reform legislation in 2013. Every dollar a small business spends on legal bills or yielding to legal extortion of a patent troll or fighting a patent troll in court is money it can’t invest in building new products or creating new jobs. Bogus patent demand letters, threats and actual litigation are a massive anchor on American innovation, and make it even more difficult for American businesses to compete globally.

“We’re encouraged by the introduction of this bill and ask the Senate to move forward on the PATENT Act as soon as possible. As the number of troll demand letters, threats and lawsuits reach epidemic levels, now is the time for comprehensive reform. American innovation can’t afford to wait any longer.”

**About CEA:**

The Consumer Electronics Association (CEA) is the technology trade association representing the \$286 billion U.S. consumer electronics industry. More than 2,000 companies enjoy the benefits of CEA membership, including legislative and regulatory 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 [CE.org](http://CE.org), [InnovationMovement.com](http://InnovationMovement.com) and through social media:     



## **Cisco Welcomes Introduction of Senate Patent Litigation Reform Bill**

Mark Chandler  
April 29, 2015

The introduction of Protecting American Talent and Entrepreneurship (PATENT) Act of 2015 represents a major milestone on the long road to patent reform. On behalf of Cisco, let me thank Senators Grassley, Leahy, Cornyn, Schumer, Lee, Hatch and Klobuchar for their work to forge bipartisan support for this legislation.

The problem of abusive patent litigation lawsuits continues to grow, costing our nation's economy billions of dollars every year. Patent assertion entities don't make or produce anything, instead they use abusive tactics to force settlements and drive up legal fees. This has got to stop.

The legislation introduced today is a significant step forward. It has strong fee-shifting provisions, makes important discovery reforms, and protects users of technologies from abusive demand letters.

Cisco stands ready to work with the bill sponsors and other stakeholders to make this legislation even stronger as it moves its way through the legislative process. Now is the time for Congress to pass meaningful patent reform and end the abusive business model of patent assertion entities.



April 29, 2015

Committee on the Judiciary  
United States Senate  
224 Dirksen Senate Office Building  
Washington, D.C. 20510

Dear Senators Grassley, Leahy, Cornyn, Schumer, Lee, Hatch, and Klobuchar,

On behalf of the 1.8 million employee U.S. hotel industry, the American Hotel & Lodging Association and 40 state associations representing hotels, including the Vermont Chamber of Commerce, the Texas Hotel & Lodging Association, the New York State Hospitality & Tourism Association, the Utah Hotel & Lodging Association, and the Minnesota Lodging Association, applaud you for introducing the PATENT Act – a strong, bi-partisan bill that will stem the tide of frivolous lawsuits by patent trolls.

The abusive litigation tactics employed by patent trolls every day against businesses of all sizes and from almost all industries is taking a toll on the hotel industry, and we believe this legislation will limit the ability of these entities to extort money from our hotels.

We are a founding member of the United for Patent Reform coalition which includes companies and trade associations from across the economic spectrum, including home builders, realtors, convenience stores, restaurants, and retail shops, as well as innovative technology companies like Google, Facebook, Samsung, and Cisco. Members of our coalition include many of the largest patent holders in the country, clearly demonstrating that the reforms we seek will not decrease the value of patents or limit their enforceability.

However, when a patent troll, with no interest in pursuing any productive use of a patent it holds can continuously profit from sending exceedingly vague or deceptive demand letters to small business franchisees who own a single hotel, and have no in-house legal staff, something is wrong with our patent litigation system. Among many other important reforms, the PATENT Act takes the crucial steps of:

- requiring parties who send patent demand letters to accurately include certain basic information;
- allowing end users of technology, like hotels, to delay their patent litigation while claims between the patent owner and the manufacturer are litigated;



- establishing a strong fee-shifting rubric and a mechanism to ensure such fee-shifting is enforceable; and
- limiting the cost of discovery for defendants in response to baseless patent cases.

We look forward to working with you and the entire Judiciary Committee to move the PATENT Act forward as expeditiously as possible. Only when strong legislation has been signed into law will hotel owners, operators and investors be able to stop wasting time and money on defending their businesses from patent trolls, and turn their full focus toward enhancing the guest experience, building new hotels and creating jobs in their communities.

Sincerely,

American Hotel & Lodging Association  
 Alabama Restaurant & Hospitality Alliance  
 Alaska Hotel & Lodging Association  
 Arizona Lodging & Tourism Association  
 Arkansas Hospitality 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  
 Minnesota Lodging Association  
 Montana Lodging & Hospitality Association  
 Nebraska Hotel & Motel Association  
 Nevada Hotel & Lodging Association  
 New Hampshire Lodging & Restaurant Association  
 New York Hospitality & Tourism Association  
 North Carolina Restaurant & Lodging Association  
 Ohio Hotel & Lodging Association  
 Oklahoma Hotel & Lodging Association  
 Oregon Restaurant & 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  
 Vermont Chamber of Commerce  
 Virginia Hospitality & Travel Association  
 Washington Lodging Association  
 West Virginia Hospitality & Travel Association  
 Wisconsin Hotel & Lodging Association  
 Wyoming Lodging & Restaurant Association

Intuit  
2550 Garcia Avenue  
Mountain View, CA 94043  
650.944.3840  
[www.intuit.com](http://www.intuit.com)



April 29, 2015

"We are grateful to Chairman Grassley, Ranking Member Leahy and Senators Cornyn, Schumer, Lee, Hatch and Klobuchar for introducing legislation to restore fairness to the patent litigation system and protect job-creating American businesses from patent trolls. We look forward to working with the Senate going forward to craft a strong bill that will curb abuses of the patent system while promoting innovation."



April 29, 2015

The Honorable Chuck Grassley  
Chairman, Committee on the Judiciary  
United States Senate  
Washington, DC 20510

The Honorable Patrick Leahy  
Ranking Member, Committee on the Judiciary  
United States Senate  
Washington, DC 20510

Dear Chairman Grassley and Ranking Member Leahy:

The Coalition for Patent Fairness thanks you, as well as Senators Cornyn, Schumer, Lee, Hatch, and Klobuchar for the introduction of the bipartisan PATENT Act of 2015.

The Coalition for Patent Fairness represents the world's most innovative technology companies. We have been fighting together for legislation to bring balance and certainty to the patent litigation system for over a decade. Our companies are some of the world's largest patent holders. We strongly support our nation's patent system and have worked tirelessly alongside this Committee to modernize and improve the system. Our goal in those efforts has been to maximize U.S. innovation and improve the patent system for everyone. Unfortunately, the current system is not living up to that goal and our companies have felt the ill effects of those who have abused it. Ample academic evidence now shows the negative impact this has had on innovation.<sup>1</sup> Today is an important step forward in addressing this challenge.

We strongly support you moving this important legislation promptly through the Senate Judiciary Committee and toward full Senate approval. While this legislation takes an important step forward in curbing the worst abuses of patent trolls, there is still work to do. We remain concerned that as this legislation moves forward, key provisions of the bill and current patent law are in danger of being eliminated or watered down, and we strongly urge you to resist such efforts. Likewise, we will continue to seek needed improvements in the bill as it moves through the Senate. We look forward to working with the Members of the Committee as you move toward consideration of the PATENT Act before the full Senate.

Sincerely,

Coalition for Patent Fairness

The Coalition for Patent Fairness is a diverse group of technology companies dedicated to enhancing U.S. innovation, job creation, and competitiveness in the global market by modernizing and strengthening our nation's patent system. Coalition for Patent Fairness members include Adobe, Blackberry, Cisco, Dell, Google, Intuit, Oracle, Rackspace, Salesforce, Samsung, SAP and Verizon.

<sup>1</sup> Robin Feldman and Evan Frondorf, "Patent Demands and Initial Public Offerings," *University of California Hastings College of the Law* (2015); Catherine Tucker, "The Effect of Patent Litigation and Patent Assertion Entities on Entrepreneurial Activity," *MIT Sloan School of Management* (June 2014); Roger Smeets, "Patent Demands and Initial Public Offerings," *Rutgers University* (April 2014); Lauren Chen, Umit Gurun, and Scott Duke Kominers, "Patent Trolls: Evidence from Targeted Firms," *Harvard Business School* (August 2014); Robin Feldman, "Patent Demands & Startup Companies: The View from the Venture Capital Community," *Yale Journal of Law & Technology*, (October 2013); Colleen Chien, "Startups and Patent Trolls," *Santa Clara University School of Law* (September 2012)



**April 29, 2015**

**Media Contact:** Kathryn Stack, Burson-Marsteller  
(202) 460-1178 and [kathryn.stack@bm.com](mailto:kathryn.stack@bm.com)

### **Microsoft Supports the PATENT Act**

**Redmond, WA – April 29, 2015** – Today, Microsoft announced their support of the recently introduced PATENT Act in the Senate. Erich Andersen, vice president and deputy general counsel at Microsoft, issued the following statement:

"Microsoft applauds today's introduction of the Protecting American Talent and Entrepreneurship (PATENT) Act. The bipartisan measure offered by Chairman Grassley, Ranking Member Leahy, and Senators Cornyn, Schumer, Hatch, Klobuchar and Lee targets badly needed reforms that will curb abusive practices in patent litigation and make patent cases fairer, more transparent and more efficient for all participants in the patent system. At the same time, the PATENT Act avoids measures that would erode the value of patents and undermine incentives to innovate. We are pleased to support it."

"We thank the sponsors for their leadership and look forward to working with the Committee as the bill moves toward early Senate action."

###

#### **About Microsoft**

Founded in 1975, Microsoft (Nasdaq "MSFT") is the worldwide leader in software, services and solutions that help people and businesses realize their full potential.



April 29, 2015

Senator Chuck Grassley  
Chairman  
Senate Committee on the Judiciary  
Washington, DC 20510

Senator Patrick Leahy  
Ranking Member  
Senate Committee on the Judiciary  
Washington, DC 20510

Senator John Cornyn  
Member  
Senate Committee on the Judiciary  
Washington, DC 20510

Senator Chuck Schumer  
Member  
Senate Committee on the Judiciary  
Washington, DC 20510

Senator Orrin Hatch  
Member  
Senate Committee on the Judiciary  
Washington, DC 20510

Senator Amy Klobuchar  
Member  
Senate Committee on the Judiciary  
Washington, DC 20510

Senator Mike Lee  
Member  
Senate Committee on the Judiciary  
Washington, DC 20510

Re: PATENT Act of 2015

Dear Chairman Grassley, Ranking Member Leahy, and Senators Cornyn, Schumer, Hatch, Klobuchar, and Lee:

On behalf of SAS, I thank you for your leadership on patent litigation reform, and for the introduction of the Protecting American Talent and Entrepreneurship (PATENT) Act of 2015. Like other companies that have been targeted by abusive patent assertions, SAS feels strongly that congressional action is critical to alleviate the economic incentives and asymmetries in the litigation system that allow this kind of egregious behavior to flourish. Introduction of the PATENT Act is a strong first step to restoring balance into the patent litigation system. More important, it is a necessary step to allow companies like SAS to re-commit focus to important activities, such as economic development, innovation, and job creation, instead of the nonproductive extortion that have been the hallmark of patent trolls.

We thank you for your leadership, and look forward to continuing to work with you to ensure a meaningful legislative solution is enacted into law.

Sincerely,

John G. Howell  
Executive Vice President and Chief Legal Officer  
SAS Institute Inc.



Computer & Communications  
Industry Association  
Tech Advocacy Since 1972

## Senate Judiciary Leaders Introduce Patent Reform Bill

*Heather Greenfield*  
*April 29, 2015*

Washington — Senate Judiciary Committee leaders have introduced bipartisan legislation today intended to rein in patent trolls who threaten businesses and consumers with legally questionable infringement claims. One reform could allow prevailing defendants to recover legal fees — if they can prove the plaintiff's claim was not reasonable. Another would require attorneys sending vague letters threatening litigation to include more detailed information so those receiving the letter can better assess the legitimacy of the demand for money.

The Computer & Communications Industry Association has been advocating for patent reform for years. We have long stressed the serious damage to innovation resulting from the steadily growing number of trolls and the numerous techniques they have developed to abuse the patent system. The following can be attributed to CCIA President & CEO Ed Black:

"The abuse of the patent system has been an unfair and unnecessary drain on our economy. Patent trolls have been targeting everyone from restaurants that have websites to customers buying a printer at a store, and we are grateful to Senate Judiciary Committee leaders for offering businesses and consumers tools to disarm those who are clearly abusing the system.

"Companies support this legislation because questionable patent troll claims are costing them millions of dollars, and they understand the bill is carefully tailored so as to not impact their own legitimate patents.

"The patent system was set up to encourage innovation — not hold it back. For too long patent trolls have been able to manipulate our legal system in ways that were never intended. This Senate bill contains some real reforms and we hope proponents can resist the inevitable pressure to water down meaningful improvements. We look forward to working with staff as the language evolves."



## News Release

1201 Maryland Avenue, SW • Ste. 900 • Washington, D.C. • 20024 • 202-962-9200  
 Web: [www.bio.org](http://www.bio.org) Blog: [www.biotech-now.org](http://www.biotech-now.org) Twitter: [@IAmBiotech](https://twitter.com/IAmBiotech)

**For Immediate Release**

**Contact:** [George Goodno](#)  
 202-962-6660

### **Statement Regarding the Introduction of Senate Patent Reform Legislation**

Washington, D.C. (April 29, 2015) – The Biotechnology Industry Organization (BIO) today issued the following statement regarding the introduction of The Protecting American Talent and Entrepreneurship (PATENT) Act introduced by Senate Judiciary Committee Chairman Chuck Grassley and Ranking Member Patrick Leahy, along with committee members John Cornyn, Chuck Schumer, Orrin Hatch, Mike Lee, and Amy Klobuchar:

"BIO appreciates the good faith efforts of the co-sponsors of the PATENT Act to address many of the concerns that have been raised with respect to the companion effort of the House Judiciary Committee as reflected in H.R. 9. The PATENT Act is clearly a positive step towards building greater consensus among patent stakeholders on ways to target abusive litigation tactics.

"In particular, the Committee's revisions with respect to pleading requirements, discovery stays, and mechanisms for fee recovery against shell companies reflect noticeable improvements over H.R. 9. BIO will continue to engage in a constructive dialogue with the Committee and other stakeholders on these and other provisions to further improve this bill as it moves forward in the legislative process.

"We note with disappointment that the bill introduced today does not contain any of the critically needed reforms to prevent the continued exploitation and abuse of the PTO's inter partes review (IPR) proceeding against patent owners. However, we appreciate the acknowledgment by Chairman Grassley and other co-sponsors of the need to include such reforms as the bill proceeds through the Committee's process, and BIO pledges to work with these leaders to include such important provisions. But any patent bill reported by the Senate Judiciary Committee that does not meaningfully reform the IPR system would lack a sense of balance and thus would be opposed by BIO.

"We look forward to working with Members of the Senate to secure further needed improvements to the PATENT Act that will support the ability of biotechnology

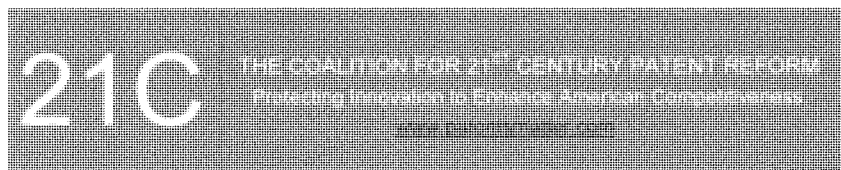
- more -

companies to rely on their patents to raise and invest the hundreds of millions of dollars needed to develop and bring to market the next generation of innovations in healthcare, agriculture and energy.”

**About BIO**

BIO is the world's largest trade association representing biotechnology companies, academic institutions, state biotechnology centers and related organizations across the United States and in more than 30 other nations. BIO members are involved in the research and development of innovative healthcare, agricultural, industrial and environmental biotechnology products. BIO also produces the [BIO International Convention](#), the world's largest gathering of the biotechnology industry, along with industry-leading investor and partnering meetings held around the world. [BIOtechNOW](#) is BIO's blog chronicling “innovations transforming our world” and the BIO Newsletter is the organization's bi-weekly email newsletter.” [Subscribe to the BIO Newsletter](#).

###



**For Immediate Release**  
April 29, 2015

**Contact: Brian Walsh**  
(202) 280-2007

## **21C Commends Senate Introduction of the PATENT Act**

(Washington, DC) -- The Coalition for 21st Century Patent Reform ("21C") today congratulated Chairman Grassley, Ranking Member Leahy, and Senators Cornyn and Schumer on the introduction of the *Protecting American Talent and Entrepreneurship Act of 2015* (PATENT Act).

"21C commends the bill's sponsors and their staffs for their inclusion of provisions that will curtail patent litigation abuses without unduly undermining the ability of all patent owners to enforce their patents against infringers," said Kevin Rhodes, Chairman of the 21C Coalition and Chief Intellectual Property Counsel of the 3M Company. "In particular, the bill's provisions on fee-shifting, fee recovery, early disclosures, motion-related discovery, pleadings and customer stays reflect welcome compromises to address the concerns of stakeholders while retaining their effectiveness to address abusive litigation practices that have no place in a properly-functioning patent system. It represents a significant, thoughtful and constructive contribution to the patent reform effort and 21C supports these provisions."

In 21C's view, any meaningful patent reform legislation must also include provisions designed to ensure that Inter Partes Review ("IPR") and Post-Grant Review ("PGR") proceedings are fair to both those who challenge patents as well as to those whose patents are challenged. 21C looks forward to working with the Committee to improve the PATENT Act's provisions even further, and, in addition to retaining the BRI "fix" as set forth in the "Innovation Act," H.R. 9, to add other important provisions to improve the fairness of the patent system for innovators and inventors.

"Legislation is needed to require the PTO to use the same burdens and standards as are used in the courts, so that the validity of issued patents will not depend upon the forum in which they are challenged," Rhodes continued, explaining:

Such legislation should ensure that PGR and IPR proceedings will be instituted, conducted and decided fairly and objectively, provide due process to all parties, and protect patent owners from duplicative, costly and unnecessary challenges. Just as litigation abuses in our patent system need to be curbed, it is equally important to curb unfairness and abuses when patents are adjudicated in IPR and PGR proceedings rather than in courts.

“As the legislative process moves forward, 21C pledges to continue to work with members of the Senate Judiciary Committee, their staff, and other stakeholders, and we look forward to lending our strong support for a bill that addresses both patent litigation and post-issuance proceedings in a comprehensive fashion,” Rhodes concluded.

The Coalition for 21<sup>st</sup> Century Patent Reform has more than 40 members from 18 diverse industry sectors and includes many of the nation’s leading manufacturers and researchers. The coalition’s steering committee includes 3M, Bristol-Myers Squibb, Caterpillar, ExxonMobil, General Electric, Procter & Gamble, Johnson & Johnson, and Eli Lilly. For more information, visit <http://www.patentmatter.com>.

###

## UNITED *for* PATENT REFORM

April 29, 2015

The Honorable Chuck Grassley  
Chairman  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable Patrick Leahy  
Ranking Member  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable John Cornyn  
Member  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable Charles Schumer  
Member  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable Michael Lee  
Member  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable Orrin Hatch  
Member  
Committee on the Judiciary  
United States Senate  
Washington D.C. 20510

The Honorable Amy Klobuchar  
Member  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

Dear Chairman Grassley, Ranking Member Leahy, Senator Cornyn, Senator Schumer, Senator Lee, Senator Hatch, and Senator Klobuchar:

We write today to thank you for introducing the Protecting American Talent and Entrepreneurship (PATENT) Act of 2015. The introduction of this legislation demonstrates your steadfast leadership in the complex and critical area of patent reform. We believe the legislation will make impactful advances in protecting American job creators from patent trolls while reaffirming this nation's commitment to innovation, entrepreneurship and consumer welfare.

Abuse of the current patent litigation system threatens our country's economic health and technological development. Despite the passage of the America Invents Act and several recent positive rulings from the Supreme Court, patent trolls continue to file lawsuits at historically high rates, forcing businesses large and small across many industries to divert billions in resources that could otherwise go towards new invention and job growth. Businesses—from national realty, construction, auto, apparel, trucking and technology companies to Main Street homebuilders, retail shops, hotels, grocers, and restaurants—are all targets of this abusive patent litigation. The comprehensive reforms proposed in the PATENT Act go a long way toward strengthening and restoring an essential balance to the patent litigation system that has been urgently needed for years.

Parties across the political and economic spectrum agree that the problems caused by patent trolls and abusive patent litigation must be addressed. A diverse group that includes businesses, consumer groups, legal scholars, economists, state legislatures and attorneys general have all come out in support of strong patent reform legislation.

You have taken a significant step by the introduction of your common-sense reform of the patent litigation system. As your important legislation moves forward, we look forward to continuing to work with you.

Sincerely,

*4A's (American Association of Advertising Agencies)*  
*Adobe Systems, Inc.*  
*Alliance of Automobile Manufacturers*  
*Amazon.com, Inc.*  
*American Hotel & Lodging Association*  
*American Trucking Associations*  
*Association of Global Automakers*  
*Cisco Systems, Inc.*  
*Coalition for Patent Fairness*  
*Dell Inc.*  
*Domino's*  
*Facebook*  
*Food Marketing Institute*  
*Ford*  
*Google Inc.*

*American Apparel & Footwear Association*  
*American Gaming Association*  
*American Public Power Association*  
*American Society of Travel Agents*  
*Application Developers Alliance*  
*AT&T*  
*Berkshire Hathaway Home Services*  
*Best Buy*  
*Birch Studio Graphics*  
*Blueprint RF*  
*BrandsMart USA*  
*Brinker*  
*Building Industry Association of Washington*  
*California Association of Boutique & Breakfast Inns*  
*California Broadcasters Association*

*The Internet Association*  
*Intuit Inc.*  
*JCPenney*  
*Macy's*  
*National Association of Convenience Stores*  
*National Association of Home Builders*  
*National Association of Relators*  
*National Grocers Association*  
*National Restaurant Association*  
*National Retail Federation*  
*Oracle Corporation*  
*Retail Industry Leaders Association*  
*Salesforce.com Inc.*  
*Samsung*  
*SAS*  
*Verizon Communications Inc.*

*California Citizens Against Lawsuit Abuse*  
*California Retailers Association*  
*California Technology Association*  
*California Travel Association*  
*Callware Technologies*  
*Capstone Photography*  
*Carlson*  
*Carlson Rezidor Hotel Group*  
*Carlson Wagonlit Travel*  
*Chozick Realty*  
*Collage.com*  
*Competitive Carriers Association*  
*Computer & Communications Industry Association*  
*Connecticut Daily Newspaper Association*  
*Connecticut Energy Marketers Association*  
*Connecticut Retail Merchants Association*

<i>Connecticut Veterans Chamber of Commerce</i>	<i>Mobile Technology Association of Michigan</i>
<i>Consumer Electronics Association</i>	<i>Motor Transport Association of Connecticut, Inc.</i>
<i>Culver Franchising System, Inc.</i>	<i>Motorola Solutions</i>
<i>Demand Progress</i>	<i>MPA- The Association of Magazine Media</i>
<i>Desktime LLC</i>	<i>My Fab 5</i>
<i>Detroit Regional Chamber of Commerce</i>	<i>National Association of Broadcasters</i>
<i>Digital Signage Federation</i>	<i>National Council of Chain Restaurants</i>
<i>Dillard's, Inc.</i>	<i>National Grocers Association</i>
<i>Direct Marketing Association</i>	<i>National Cable &amp; Telecommunications Association</i>
<i>Dropbox</i>	<i>NetApp, Inc.</i>
<i>Electronic Transaction Association</i>	<i>New York Association of Convenience Stores</i>
<i>Engine Advocacy</i>	<i>Newspaper Association of America</i>
<i>FCA (Fiat Chrysler Automobiles)</i>	<i>Northern Rhode Island Chamber of Commerce</i>
<i>FindtheBest.com</i>	<i>NTCA – The Rural Broadband Association</i>
<i>Florida Restaurant and Lodging Association</i>	<i>Ohio Council of Retail Merchants</i>
<i>GeLo, Inc.</i>	<i>Ohio Grocers Association</i>
<i>General Motors</i>	<i>Ohio Hotel &amp; Lodging Association</i>
<i>Ghostly</i>	<i>Overstock.com</i>
<i>Goby LLC</i>	<i>Printing Industries of America</i>
<i>Greater New Britain Chamber of Commerce</i>	<i>QVC, Inc.</i>
<i>Greater Providence Chamber of Commerce</i>	<i>R Street Institute</i>
<i>Heirloom Foods</i>	<i>Rackspace</i>
<i>Homecare Association of America, CT Chapter</i>	<i>Realty One</i>
<i>Hotel Association of New York City, Inc.</i>	<i>Rebel Real Estate</i>
<i>HRsmart</i>	<i>Red Hat</i>
<i>HSN</i>	<i>Reno-Sparks Northern Nevada Chamber</i>
<i>HTC America, Inc.</i>	<i>Retailers Association of Nevada</i>
<i>Independent Bankers Association of Texas</i>	<i>Rhode Island Chamber of Commerce Coalition</i>
<i>Insurance Association of Connecticut</i>	<i>Rhode Island Food Dealers Association</i>
<i>International Franchise Association</i>	<i>Rhode Island Hospitality Association</i>
<i>Internet Infrastructure Coalition</i>	<i>Rhode Island Retail Federation</i>
<i>Iowa Home Builders Association</i>	<i>Round Rock Chamber of Commerce</i>
<i>Irvine Chamber of Commerce</i>	<i>Sabre</i>
<i>iZi Survey LLC</i>	<i>Sail Point Technologies Inc.</i>
<i>Kickstarter</i>	<i>Seagate Inc.</i>
<i>The Latino Coalition</i>	<i>Security Industry Association</i>
<i>Listrak</i>	<i>Small Business Majority</i>
<i>Lunatech</i>	<i>Software &amp; Information Industry Association</i>
<i>M-1 Studios LLC</i>	<i>South County Tourism Council</i>
<i>Masergy Communications</i>	<i>Southeastern Employment Services</i>
<i>Michigan Home Builders Association</i>	
<i>Mobile Comply</i>	

<i>Sprint</i>	<i>Utah Hotel &amp; Lodging Association</i>
<i>Starwood Hotels &amp; Resorts Worldwide, Inc.</i>	<i>Virginia Retail Federation</i>
<i>Texas Association of Builders</i>	<i>Vizio</i>
<i>Texas Communications</i>	<i>Whataburger</i>
<i>Texas Hotel &amp; Lodging Association</i>	<i>Yum! Brands, Inc.</i>
<i>Tyco International</i>	<i>ZTE USA</i>
<i>U.S. Travel Association</i>	

cc: The Honorable Mitch McConnell, Majority Leader, United States Senate  
The Honorable Harry Reid, Minority Leader, United States Senate  
The Honorable Members of the Senate Committee on the Judiciary


**AMERICAN TRUCKING ASSOCIATIONS**

 950 N. Glebe Road \* Suite 210 \* Arlington, VA \* 22203-4181  
 www.trucking.org

**David J. Oslecki**  
**Executive Vice President and**  
**Chief of National Advocacy**

April 30, 2015

 The Honorable Charles E. Grassley  
 Chairman  
 Committee on the Judiciary  
 United States Senate  
 Washington, D.C. 20510

 The Honorable Patrick J. Leahy  
 Ranking Member  
 Committee on the Judiciary  
 United States Senate  
 Washington, D.C. 20510

 The Honorable John Cornyn  
 Member  
 Committee on the Judiciary  
 United States Senate  
 Washington, D.C. 20510

 The Honorable Charles E. Schumer  
 Member  
 Committee on the Judiciary  
 United States Senate  
 Washington, D.C. 20510

 The Honorable Orrin G. Hatch  
 Member  
 Committee on the Judiciary  
 United States Senate  
 Washington, D.C. 20510

 The Honorable Amy Klobuchar  
 Member  
 Committee on the Judiciary  
 United States Senate  
 Washington, D.C. 20510

 The Honorable Mike Lee  
 Member  
 Committee on the Judiciary  
 United States Senate  
 Washington, D.C. 20510

Dear Chairman Grassley, Ranking Member Leahy, and Senators Cornyn, Schumer, Hatch, Lee, and Klobuchar:

On behalf of the American Trucking Associations (ATA), I am writing to thank you for your strong leadership in the effort to protect our nation's businesses from the abusive and coercive tactics of patent trolls. By introducing the "Protecting American Talent and Entrepreneurship (PATENT) Act of 2015," you are working to safeguard the interests of true innovators who invent and drive improvements in numerous facets of our daily lives. Moreover, this legislation will raise the bar for patent trolls who use abusive litigation tactics and vague but coercive demand letters to target everyday businesses that are left with the unfortunate choice of settling and paying demands or facing millions of dollars in legal fees and diverted human resources to defend baseless infringement claims.

ATA's members, like other businesses across a spectrum of industries, have become all too familiar with shell entities claiming ownership in a patent that allegedly – often in the vaguest of



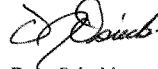
Office: 703-638-1996 \* Fax: 703-638-1748 \* doslecki@trucking.org

April 30, 2015  
Page 2 of 2

terms – covers some aspect of the motor carrier’s business. Various reforms in the PATENT Act that require more detailed demand letters, protect end-user customers who are targeted simply for having bought a product off the shelf, reasonably limit discovery during certain phases of patent litigation, and implement fee-shifting provisions are all important steps toward further curbing the abuse of a patent system that was intended to disseminate useful information regarding non-obvious, novel inventions while rewarding true innovators and entrepreneurs.

We believe enactment of the “America Invents Act” was a step in the right direction, but it does not reduce the urgent need for the PATENT Act. We look forward to working with you and a broad coalition of supporters to make this much-needed reform a reality.

Sincerely,



Dave Osiecki  
Executive Vice President &  
Chief of National Advocacy



**Judith A. Reinsdorf**  
Executive Vice President  
General Counsel

**Tyco**  
9 Roszel Road  
Princeton, NJ 08540  
USA

Tel: 609-720-4339  
Email: jreinsdorf@tyco.com  
www.tyco.com

April 30, 2015

The Honorable Chuck Grassley  
Chairman  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable Patrick Leahy  
Ranking Member  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable John Cornyn  
Member  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable Charles Schumer  
Member  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

Dear Chairman Grassley, Ranking Member Leahy, Senator Cornyn and Senator Schumer:

Tyco is the world's premiere fire and security company, delivering our industry-leading solutions to a wide array of critical customers including schools, hospitals, retail, commercial properties, industrial buildings and government facilities. For more than a half century, Tyco has been a leader in innovation, which has allowed us to provide creative solutions to the unique challenges our customers face.

On behalf of our more than 57,000 employees around the world, I am writing to thank you for introducing Protecting American Talent and Entrepreneurship (PATENT) Act of 2015, legislation aimed at addressing the ever-increasing problem of patent troll litigation. Each year, abusive patent litigation drains tens of billions of dollars from the economy, dramatically reducing spending on research and development, capital investment and other essential business activities. Your legislation addresses abusive practices taking place in our courts, makes it less profitable for patent trolls to sue and sets up speed bumps for those unfairly targeting everyone from small businesses to large multi-national corporations.

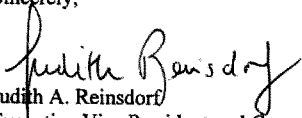
Tyco strongly supports the PATENT Act, especially provisions related to transparency in patent ownership: stronger pleading requirements and the ability for a manufacturer of an allegedly infringing product to intervene and stay cases against its downstream customers. Tyco has also joined the United for Patent Reform Coalition, a group of diverse businesses concerned with pursuing comprehensive solutions to abusive patent litigation.

As you know, a version of this legislation passed the House of Representatives last Congress with broad bipartisan support and an overwhelming margin of 325-91. Even though the legislation eventually died in the Senate, we are confident that this bill will be signed into law in the 114<sup>th</sup> Congress and stand ready to assist you in your efforts.

April 30, 2015  
Page 2

Once again, thank you for your leadership on this issue. Your efforts will help reduce the economic harm associated with expensive and frivolous patent troll lawsuits, while improving the overall strength and quality of America's patent system. As your important legislation moves forward, we are eager to continue to work with you.

Sincerely,

A handwritten signature in black ink, appearing to read "Judith A. Reinsdorf". The signature is fluid and cursive, with the first name "Judith" being more prominent.

Judith A. Reinsdorf  
Executive Vice President and General Counsel



## FMI CHAMPIONS PATENT ACT

April 30, 2015

**APRIL 30, 2015 - ARLINGTON, VA** - Food Marketing Institute (FMI) applauds Senate Judiciary Chairman Chuck Grassley (R-IA), Ranking Member Patrick Leahy (D-VT), Majority Whip John Cornyn (R-TX), Senators Chuck Schumer (D-NY), Mike Lee (R-UT), and Amy Klobuchar (D-MN) for the introduction of the PATENT Act yesterday.

The supermarket industry has become an increasingly frequent target for patent trolls' abusive litigation practices. Common sense reforms like those included in the PATENT Act will help curb these abusive practices and reduce the financial drain that trolls have taken on main street businesses and employers. FMI looks forward to working with PATENT Act sponsors and supporters to pass this important legislation out of the Senate.



**AUTO ALLIANCE**  
DRIVING INNOVATION®

April 30, 2015

The Honorable Chuck Grassley  
Chairman  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable Patrick Leahy  
Ranking Member  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable Michael Lee  
Member  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable Amy Klobuchar  
Member  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable John Cornyn  
Member  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable Charles Schumer  
Member  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable Orrin Hatch  
Member  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

Dear Chairman Grassley, Ranking Member Leahy, Senator Cornyn, Senator Schumer, Senator Lee, Senator Hatch and Senator Klobuchar:

We write today to thank you for introducing the Protecting American Talent and Entrepreneurship Act (PATENT Act). The Association of Global Automakers and the Alliance of Automobile Manufacturers, together representing all of the major automobile manufacturers building and selling vehicles in the United States, support your efforts to mitigate the harmful impacts of abusive patent litigation. Such unfounded infringement litigation inflicts significant costs on automakers and consumes a significant amount of time and resources.

The U.S. auto industry consists of a diverse group of companies that support strong patent and intellectual property rights protection. Auto manufacturers are amongst the largest patent holders in the world. Thus, a strong, efficient patent system is vital to the industry's continued success. With significant investments in research, design and development, the auto industry supports tens of thousands of direct U.S. jobs and hundreds of thousands of indirect U.S. jobs, and creates innovative and technologically advanced products for the U.S. marketplace. Abusive patent litigation hampers this innovation by placing significant costs on automakers and wasting a substantial amount of time and resources that could be better used to innovate for the benefit of consumers.

To help address these concerns, the auto industry favors several reforms that we believe are essential to deterring frivolous and abusive patent lawsuits, such as strong fee-shifting provisions, heightened pleading requirements, and limiting discovery before the claims of the patent are construed. We believe the comprehensive reforms proposed in the PATENT Act serve as a good starting point to strengthen our patent system and protect automakers from abusive patent litigation.

Thank you again, and we look forward to working with you to move the PATENT Act forward.

Sincerely,

A handwritten signature in black ink, appearing to read "John T. Bozzella".

**John T. Bozzella, President and CEO**  
Association of Global Automakers

A handwritten signature in black ink, appearing to read "Mitch Bainwol".

**Mitch Bainwol, President and CEO**  
Alliance of Automobile Manufacturers



Internet Association

May 1, 2015

The Honorable Chuck Grassley  
Chairman  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable Patrick Leahy  
Ranking Member  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable Michael Lee  
Member  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable Amy Klobuchar  
Member  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable John Cornyn  
Member  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable Charles Schumer  
Member  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable Orrin Hatch  
Member  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

Dear Chairman Grassley, Ranking Member Leahy, Senator Cornyn, Senator Schumer, Senator Lee, Senator Hatch and Senator Klobuchar:

Thank you for your leadership in introducing the PATENT Act. This bipartisan legislation is an important step in addressing the economic harm patent trolls impose on businesses.

Patent trolls abuse the legal system to extort businesses out of tens of billions of dollars each year. Meaningful reform is essential in tackling abusive patent behavior, and this bill helps to shine a spotlight on this persistent and growing problem. In particular, we welcome the tightening of pleadings standards in patent cases as well as the fee shifting and recovery provisions contained in the bill. These provisions should serve to undermine a patent troll's incentives to bring frivolous lawsuits against our member companies as well as main street businesses.

The Internet industry looks forward to working with you and your counterparts in the House to ensure that a strong and balanced reform package makes its way to the President's desk this year. It is time to put patent trolls out of business once and for all.

Sincerely,

Michael Beckerman  
President & CEO  
Internet Association

William Krovatin  
Senior Vice President & Assistant General Counsel  
INTELLECTUAL PROPERTY

Merck Sharp & Dohme Corp.  
126 E. Lincoln Avenue  
P. O. Box 2000  
RY86-2011A  
Rahway NJ 07065-0900  
Fax: 732 594 4005  
Tel: 732 594 0221



May 4, 2015

Chairman Chuck Grassley  
Senate Judiciary Committee  
224 Dirksen  
Washington, DC 20510

Ranking Member Patrick Leahy  
Senate Judiciary Committee  
224 Dirksen Building  
Washington, DC 20510

Senator John Cornyn  
Senate Judiciary Committee  
224 Dirksen Building  
Washington, DC 20510

Senator Chuck Schumer  
Senate Judiciary Committee  
224 Dirksen Building  
Washington, DC 20510

Senator Orrin Hatch  
Senate Judiciary Committee  
224 Dirksen Building  
Washington, DC 20510

Senator Mike Lee  
Senate Judiciary Committee  
224 Dirksen Building  
Washington, DC 20510

Senator Amy Klobuchar  
Senate Judiciary Committee  
224 Dirksen Building  
Washington, DC 20510

Dear Senators,

We applaud your hard work on the introduction of the bipartisan PATENT Act.

Protecting intellectual property is a top priority for the biopharmaceutical industry and this legislation demonstrates significant and substantive progress in the effort to mitigate harmful patent litigation practices without undermining necessary safeguards. The litigation provisions contained in the PATENT Act represent a thoughtful compromise on a number of key areas of importance to Merck, including discovery, pleadings and transparency requirements. We would like to thank you for working constructively with us in the drafting of this legislation.

While we greatly appreciate the progress you have made in the litigation provisions of the bill, we know you understand that we still have significant concerns surrounding the post grant and *inter partes* review processes at the Patent and Trademark Office. We greatly appreciate your commitment to include the necessary improvements in the final legislation and we look forward to working with you through this process.

Merck has a longstanding commitment to innovation, research and development and improving the lives of the patients that we serve. Strong intellectual property protections are a critical part of achieving our mission to be the best health care company in the world.

Thank you again for your leadership on this important issue.

Sincerely,

A handwritten signature in dark ink, appearing to read "Will Krovatin".

William Krovatin



**FOR IMMEDIATE RELEASE**

May 4, 2015

**CONTACT**

Dennis Wharton

202-429-5350

**follow me**

**NAB STATEMENT ON INTRODUCTION  
OF SENATE PATENT REFORM BILL**

WASHINGTON, D.C. -- In response to the bipartisan introduction of the "PATENT Act of 2015" to address abusive patent litigation, the following statement can be attributed to NAB Executive Vice President of Communications Dennis Wharton:

"NAB applauds Senate Judiciary Committee Chairman Chuck Grassley (R-IA), Ranking Member Patrick Leahy (D-VT), as well as Senators John Cornyn (R-TX), Chuck Schumer (D-NY), Mike Lee (R-UT), Orrin Hatch (R-UT), and Amy Klobuchar (D-MN), for their introduction of bipartisan legislation that advances the cause of patent reform. Broadcasters support legislative efforts to curb abusive patent practices that harm our nation's economic growth and cost jobs. We look forward to working with Chairman Grassley and other congressional leaders to improve our patent system."

**About NAB**

The National Association of Broadcasters is the premier advocacy association for America's broadcasters. NAB advances radio and television interests in legislative, regulatory and public affairs. Through advocacy, education and innovation, NAB enables broadcasters to best serve their communities, strengthen their businesses and seize new opportunities in the digital age. Learn more at [www.nab.org](http://www.nab.org).

###



675 Third Avenue, 18th Floor, New York, NY 10157-0648, USA  
t: +1 212 642 1776 f: +1 212 754 7796  
inta.org | esanz@secdo-inta.org

May 5, 2015

The Honorable Charles Grassley  
Chairman, Committee on the Judiciary  
United States Senate  
224 Dirksen Senate Office Building  
Washington, D.C. 20510-6275

The Honorable Patrick J. Leahy  
Ranking Member, Committee on the Judiciary  
United States Senate  
224 Dirksen Senate Office Building  
Washington, D.C. 20510-6275

Dear Chairman Grassley and Ranking Member Leahy:

The International Trademark Association (INTA) thanks you for your leadership in gaining Committee approval of the Patent Act (S.1137). We are especially encouraged by the bipartisan support for the bill.

INTA also is very pleased that the Committee is considering a small but important change, adding "trademarks, service marks and trade names" to the definition of "intellectual property" for purposes of Section 365(n) of the Bankruptcy Code. This section applies to intellectual property licenses in the context of a bankruptcy proceeding and will ensure that trademark licenses will be treated the same as other forms of intellectual property. INTA's Board of Directors approved a resolution in November 2012 endorsing this change, which will resolve a split among the circuits in the treatment of trademark licenses in bankruptcy.

The justification for this change is obvious since the same economic reasons for applying 365(n) to patents and copyrights also apply to trademarks. Without the protection of 365(n), both the value of a license and the value of the trademark are subject to significant uncertainty. Through this amendment a more predictable environment will be availed to licensees who rely on their ability to continue to use a licensed trademark in their businesses in the event of bankruptcy of the licensor.

We also appreciate that, with the trademark provisions, S.1137 would clarify the quality control rights of a bankrupt trademark licensor. Given the unique nature of trademarks as a repository and symbol of goodwill, this is a necessary feature of the legislative change to 365(n). This will help to preserve the value of the trademark and the license. The provisions establish a balance between trademark law and bankruptcy law, recognizing the mark owner's quality control rights without specifying ongoing contractual obligations on the trustee.

Thank you again for including these important trademark provisions in the bill. We look forward to working with you to gain final passage of S.1137.

Sincerely,

Etienne Sanz de Acedo  
Chief Executive Officer

New York • Shanghai • Beijing • Washington, D.C.  
**PowerfulNetworkPowerfulBrands®**

---

**WHATABURGER**


---

 SINCE  1950
 

---

May 5, 2015

*The Honorable Chuck Grassley*  
*Chairman*  
*Committee on the Judiciary*  
*United States Senate*  
*Washington, D.C. 20510*

*The Honorable Patrick Leahy*  
*Ranking Member*  
*Committee on the Judiciary*  
*United States Senate*  
*Washington, D.C. 20510*

*The Honorable Michael Lee*  
*Member*  
*Committee on the Judiciary*  
*United States Senate*  
*Washington, D.C. 20510*

*The Honorable Amy Klobuchar*  
*Member*  
*Committee on the Judiciary*  
*United States Senate*  
*Washington, D.C. 20510*

*The Honorable John Cornyn*  
*Member*  
*Committee on the Judiciary*  
*United States Senate*  
*Washington, D.C. 20510*

*The Honorable Charles Schumer*  
*Member*  
*Committee on the Judiciary*  
*United States Senate*  
*Washington, D.C. 20510*

*The Honorable Orrin Hatch*  
*Member*  
*Committee on the Judiciary*  
*United States Senate*  
*Washington, D.C. 20510*

Dear Chairman Grassley, Ranking Member Leahy, Senator Cornyn, Senator Schumer, Senator Lee, Senator Hatch and Senator Klobuchar:

I am General Counsel for Whataburger, a 750-unit restaurant chain headquartered in San Antonio Texas. We are a family of over 30,000 hard-working folks serving hard-working folks, one meal at a time. Several years ago I told a colleague that patent trolls did not concern me because we were "just a burger company." I was wrong. Shortly thereafter we received our first shake down letter, and they continued.

On behalf of Whataburger and family-owned businesses across America, I want to thank you for introducing the Protecting American Talent and Entrepreneurship (PATENT) Act of 2015, which targets the abusive lawsuits filed by an ever growing group of sophisticated and well financed patent trolls. Hopefully, this legislation will help stem these meritless lawsuits and allow companies like ours to focus on growth, investment and job creation.

While Whataburger continues to be the target of frivolous and expensive lawsuits, patent trolls have increasingly targeted other Main Street businesses, i.e. realtors, homebuilders, restaurants, convenience stores, hoteliers and grocers. In fact, since 2012, patent trolls have sued more non-tech Main Street companies than tech companies. This is no accident. Patent trolls have created a business model that

targets retail and other Main Street businesses because they often lack the legal resources and technical expertise to fight patent infringement claims. The trolls carefully calibrate the cost of the proposed settlement, which has no relation to the value of the technology, to be below the cost of litigation. The high cost of defense is why so many of these cases settle without a decision on the merits.

The core of the problem is that patent trolls often purchase questionable patents and file meritless claims against non-tech companies for everything from an Ethernet connection to electronic displays. They know that the discovery hammer will come down hard on us before the validity of the patent or its potential for infringement ever sees the light of day. And with a damages model that is out of control, there is little downside to the patent trolls filing a lawsuit.

That is why this legislation is so important. This legislation will remove the asymmetries, and strengthen and restore a balance that has been missing for years in patent litigation. We commend you on your leadership on this issue, which is highlighted by the diverse and broad coalition of supporters: Main Street businesses, technology companies, consumer groups, states attorneys' general, state legislators and economists.

Again, we thank you for your time, interest and leadership on this important issue. We look forward to working with you to get this legislation enacted into law.

Sincerely,

Whataburger



Michael H. Gibbs  
Sr. Vice President & General Counsel



May 6, 2015

**SUBMITTED VIA E-MAIL**

The Honorable Chuck Grassley  
Chairman  
Committee on the Judiciary  
224 Dirksen Senate Office Building  
Washington, DC 20510-6050

The Honorable Patrick Leahy  
Ranking Member  
Committee on the Judiciary  
224 Dirksen Senate Office Building  
Washington, DC 20510-6050

**Re: The PATENT Act (S.1137)**

Dear Chairman Grassley and Ranking Member Leahy,

On behalf of the National Association of Convenience Stores ("NACS"), I write to express support for the Protecting American Talent and Entrepreneurship Act of 2015 or "PATENT" Act (S. 1137), which addresses the serious threat to our country's economy by patent trolls that bully American businesses, including many convenience stores, with deceptive and often illegitimate claims of patent infringement.

NACS is an international trade association composed of more than 2,200 retail member companies and more than 1,600 supplier companies doing business in nearly 50 countries. The convenience store industry operates approximately 150,000 stores across the United States and in 2013 generated almost \$700 billion in total sales, representing approximately 2.5% of United States GDP. Yet, the convenience store industry is truly an industry of small businesses. The vast majority of branded outlets are locally owned, more than 70 percent of the NACS' total membership is composed of companies that operate ten stores or less, and more than 60 percent of the membership operates a single store.

The PATENT Act is a balanced bill that would take an important step forward to combat abusive patent troll tactics, which pose a serious and costly threat to the U.S. convenience store industry. All too often, NACS members receive vague and threatening patent demand letters that try to shake them down for money by threatening litigation should the recipient refuse to pay a licensing settlement fee. Most convenience stores lack experience in patent litigation and do not have in-house (or external) patent counsel. Thus, it is frequently cheaper for NACS members to settle a patent infringement claim rather than fight the claim in court. Patent trolls understand and take advantage of this, many times threatening to sue even when the underlying patent claim is not legitimate.

Since most convenience stores operate on slim one-to-three percent profit margins, patent trolls are particularly harmful to our industry where extra costs – such as the licensing fee to pay off a troll – raise consumers' costs and can threaten the viability of individual businesses and the jobs they create. To reign in abusive patent trolls, therefore, NACS has been actively involved with the efforts of the United for Patent Reform Coalition.

**The Association for Convenience & Petroleum Retailing**

1600 Duke Street ■ Alexandria, Virginia 22314-3436, USA ■ (703) 684-3600 ■ FAX (703) 636-4564 ■ [www.nacsonline.com](http://www.nacsonline.com)

Overall, the PATENT Act is a strong piece of legislation that will help address abusive patent troll behaviors. In particular, NACS appreciates the bill's provision to protect product end users, such as convenience store owners, from litigation. Generally, the manufacturer of a product rather than the product's purchaser is the best equipped company to litigate a patent case. It follows that manufacturers should litigate the central issues in a case about one of their products without later disadvantaging end users who may have to go to court in the future. NACS also welcomes the bill's provisions dealing with the sending of abusive patent demand letters, which would make it more difficult for trolls to get away with such behavior and thus protect American small businesses.

S. 1137 is a very important piece of legislation that will have a positive impact on American businesses. NACS supports the PATENT Act and its ultimate passage and thanks you and your fellow co-sponsors: Senators John Cornyn (R-TX), Chuck Schumer (D-NY), Orrin Hatch (R-UT), Amy Klobuchar (D-MN) and Mike Lee (R-UT) for your tireless efforts on this important issue.

Sincerely,

A handwritten signature in black ink, appearing to read "Paige Anderson". The signature is fluid and cursive, with a long horizontal stroke at the end.

Paige Anderson  
Director, Government Relations  
National Association of Convenience Stores



**National Association of Home Builders**

1201 15th Street NW  
Washington, DC 20005

T 800 368 5242  
F 202 266 8400

nahb.org

May 6, 2015

<p>The Honorable Chuck Grassley Chairman U.S. Senate Committee on the Judiciary 135 Hart Senate Office Building Washington, D.C. 20510</p>	<p>The Honorable Patrick Leahy Ranking Member U.S. Senate Committee on the Judiciary 437 Russell Senate Office Building Washington, D.C. 20510</p>
<p>The Honorable John Cornyn Member U.S. Senate Committee on the Judiciary 517 Hart Senate Office Building Washington, D.C. 20510</p>	<p>The Honorable Charles E. Schumer Member U.S. Senate Committee on the Judiciary 322 Hart Senate Office Building Washington, D.C. 20510</p>
<p>The Honorable Orrin Hatch Member U.S. Senate Committee on the Judiciary 104 Hart Office Building Washington, DC 20510</p>	<p>The Honorable Amy Klobuchar Member U.S. Senate Committee on the Judiciary 302 Hart Senate Office Building Washington, DC 20510</p>
<p>The Honorable Mike Lee Member U.S. Senate Committee on the Judiciary 361A Russell Senate Office Building Washington, D.C. 20510</p>	

Dear Chairman Grassley, Ranking Member Leahy, Senator Cornyn, Senator Schumer, Senator Hatch, Senator Klobuchar, and Senator Lee:

On behalf of the more than 140,000 members of the National Association of Home Builders (NAHB), I write to thank you for introducing the *Protecting American Talent and Entrepreneurship Act* (PATENT Act). The PATENT Act would help protect homebuilders and other main street businesses from patent trolls while preserving the rights of America's innovators.

Patent trolls do not create anything. They do not build anything. They do not add anything to our economy. Patent trolls make use of low quality patents, misleading patent demand letters and threats of litigation to extort licensing fees from small businesses that lack the resources and expertise to defend themselves from specious claims of patent infringement. The balanced reforms included in the PATENT Act will help end the shakedown business model of patent trolls.

NAHB members, who are involved in all aspects of a diversified building industry, create jobs for millions of people and contribute significantly to the economic activity of

Chairman Grassley, Ranking Member Leahy, Senator Cornyn, Senator Schumer, Senator Hatch, Senator Klobuchar, and Senator Lee  
May 6, 2015  
Page 2

their community, the nation and the world. It is perhaps a testament to just how bad the problem has gotten that homebuilders find themselves the targets of patent trolls.

NAHB appreciates your leadership and the Committee's dedication to passing much needed comprehensive patent reform legislation. The PATENT Act serves as positive step towards ending the abusive practices of patent trolls. We look forward to continuing to work with you as these reforms move forward.

Best regards,

A handwritten signature in black ink that reads "Thomas E. Woods". The signature is fluid and cursive, with the first name "Thomas" being more prominent.

Thomas E. Woods  
2015 NAHB Chairman

CC: Members of the Senate Committee on the Judiciary



950 F STREET, NW, SUITE 300 WASHINGTON, DC 20004 202-835-3568 · PhRMA.org

**Charles M. Clapton**

Senior Vice President, Federal Advocacy

May 6, 2015

Chairman Chuck Grassley  
Senate Judiciary Committee  
224 Dirksen Senate Office Building  
Washington, DC 20510

Senator Chuck Schumer  
Senate Judiciary Committee  
224 Dirksen Senate Office Building  
Washington, DC 20510

Senator Amy Klobuchar  
Senate Judiciary Committee  
224 Dirksen Senate Office Building  
Washington, DC 20510

Ranking Member Patrick Leahy  
Senate Judiciary Committee  
224 Dirksen Senate Office Building  
Washington, DC 20510

Senator Orrin Hatch  
Senate Judiciary Committee  
224 Dirksen Senate Office Building  
Washington, DC 20510

Senator John Cornyn  
Senate Judiciary Committee  
224 Dirksen Senate Office Building  
Washington, DC 20510

Senator Mike Lee  
Senate Judiciary Committee  
224 Dirksen Senate Office Building  
Washington, DC 20510

Dear Senators,

The Pharmaceutical Research and Manufacturers of America (PhRMA) applauds your efforts to craft bipartisan legislation to address the abusive patent litigation practices of so-called patent trolls. When compared to similar efforts in the House of Representatives, S. 1137, the Protecting American Talent and Entrepreneurship (PATENT) Act represents substantial progress in the patent litigation debate. In advance of the hearing on the legislation to be held by the Senate Judiciary Committee, we offer these further comments for your consideration.

In particular, PhRMA appreciates the language included in the PATENT Act that limits stays of discovery to the resolution of certain motions; provides that litigants are not penalized for neglecting to plead information to which they don't have access; requires transparency disclosures early in litigation but not in the complaint, and narrows the types of information required to be disclosed; and improves the focus of the covenant not to sue subsection of the fee shifting provision. We would like to continue to work with you on modest, additional changes to the pleadings and discovery stay language that will help ensure that legitimate inventors and patent owners will not be harmed, while still deterring bad actors from inappropriately filing generalized complaints.

Our member companies are very concerned, however, with the significant shortcomings in the implementation of the post-grant proceedings at the Patent and Trademark Office (PTO), which have directly led to abusive practices. We appreciate your commitment to address this critical issue in the pending legislation, and look forward to working with you to improve this process. In particular, any final legislation must ensure fairness in the Patent Trial and Appeal Board (PTAB) proceedings and require that the same legal standards as in district court apply to proceedings in the PTO. Ultimately, PhRMA would have to oppose patent legislation that does not include changes to more fairly balance post-grant proceedings at the PTO.

Again, we thank you for your work on this critically important issue. The ability to protect and enforce patent rights is absolutely essential to sustaining investments in research and development, supporting millions of domestic jobs created by our industry and providing patients with access to innovative new therapies. PhRMA looks forward to continuing to work with you on improvements to the legislation as the Senate Judiciary Committee process moves forward, so that the end result will benefit all patent holders across all industries.

Sincerely,

Chuck Clapton



“Chairman Grassley, Ranking Member Leahy and Senators Cornyn, Schumer, Lee, Hatch, and Klobuchar have shown real leadership through their introduction of the PATENT Act,” said Van Lindberg, Vice President of Intellectual Property for Rackspace. “Patent trolls have distorted and misused the patent system for too long. The balanced legislation contains common-sense reforms like requiring patent complaints to describe which products are accused of infringing a patent, making discovery more efficient, and helping make sure that those who pursue frivolous claims bear the costs of their folly.”

“The strong bipartisan support for the PATENT Act shows the leaders in Washington working together to protect jobs and encourage greater innovation across the entire economy.”

Sabre  
3150 Sabre Drive  
Southlake, TX 76092



"The Senate's PATENT Act will deter abusive and wasteful patent litigation brought by so-called "trolls" who produce nothing and contribute nothing to innovation and technological advancement. On behalf of Sabre and our customers, we applaud the bill's cosponsors and want to thank in particular our home-state Senator John Cornyn for his leadership and hard work on this crucial issue."

SIIA and its members have a significant interest in patent issues. On the one hand, SIIA members use patents to protect their products and services, which improve the global competitiveness of our nation. At the same time, SIIA members increasingly face frivolous and harassing patent infringement suits from Patent Assertion Entities (PAEs) that are diverting critical resources away from innovation.

Patent litigation abuse by PAEs is the most significant problem facing the patent system and innovation more generally. PAEs do not innovate, make or sell anything, but exist simply to buy patents from others for the sole purpose of suing legitimate companies for patent infringement. They exploit flaws in both the patent system and litigation practices to their advantage and to the disadvantage of the innovative industries, their customers and the public.

These abusive patent litigation tactics threaten our country's economic health and technological development. Several recent rulings by the Supreme Court have helped address the problem somewhat, but PAEs continue unimpeded to exploit the loopholes in the law -- loopholes that only Congress can fix. These PAEs are filing lawsuits at historically high rates, forcing not just software companies but businesses of all sizes and types to divert billions in resources that could otherwise be put towards research, innovation and jobs.

Action needs to be taken to stop these abusive tactics. While there are ways that the PATENT Act can be improved, we think the bill provides an excellent platform for addressing the PAE problem by including important provisions relating to transparency, heightened pleading standards, and core document discovery limitation. Working together, these are essential components of any effective patent litigation abuse legislation.

It is our hope that Congress will act quickly this session to take strong and effective steps to control abusive patent litigation, as we work to ensure our nation's patent system continues to spur innovation and economic growth. We look forward to working with you and other stakeholders in coming weeks and months as the PATENT Act moves forward.

Sincerely,



Mark MacCarthy  
Vice President, Public Policy

cc: The Honorable Mitch McConnell, Majority Leader, United States Senate  
The Honorable Harry Reid, Minority Leader, United States Senate  
The Honorable Members of the Senate Committee on the Judiciary

**Statement for the Record  
Senate Judiciary Committee**

**Hearing entitled  
S. 1137, the “PATENT ACT” – Finding Effective Solutions to Address Abusive Patent  
Practices**

**May 7, 2015**

On behalf of financial institutions of all sizes represented by the undersigned trade associations, we are writing to commend you for your leadership in holding a hearing on S. 1137, the PATENT Act, and we respectfully request that this testimony be included as part of the hearing record.

We commend the bipartisan coalition of cosponsors for their many months of productive work to introduce the PATENT Act. We are encouraged by your efforts and believe it is an important step toward developing a bill that can eventually be enacted into law to help curb abusive tactics of non-practicing entities (NPEs) who use low quality patents to target businesses of all shapes and sizes. However, further work must be done in the area of patent quality to ensure that meaningful opportunities exist for all sectors to have low quality patents review by the experts at the PTO for validity. We look forward to working with the Judiciary Committee as the process moves forward.

***Patents and the Financial Services Industry***

Litigation by patent trolls against financial services companies has grown at a staggering rate—almost 290% from 2009 to 2013, based on a review of court records. Moreover, a study by Harvard Business School Professor Josh Lerner found that financial patents are 27 to 39 times more likely to be asserted in a lawsuit than nonfinancial patents.<sup>1</sup>

No type or size of financial institution is immune. NPEs have brought patent litigation against virtually every type of financial institution, including credit unions, community banks, regional banks, payment networks, and insurance companies. In addition, NPEs have sued the federal government related to patents that are financial in nature, including various Federal Reserve banks and even the United States Postal Service. Because of the interoperability of financial patents and the ubiquity of certain technology in the e-commerce and online payments space, virtually any company from any industry has been targeted or is at risk for being a target in the future.

Assertions of low quality patents by NPEs against financial institutions not only increase expense and distraction for the financial services industry, they also hinder the ability of the sector to help the U.S. economy grow by providing financial services to households and needed

---

<sup>1</sup> Josh Lerner, *The Litigation of Financial Innovations*, 53 J.L. & Econ. 807 (Nov. 2010).

capital to businesses, especially small business. According to the Small Business Administration, in mid-2014, banks had almost \$600 billion in small business loans outstanding.<sup>2</sup> The NPEs that target the financial services industry come in a variety of forms ranging from failed operating companies to sophisticated firms designed to amass and hold patents solely for the purpose of licensing and litigation. As such we believe that a specific definition of NPE is difficult to identify and far less important than the quality of the patents they are asserting and the lack of transparency, honesty and integrity they use to demand payment from others and/or pursue frivolous litigation.

Low quality patents, and the tools used to leverage them, turn into a meritless tax on innovation. This is where we hope Congress will focus their efforts. To that end, we take this opportunity to elaborate on specific aspects of S. 1137 as introduced.

#### ***Demand Letter Reform***

Your bill would help ensure that demand letters include clear and detailed information, such as the owner of the patent, what entities have a financial interest in the patent, what product or service is allegedly being infringed and how such product or service infringe the patent. However, we believe that the provision could be enhanced by making it clear that the failure to send a clear and detailed demand letter should result in the dismissal of any subsequent civil action by the NPE against the recipient of the vague demand letter.<sup>3</sup>

Too often, NPEs target small business, especially the small financial institutions that tend to be end-users of products and services, with vague and deceptively worded demand letters. These demand letters often lack detail about the owner of the patent and how the patent is being infringed. Such information is critical to determining the nature and quality of the claim contained in the demand letter. Without this information, financial institutions have no way to evaluate the merits of the demand letter. This is particularly true when the financial institution is

<sup>2</sup> U.S. Small Business Administration, *Small Business Lending in the United States 2013* (Dec. 2014). Venture capitalists are an important part of this debate and provide a valuable service to the US economy. That said, so do the financial institutions that provide the credit to our small businesses and job creators across the country. According to National Venture Capital Association (<http://nvca.org/pressreleases/annual-venture-capital-investment-tops-48-billion-2014-reaching-highest-level-decade-according-moneytree-report/>), venture capitalists invested approximately \$48.3 billion in 2014. According to Small Business Association data, there was approximately \$589.7 billion in small business loans outstanding in Q4 of 2014, illustrating that small business lending in 2014 is approximately 1110% more than venture capital funding. In addition to loan volume, the number of deals done by financial institutions is much larger than venture capitalist firms. In 2013, venture capitalists funded 4,188 deals. According to the Small Business Administration, banks made almost 23 million small business loans. In the end, banks lend over \$500 billion more capital to small businesses than venture capital firms and they also help fund over 20 million more businesses every year.

<sup>3</sup> Additional demand letter reform that the Committee may want to consider include (i) a requirement that demand letters be filed with regulators and recorded in a public, searchable database; (ii) codifying that receipt of a demand letter is a sufficient threat of suit to file a CBM petition; and (iii) clarifying that State laws that have been enacted to curb abusive demand letters by patent trolls are not preempted.

not familiar with the technology or process at issue because the product or service was purchased from a vendor.

Vaguely-worded demand letters have been used by NPEs to coerce licensing agreements and the payment of royalties for low quality patents that are likely invalid and not infringed. As financial institutions have testified before this very Committee, recipients of vague demand letters are faced with a difficult business decision: risk costly litigation to defend against ambiguous, yet ominous threats, or pay a likely unnecessary licensing fee and settle.

Rather than enter a costly and lengthy legal battle, many financial institutions make the economic decision to pay the troll. The NPE then moves on to its next victim. For slightly more than the cost of a stamp and the threat of litigation, NPEs can extract costly settlements from institutions that lack the expertise and resources to fight. Ultimately, these costs are a tax on consumers, stifle innovation, and have the potential to limit product offerings.

#### ***Covered Business Method Program***

The Financial Services Coalition strongly urges the Committee to include language that would make the CBM program permanent.

#### **1. A Permanent CBM Program is Necessary to Ensure that Meaningful PTO Review is Available for All Patents and All Industries**

Established in the American Invents Act, the CBM program is a post-grant review program founded on the fundamental principle of fairness that post grant review should be available and meaningful for every party to the US economy.

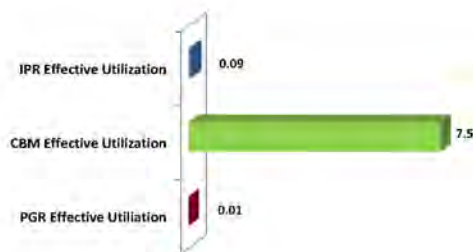
CBM is the only viable tool for quickly, efficiently and cost-effectively eliminating covered business method patents that are invalid under *Alice* or in light of use and sale prior art. Without CBM, the federal judiciary is the only vehicle for the *Alice* decision and use and sale prior art to be applied to currently issued business method patents.<sup>4</sup>

Invalidity based on § 101 and use and sale prior art are the most common grounds for challenging low quality financial patents. Without CBM, the financial services industry and many other industries that are alleged to have infringed a financial patent, are effectively cut out of post grant review while other industries, that do not predominantly rely on § 101 or use and sale prior art, will continue to enjoy a faster, cheaper and more efficient alternative to District Court litigation through IPR proceedings. To ensure PTO review remains available equally to all industries, CBM should be made permanent.

---

<sup>4</sup> *Inter Partes* Review ("IPR") does not allow for a determination as to whether a patent is invalid under § 101 or under use and sale prior art. See 35 U.S.C. § 311(b) While Post-grant Review ("PGR") does allow review based on § 101 and use and sale prior art, PGR is not available for the more than 45,000 business method patents that have already issued. See P.L. 112-29, § 6(f)(2)(A); 35 U.S.C. § 321(c).

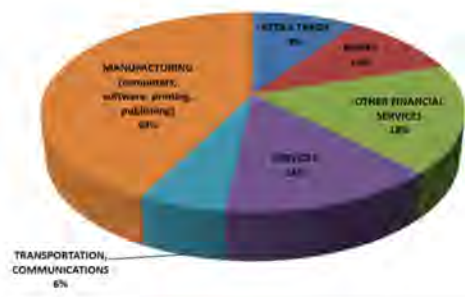
The criticality of maintaining CBM to ensure meaningful PTO review is available for all industries and all patents is evidenced by CBM utilization. Based on the number of patents eligible for each post-grant program, CBM is by far the most utilized of all of the post-grant programs<sup>5</sup>.



In fact, CBM utilization has exceed PTO projections by about 160%.

## 2. The CBM Program Benefits A Multitude of Industries and Companies

CBM works for all sectors of the economy. Indeed, the vast majority of companies requesting CBM review are not financial services companies. Brick-and-mortar retailers, on-line retailers, airlines, Internet search engines, traditional computer companies and the United States Postal Service have all been petitioners in the CBM program. This chart shows the utilization of CBM by industry:



<sup>5</sup> Program Utilization is the quotient of number of petitions filed and number of patents eligible for IPR, CBM and PGR respectively.

Moreover, the benefit of CBM is not limited to those companies that file CBM petitions. All companies, and by extension the US economy overall, benefit when CBM is used to clean bad patents out of the system. NPEs that abuse the patent litigation system have found that the standardization and interoperability that makes today's system of electronic commerce work also enables them to use the same low quality business method patents to prey upon every sort of business and financial institution from the biggest to the smallest. However, it is this very tactic that allows the benefit of the CBM program to extend far beyond the companies that file CBM petitions. An examination of patents petitioned for CBM review by larger regional banks or integrated financial services institutions shows that many of those same patents have been asserted in lawsuits filed against smaller community banks and credit unions. (See Exhibit A). Similarly, an examination of patents petitioned for CBM review by a range of brick and mortar and on-line retailers have been asserted in litigation against a broad range of companies from hotels, banks, sportswear manufacturers, clothing retailers and others. (See Exhibit B). The CBM performance data clearly demonstrates that the benefits of CBM review extend far beyond CBM petitioners. The collateral benefits of CBM review flow throughout the economy, accruing to every sort of business and consumer.

### **3. The CBM Program Has Numerous Safeguards to Prevent Abuse**

Preserving CBM ensures that there is an efficient, cost-effective alternative to litigation for the review of business method patents. Preserving CBM review will not subject patent holders to harassment or abuse.

There are numerous unique safeguards built into CBM review to prevent the harassment of patent holders and ensure that only those patents more likely than not to be invalidated are subject to review:

- Patents only become eligible for CBM review when the patent holder begins litigation or threatens to do so at a level meeting the declaratory judgment standard. Only at that point can those parties charged with infringement of an eligible patent petition for review under CBM.
- CBM review requires meeting a high bar for review. A petitioner must establish that it is "more likely than not" that the patent is invalid in order to gain admission into the program.
- A petition for review under CBM can only be filed when PGR is not an option, meaning more than nine months after the issuance of the patent.
- Once a party charged with infringement files for declaratory judgment they are barred from petitioning for relief under CBM program.
- Petitioner in a CBM proceeding in which a final written decision is issued, is estopped from raising grounds of invalidity in a District Court proceeding that were raised in the CBM proceeding.
- There is no mandatory stay under CBM.
- CBM-eligible patents do not include patents for "technological inventions."
- Review under the CBM must be completed within one year from initiation of the review and not more than 18 months from the time the petition for review was filed.

These safeguards are working well. For example, to date, approximately 30% of CBM petitions have been rejected.

#### 4. Making CBM Permanent is a Key Tool to Address Patent Quality

Unfortunately, without intervening action by Congress, the CBM program will expire in 2020, once again leaving certain industries exposed to low quality business method patents. There are many existing patents that have yet to be considered by the PTO via the CBM program that would escape review once the program sunsets. In the absence of extending CBM, NPEs are incentivized to simply wait out the program's expiration before emerging to assert low-quality patents. Moreover, the universe of eligible patents has been expanded in the wake of the Supreme Court's *Alice* decision.<sup>6</sup> Currently, subject matter eligibility is the second most common grounds for invalidation in the CBM program. Without CBM, the only option for defendants in cases involving so-called *Alice* patents will be to pay the hold-up fee or engage in costly litigation. Further, the PTO continues to grant additional CBM-eligible method patents that may benefit from CBM review. For these reasons, allowing the sunset to expire will leave businesses in many sectors and of all sizes subject to abusive behavior.

The Financial Services Coalition supports making the CBM program permanent, as it has proven to be a successful, low-cost alternative to litigation of covered business method patents. It makes little sense to leave this successful program to sunset while a dearth of low quality patents litter the IP landscape to be asserted and litigated with a meaningful alternative to court. When post-grant programs with far lower utilization rates and far less stringent gate-keeping enjoy a permanent status, leaving CBM to expire fails the stated intent of many of the bill sponsors who have asserted, correctly, that post-grant must be available to everyone.

#### *Fee-shifting/Cost recovery*

We agree strongly that fee shifting is useful to ensure that plaintiffs think twice before bringing meritless litigation. Further, we acknowledge that it is common for trolls to be a shell company (often an LLC) with little more than a post office box and a patent of questionable quality. In these cases it is important that district courts have tools to ensure that fees, once shifted, will be

---

<sup>6</sup> See, e.g., Professor Mark Lemley of Stanford Law School stated that "I don't think it's all software patents, but I guess what I would say is a majority of the software patents being litigated right now, I think, are invalid under *Alice*." (<http://www.ipwatchdog.com/2014/09/04/the-ramifications-of-alice-a-conversation-with-mark-lemley/id=51023/>). Erich Spangenberg, founder of IPNav, recently expressed his view that "the combination of the AIA and recent Supreme Court decisions, especially *Alice*, have had the effect of wiping out billions of dollars of value in patents, especially software patents. If some of the more recent 101 (what is patent eligible) decisions are upheld, we are only beginning to understand what *Alice* means." (<http://www.ipnav.com/blog/erich-spangenbergs-patent-predictions-for-2015/>). Professor David Hricik of Mercer University School of Law commented that "I've been reading a lot of law professor views, and several (if not many) think software patents are dead, or largely so. . . . My guess is *Alice* is going to cause us all to bang our heads, stub our toes, and wander through Wonderland for many years to come." (<http://patentlyo.com/hricik/2014/06/which-mushroom-alice.html>).

paid. However, the language included in S. 1137 will have profound unintended consequences if not addressed.

In lending agreements, collateral is a borrower's pledge of specific property to a lender, to secure repayment of a loan. The collateral serves as protection for a lender against a borrower's default—that is, it can be used to offset the loan if a borrower fails to pay back the bank. Intellectual property is one form of collateral. For example, a company that borrows money from a bank typically pledges all of its assets, including its patents, as security for the bank that the loan will be paid back.

Based solely on this security interest in a borrower's patents, a bank may be deemed an "interested party" under the current cost-recovery language and thus liable for a borrower's attorneys fees. This liability shift changes the nature and value of a bank's collateral and, perhaps, the capital a bank is required to hold against the loan. This impact will be felt across the entire loan portfolio of the U.S. banking industry, including SBA loans that have a partial government guarantee.

According to the Federal Reserve, U.S. banks have almost \$7.9 trillion in outstanding loans,<sup>7</sup> of which about \$600 billion are small business loans.<sup>8</sup> Undermining the patent collateral securing even a small fraction of these loans will have a devastating impact on banks' existing loan portfolios. Not only will the current cost recovery language affect current loan portfolios, it will have a chilling effect on the sectors willingness to lend money to companies that owns patents.

While members of our coalition do not generally provide debt financing to obvious NPEs, if the current cost-recovery language becomes law, banks will be forced to limit lending due to an inability to determine if the borrower is, or will eventually be categorized as, a NPE. Loan underwriting and credit due diligence is done by bankers, not patent lawyers. Moreover, the subjectivity of the determination as to whether a prospective borrower is a NPE is complicated by the fact that no legal definition of NPE exists and troll activity is often in the eye of the beholder. Furthermore, even if a determination could be made with absolute certainty during the initial loan underwriting, a bank cannot prevent a borrower from evolving its business model over time.

\* \* \*

The financial industry is comprised of lenders and insurers and asset managers, small and large, operating across the country that succeed by serving consumers and other businesses. The abusive tactics of NPEs not only impact the financial institutions, but impede their ability to serve these consumers and small businesses.

Small businesses are one such customer of financial institutions, and these businesses stand at the center of today's debate. Opponents of demand letter reform and CBM permanence frame the debate with claims that meaningful reform will diminish intellectual property rights, hurting

<sup>7</sup> See [http://ycharts.com/indicators/total\\_loans\\_and\\_leases\\_of\\_us\\_commercial\\_banks](http://ycharts.com/indicators/total_loans_and_leases_of_us_commercial_banks).

<sup>8</sup> U.S. Small Business Administration, *Small Business Lending in the United States 2013* (Dec. 2014).

investment in today's small business and entrepreneurs by venture capital firms. The opposite is true. Small businesses and entrepreneurs will be hurt if Congress does not halt the NPEs from targeting financial institutions with low quality patents, deceptive demand letters and frivolous lawsuits.

Small business loans are one product in the suite of important services the financial sector provides to the US consumer and business. Whether it is a home loan or student loan, an insurance product to provide your business economic resiliency during a crisis or your family peace of mind, the financial services sector succeeds when it serves its consumers well.

Unfortunately, NPEs choose to target our institutions (as well as every sort of retailer and internet company) with frivolous demands and abusive litigation based on low quality business method patents.

We appreciate your Committee's leadership to curb abuse arising from the assertion of low quality patents and your work on S. 1137. The Financial Services Coalition believes this is an important step forward, and looks forward to continuing to work with the cosponsors, Judiciary Committee, and Senate to improve the bill as a whole as the process unfolds.

\*\*\*

Thank you again for your leadership on patent reform and for allowing us to submit testimony for the record.

Sincerely,

American Bankers Association  
 American Insurance Association  
 The Clearing House Payments Company, LLC  
 Credit Union National Association  
 Financial Services Roundtable  
 Independent Community Bankers Association  
 NACHA – The Electronic Payments Association  
 National Association of Federal Credit Unions  
 National Association of Mutual Insurance Companies



Statement of the  
**National Retail Federation**  
**National Council of Chain Restaurants**  
and  
**Shop.org**  
submitted to the  
**United States Senate**  
**Committee on the Judiciary**  
for its hearing  
**“S.1137, the ‘PATENT ACT’ –**  
**Finding Effective Solutions to Address Abusive Patent Practices”**  
held on  
May 7, 2015

**David French**  
Senior Vice President,  
Government Relations

On behalf of:

National Retail Federation  
1101 New York Avenue, N.W., Suite 1200  
Washington, D.C. 20004  
(202) 783 –7971  
[www.nrf.com](http://www.nrf.com)

NATIONAL RETAIL FEDERATION  
1101 New York Avenue, NW, Suite 1200  
Washington, DC 20005  
[www.nrf.com](http://www.nrf.com)

### **Introduction**

Chairman Grassley, Ranking Member Leahy, and members of the Senate Committee on Judiciary: On behalf of the National Retail Federation (NRF) and its communities, 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, "S. 1137, the 'PATENT Act' – Finding Effective Solutions to Address Abusive Patent Practices," held on May 7, 2015.

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 and 42 million working Americans. Retail contributes \$2.6 trillion to annual GDP and 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 are Significantly Impacted by Abusive Patent Litigation Practices**

Members of the National Retail Federation thank the Committee for addressing abusive patent litigation practices and their harmful effect on competitiveness and innovation. For nearly a decade, patent trolls have asserted infringement claims against retailers. Retailers use 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. S. 1137, the Protecting American Talent and Entrepreneurship Act (the PATENT Act), covers important facets of comprehensive patent litigation reform that will curtail patent trolls' ability to exploit the current economic asymmetries in the legal system to prey on operating companies, like retailers.

Patent trolls increasingly target retailers and other Main Street businesses. In fact, the majority of patent trolls' lawsuits are against retailers and other small businesses, 55% of whom make \$10 million or less annually.<sup>1</sup> The threat typically comes from firms whose business model is buying obscure patents that 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. Patent litigation is prohibitively expensive, so retailers often choose to pay the licensing fee.

Patent trolls employ a strategy that focuses on businesses such as retailers and restaurants because businesses that "use" technology, but don't manufacture it, are more numerous than manufacturers and suppliers and therefore more profitable to the trolls. 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. 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 patent litigation is exorbitantly expensive and that retailers are operating on these

<sup>1</sup> James E. Besson and Michael J. Meurer, "The Direct Costs from NPE Disputes," Boston Univ. School of Law, Law and Economics Research Paper No. 12-34, June 28, 2012.

thin margins with a lack of technical expertise, will often price a settlement demand (which may still be in the millions) below the cost of litigating, effectively blackmailing a retailer into settlement.

In 2012, patent trolls, as Non-Practicing Entities (NPEs), sued more non-tech Main Street companies than tech companies.<sup>2</sup> In 2013, patent trolls continued to play a growing role in overall patent litigation by filing sixty-seven percent of all new patent infringement cases, compared to only twenty-eight percent in 2009.<sup>3</sup> Moreover, only twenty percent of patent infringement decisions in 2013 involved patent holders that were NPEs, underscoring the fact that most NPE-filed cases are settled or dismissed.<sup>4</sup> The cost of these suits is staggering – NPE assertions and litigations cost operating companies \$12.2 billion in 2014.<sup>5</sup> The time is now to pass S. 1137, the bipartisan PATENT Act, and take back the patent litigation system to return it to its original purpose: fostering innovation and investment that benefits the entire economy.

**The PATENT Act is Necessary to Protect Retailers from Patent Troll Abuses and Frivolous Lawsuits**

S. 1137, the PATENT Act, is bipartisan, comprehensive patent reform legislation that addresses vague and abusive demand letters; pleadings; customer stay; making patent litigation more efficient; fee shifting; and preserves less expensive alternatives. The incorporation of these key provisions will ensure that Congress passes the most robust and effective version of the PATENT Act.

*Reform Abusive Demand Letters*

Patent trolls often assert infringement claims by sending reams of vague, misleading, or deceptive letters, targeting small and medium-sized businesses. Rather than taking the time and expense to appropriately file a proper lawsuit, patent trolls use these so-called “demand letters” to coerce businesses into immediately purchasing expensive licenses of uncertain value or else face the threat of protracted and costly patent litigation.

Demand letters have few or no facts about what alleged infringement has supposedly occurred. Not only do the demand letters fail to include information about the patent that is allegedly being infringed, but they also fail to disclose what the business being sued has done to infringe it. The only information that patent trolls strive to make clear in their demand letters is

<sup>2</sup> Colleen Chien, “Patent Trolls by the Numbers,” Patently-O, March 14, 2013, <http://www.patentlyo.com/patent/2013/03/chien-patent-trolls.html>

<sup>3</sup> Price Waterhouse Coopers, “2014 Patent Litigation Study,” July 2014, p. 2, <http://www.pwc.com/us/en/forensic-services/publications/2014-patent-litigation-study.jhtml>

<sup>4</sup> Price Waterhouse Coopers, “2014 Patent Litigation Study,” July 2014, p. 2, <http://www.pwc.com/us/en/forensic-services/publications/2014-patent-litigation-study.jhtml>

<sup>5</sup> RPX Corporation, “2014 NPE Cost Report,” <http://www.rpxcorp.com/wp-content/uploads/sites/2/2015/05/RPX-2014-NPE-Cost-Report-Zfinal.pdf>

the threat of a costly lawsuit. While most recipients of patent troll demand letters are likely not infringing patent rights, they will often pay what amounts to extortion to the troll through expensive attorney fees for legal advice, exorbitant litigation costs in court, or hefty settlement sums because it is a practical business decision. It is more cost effective to settle rather than fight a bogus claim. Retailers divert resources not only to investigate and respond to these claims, but also to reassign employees from other areas of the business to address the patent infringement claims. This is money and man hours the retailer cannot reinvest in the business, in innovation, and in jobs.

Patent trolls' allege infringement on e-commerce, mobile retailing and traditional "brick and mortar" operations, including shopping cart functions on websites, the connection to Ethernet, and transportation and shipping logistics. As retailers incorporate more technology to not only grow their e-commerce business, but also to enhance the in-store experience, they become a bigger target of patent trolls.

Retailers appreciate the Committee's efforts to see that demand letters contain meaningful information for recipients to make informed decisions so that they cannot be used as a gimmick to scare businesses into agreeing to shakedown settlements. Requirements that demand letters be more specific and transparent – or they will be subject to enforcement actions – will deter trolls from mailing form letters to retail and other businesses across the country.

#### *Make Patent Trolls Explain Their Claims*

Patent trolls, which produce no products or services themselves, but instead only threaten and sue productive businesses that do, often file tens or even hundreds of cookie-cutter lawsuits that include no real details. When a patent troll files a lawsuit today against a defendant alleging patent infringement, the patent troll does not have to explain in the lawsuit how their patent is supposedly infringed. Additionally, the patent troll is not required to identify the actual product that is allegedly committing patent infringement or how it infringes on the patent.

When a patent troll files an infringement claim that contains no details against a legitimate business, that business is left completely in the dark as to which of its actions or products are allegedly infringing a patent. As a result, businesses cannot prepare an answer to the claim, design a defense strategy, or even figure out which documents need to be collected and produced. Patent trolls exploit this known asymmetry in the patent litigation system to target retailers, restaurants, and other Main Street businesses, making the discovery process an unfettered and expensive fishing expedition for some unknown and undefined alleged infringement.

Retailers support clear and uniform pleading standards in patent infringement suits that require patent claims to include a clear statement containing basic information such as identifying which patent the plaintiff believes has been infringed, as well as how the defendant has allegedly infringed it. Moreover, retailers support the Committee's efforts to increase transparency and efficiency by requiring early disclosures about the plaintiff, the patent that is allegedly being infringed, and any restrictions placed upon those patents. Early disclosures will

allow defendants to learn who exactly is suing them and whether the patent-in-suit has been litigated elsewhere, without the cost and burden of potentially unnecessary discovery.

#### *Protect Customers*

Traditionally, discussions about patent litigation focused on two parties—a patent holder and the manufacturer of a product that allegedly infringes the patent holder's patent. A third party, or the "end user," can also be sued for patent infringement simply for using a product in its day-to-day business. Because end users are much more numerous than manufacturers, patent trolls are increasingly targeting end users, including retailers of all sizes, by suing them for patent infringement or demanding extortionate settlement payments.

Patent trolls target end users simply for their use of everyday commercial off-the-shelf products. In the real world, these targets have included mundane examples, such as retailers that offer their customers free Wi-Fi; restaurants that provide nutrition calculators to their customers; retailers that put a clickable shopping cart icon on their websites; grocers that use aisle scanners to keep track of where food is shelved in their stores; and retailers who link to their website within their mobile app.

Most end users operate in non-technical industries and therefore lack technical expertise with the patented subject matter because the patented technology is merely ancillary to their businesses, such as patented products like Wi-Fi routers. It follows that end users also lack familiarity with patent litigation and are not in an advantageous position to judge the merits of a patent troll's threat or lawsuit. All of these factors set end users apart from patentees and product manufacturers and make them particularly attractive victims to patent trolls who are looking for quick settlements. End users are also considered more likely to avoid the costs and risk of litigation by settling claims, even if they are meritless.

As primary targets of patent trolls, retailers support legislative language in the PATENT Act that will protect end users by allowing for consistent application of customer stays. When retailers are targeted for patent infringement based on their use of a product, the manufacturer of the product is in the superior position to litigate the alleged infringement. This measure will allow the manufacturer's case to proceed first while the customer's case is put on hold.

#### *Make Patent Litigation More Efficient*

In a patent or patent application, the invention for which the U.S. Patent and Trademark Office has granted permission is clearly defined. Conversely, claims on patents, particularly technology products, are overly broad and not clearly defined. With such a wide scope, patent litigation claims are drawn out and disputed while trying to determine the meaning behind the claim, significantly increasing legal costs.

Overly broad and unclear patent claims that are stretched far beyond the original invention lead to an extraordinarily expensive and inefficient discovery process for the victims of patent trolls. Locating, reviewing, and producing huge quantities of documents costs thousands, if not millions, of dollars. Because trolls have no operating business of their own and thus very

few documents, they face no corresponding burden in litigation. Trolls use this to their advantage by attempting to make litigation so expensive that their victims just settle. Because trolls specialize in picking on smaller companies, this is usually a very successful tactic for trolls as their victims lack the resources to fight the claim in court, even when they have a valid case.

Retailers support the Committee's efforts to reasonably limit early discovery. Limiting early discovery protects parties to infringement suits from the threat of expensive discovery by requiring a court to stay discovery while it resolves early motions, such as motions to dismiss, motions to transfer venue, and motions to sever accused infringers. A more efficient patent litigation process will greatly reduce the time and money wasted on discovery and litigation for baseless claims, while preserving patent holders' rights to pursue legitimate cases.

#### *Stop Discovery Abuses*

Patent litigation is notoriously expensive. A large portion of that expense comes from the costly discovery process when parties must disclose all of the relevant facts and documents to the other side prior to trial. In patent cases, only a small number of the thousands of produced documents are ever even relevant to liability determinations and most of those are core documents. While defendants are forced to waste significant resources producing non-core documents, patent trolls are largely unaffected by the cost and burden of discovery. Due to the fact that patent trolls, as NPEs, do not produce or create goods or services, they therefore possess very few core and non-core documents. This inequity in the discovery process enables patent trolls to employ one of their most abusive tactics: seeking expansive discovery to impose significant expenses on defendants as early as possible in the legal process to force quick cash settlements.

Courts have the power to limit excessive and abusive discovery requests by allowing only discovery that is proportional to the value of the case. Requiring all parties to pay for the discovery they request beyond core documents in no way interferes with a court's discretion. The court will still set the schedule, decide what motions to follow, and make all decisions regarding which documents should be subject to discovery. Judges can retain discretion to waive the requirement of paying for requested discovery when the interest of justice requires it. A discovery cost-shifting provision does no more than incentivize both parties to be judicious in their discovery requests by only asking for information that is useful, relevant, and necessary.

Retailers support legislative language contained in the PATENT Act that directs the Judicial Conference to develop discovery rules for patent actions to reduce the costs of discovery in patent litigation. This measure will preclude patent trolls from using the high costs of discovery to extort money from retailers and other businesses. Requiring that the party seeking discovery beyond core documents will pay for any associated costs, including reasonable attorney's fees will help restore balance to patent litigation. This will stop unreasonable patent troll demands and make litigation more efficient. The involved parties would still be able to obtain the documents they need, but trolls will not be able to abuse the discovery process to force innocent parties to pay settlements just to avoid crushing legal fees. Altering the incentive of the parties in this way will actually lessen the number of discovery disputes and free judges to focus on more fruitful and substantive aspects of case management and dispute resolution.

*Make Abusive Trolls Pay*

Patent trolls are often just shell companies with no assets established for the sole purpose of being immune from judgment if faced with sanctions or fee demands by a court. This setup enables patent trolls to often file dozens, and in some cases, hundreds of lawsuits in a single day, even though they likely know the cases have little or no merit. Even though this behavior wastes the court's time and costs the businesses they sue thousands in legal fees, the patent trolls do not care because there is no penalty for this behavior under current law.

Trolls leverage the significant expense of patent litigation to force defendants to settle to avoid the millions of dollars required to defend a suit. Even successfully defending against a meritless patent suit can cost over \$1 million in legal fees for a small business and an average of over \$6 million for a larger company. Under current law, patent trolls face no similar costs or downside risk. Given how costly it is to go to court, many defendants, even those who know they have not committed any patent infringement, simply choose to settle the case and pay the patent troll off. These inequities in current law are what force legitimate businesses to choose the lesser of two evils and pay the trolls, making the patent troll business model profitable and attractive.

The PATENT Act includes a mandate to courts to award the prevailing party's reasonable attorney fees and other expense if the prevailing party proves that the losing party was not objectively reasonable. Retailers believe that this provision is another step towards making the patent troll business model less attractive and less profitable.

*Preserve Less Expensive Alternatives to Litigation*

Patents have been an important part of the American economy and legal system since the country was founded. The framers of the Constitution thought it so important to protect the rights of inventors that they gave Congress the power to create the patent system in order "to promote the progress of science and useful arts." The system has served us well, and it set the stage for the innovation that has made our country successful and innovative for more than two centuries.

Unfortunately, in the past decade individuals and companies have found ways to exploit the patent system, leeching money from it without contributing any innovation or invention whatsoever. Patent trolls acquire vague or overly broad patents, not to invent or sell products, but to sue and shake down American job creators. It would be prohibitively expensive and practically impossible for a productive company to determine whether it may be infringing every one of the one million active U.S. patents. As a result, companies are hit with lawsuits covering the fundamental backbone technologies that enable the e-commerce we all take for granted — such as transacting business over the Internet, displaying product images, or the icons we click on web pages.

Congress needs to protect and improve existing administrative alternatives at the U.S. Patent and Trademark Office (PTO) and create a less expensive alternative to litigation for businesses to combat patent trolls. Any reforms made by Congress to the patent litigation system must, minimally, preserve, if not strengthen, the PTO's existing procedures for preventing litigation abuses.

### **Conclusion**

The costs associated with seeing patent litigation through to final adjudication are startling for retailers. Expenses for lawyers and investigations, settlement costs and the employee hours diverted to fighting patent trolls are precious capital resources that retailers would rather reinvest in their businesses. Retailers will often settle the claim early because they do not have these types of resources to redirect to fight patent trolls.

Addressing this abusive and growing patent litigation problem with common sense reform like S. 1137, the PATENT Act, will help deter the patent troll business model. Removing or even loosening the patent trolls' grip on retailers will allow innovation and growth to flourish, and undoubtedly benefit the overall U.S. economy.

Retailers encourage Congress to act now on bipartisan, multi-faceted patent litigation reform legislation. Effective legislation is about stopping the lucrative business model used by patent trolls to assert meritless patents and enrich themselves with shakedown settlements.

We appreciate your leadership, and NRF looks forward to working with you to address this growing and costly problem.

**Dell Applauds Senate PATENT Act**

Dell applauds Chairman Grassley, Ranking Member Leahy and Senators Cornyn, Schumer, Hatch, Klobuchar and Lee for filing the PATENT Act today to address a significant impediment to American innovation, patent litigation abuses.

"This bill takes an important step forward to give greater protection to market innovators and patent holders such as Dell and our customers, large and small, so we all can invest more in innovation and job creation," said Dell Chief Patent Counsel Anthony Peterman. "We look forward to working with both the Senate and House to ensure the legislation adopts meaningful reform while preserving patent quality."



**Statement of Engine Executive Director Julie Samuels re: Introduction of the PATENT Act**

We applaud the introduction of the PATENT Act, an important piece of legislation that would create much-needed balance, fairness, and transparency in the patent system. The bill's package of incentives directly target a patent troll problem that has, over the past decade, grown out of control, harming countless startups and our economy at large.

The patent troll epidemic has been well-documented by reporters, advocates, and even comedian John Oliver. It costs our economy at least \$29 billion annually. But, worst of all, it disproportionately targets startups and small companies. Research shows that 55 percent of companies targeted by trolls have less than \$10 million in annual revenue. And a survey of 200 VCs and their portfolio companies found "venture capitalists overwhelmingly believe that patent demands have a negative impact on the venture-backed community." In fact, it's been estimated that were it not for troll threats, VC investment in startups would have been \$8 billion higher over the last five years alone.

The PATENT Act would give those threatened by patent trolls the tools they need to fight back, redistributing power and creating a more level playing field. These common-sense reforms would require patent owners to provide basic information, and would incentivize them to bring only those lawsuits that are based on high-quality patents and represent legitimate claims of infringement. As such, it creates no unnecessary burden on patent holders. And the bill effectively addresses the serious problem of out-of-control demand letters.

Patent reform enjoys broad bipartisan support in both houses and growing demand from the American people. In the weeks ahead, we'll be redoubling our efforts to ensure the passage of the PATENT Act, a bill that will strengthen the patent ecosystem for all innovators.

We commend the bill's co-sponsors Sens. Grassley, Leahy, Cornyn, Schumer, Lee, Hatch and Klobuchar and look forward to the PATENT Act becoming law.



## **ETA Praises Introduction of PATENT Act**

April 29, 2015 – Statement by Jason Oxman, CEO of ETA, regarding the introduction of the Protecting American Talent and Entrepreneurship (PATENT) Act of 2015 by Senate Judiciary Chairman Chuck Grassley (R-IA), Ranking Member Patrick Leahy (D-VT), and Sens. John Cornyn (R-TX), Charles Schumer (D-NY), Orrin Hatch (R-UT), Amy Klobuchar (D-MN) and Mike Lee (R-UT).

“We applaud the Leadership of Senators Grassley, Leahy, Cornyn, Schumer, Hatch, Klobuchar, and Lee, who today introduced the PATENT Act to restore fairness to the patent litigation system and combat the growing problem of patent trolls. This bipartisan bill shifts the legal burden back onto those who are abusing the patent system. Innovative technology plays a vital role in the American economy and this legislation will allow businesses to focus on growth, not costly, needless litigation.”



Facebook Supports PATENT Act

We applaud Chairman Grassley, Ranking Member Leahy, and Senators Cornyn and Schumer for crafting legislation to provide relief from the damaging behavior of patent trolls. By maintaining the Broadest Reasonable Interpretation standard, this bill achieves necessary reforms while keeping in place important gains such as post grant review enacted through the America Invents Act. We look forward to working with members of the Judiciary Committee and the full Senate as the bill is considered.

---

**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

---

**HIGHER EDUCATION ASSOCIATION STATEMENT ON INTRODUCTION OF PATENT ACT**

April 30, 2015

*Washington, DC -- The Association of American Universities, Association of Public and Land-grant Universities, Association of American Medical Colleges, American Council on Education, Association of University Technology Managers, and Council on Governmental Relations today released the following statement on the introduction of the PATENT Act by Senators Grassley, Leahy, Cornyn, Schumer, Hatch, Klobuchar, and Lee.*

We thank the Senate sponsors of the PATENT Act for listening to the concerns of the higher education community in drafting this legislation. While we need to examine the legislation further in the coming days, this bill is a substantial improvement over H.R. 9, the Innovation Act. In our view, it takes a more measured approach to addressing the abusive litigation practices of patent trolls while protecting the integrity of our patent system.

Although we will have improvements to suggest during the legislative process, we appreciate that the sponsors are working to achieve a careful and appropriate balance between addressing the costly and corrosive problem of abusive patent litigation and preserving the ability of patent holders to legitimately enforce their patent rights. We also understand that some senators might offer constructive amendments. We look forward to reviewing any such amendments, some of which may receive university support.

We have consistently raised fee-shifting and joinder as our most significant concerns with patent legislation. We are encouraged that, in contrast to H.R. 9, the PATENT Act creates a non-presumptive fee-shifting standard, as well as a mechanism for recovery of fees that would discourage patent trolls from litigating through judgment-proof shell companies but not sweep in universities and other good-faith patent holders.

Our universities and academic health centers are the originators of a vast array of discoveries and inventions. They deplore the abusive litigation practices of patent trolls. The patent troll business model of intimidation cynically exploits the legal system to undermine the constitutionally established system for promoting invention and discovery.

Moreover, our members take seriously their role in facilitating the transfer of federally funded research discoveries to private sector entities that can scale up and commercialize them into innovations that drive our economy and improve public health and quality of life. This technology transfer process and, therefore, the health of the U.S. innovation ecosystem, depend on a strong patent system, including the ability of patent holders to enforce their rights in good faith.

We look forward to continuing our positive, productive discussions with the sponsors, other members of Congress, and stakeholders in working towards our shared goals of curbing abusive patent litigation and maintaining the strength of the U.S. patent system.

###

CONTACTS: Barry Toiv, AAU, [barry.toiv@aaup.edu](mailto:barry.toiv@aaup.edu) Jeff Lieberman, APLU, [jlieberman@aplu.org](mailto:jlieberman@aplu.org)

---

Association of American Universities • 1200 New York Ave., NW, Suite 550, Washington, DC 20005 • (202) 408-7500  
 American Council on Education • One Dupont Circle, NW, Suite 800, Washington, DC 20036 • (202) 939-9300  
 Association of American Medical Colleges • 655 K Street NW, Suite 100, Washington, DC, 20001-2399 • (202)-828-0400  
 Association of Public and Land-grant Universities • 1307 New York Ave., NW, Suite 400, Washington, DC 20005 • (202) 478-6040  
 Association of University Technology Managers • 111 Deer Lake Road, Suite 100, Deerfield, IL 60015 • (847) 559-0846  
 Council on Governmental Relations • 1200 New York Ave., NW, Suite 750, Washington, DC 20036 • (202) 289-6655

May 13, 2015

The Honorable Chuck Grassley & Patrick J. Leahy  
Chairman & Ranking Member  
Committee on the Judiciary  
United States Senate  
224 Dirksen Senate Office Building  
Washington, DC 20510-6050

Dear Senators Grassley and Leahy,

The undersigned organizations represent technology, small business, consumer, and the public interests in the area of patent policy. We write to provide our views on the PATENT Act, S. 1137. We support this bill, as it will target the most problematic abuses in patent assertion, and we encourage members of the Committee to oppose amendments would substantially deflate the effectiveness of this bill in the areas of patent demand letter reforms and post-grant AIA proceedings.

The patent system is intended to promote innovation, but far too often today we see abuses of the system that harm the small businesses, startups, and creators who are the engine of American innovation.<sup>1</sup> We applaud the sponsors of the PATENT Act for taking on this timely, urgent, important issue of patent reform.

#### I. WE SUPPORT THE PATENT ACT

The undersigned groups believe that the PATENT Act provides strong protections for consumers and small businesses from the worst abusive practices seen in the patent system today. The bill provides for basic fairness in patent litigation, provides procedural protections for consumers of off-the-shelf products, and institutes penalties for the sending of misleading, deceptive, or insufficiently informative patent demand letters. We support the bill, and encourage members of the Committee to support it as well.

#### II. THE PATENT DEMAND LETTER PROVISIONS PROVIDE REAL PROTECTIONS FOR CONSUMERS AND BUSINESSES

We are particularly pleased to see the provisions of the PATENT Act that protect against improper patent demand letters. Such demand letters continue to be a serious problem for the smallest entities who lack the resources to defend themselves from such predatory activity.

This bill offers real, meaningful protections against abusive patent demand letters. It creates penalties and disincentives for failure to include relevant information, ensures the FTC has authority to deal with misleading and deceptive demand letters unhindered by excessive evidentiary

---

<sup>1</sup>See Brief of Public Knowledge as *Amicus Curiae* in Support of Respondent at 4–8 & nn.2–6, *Kimble v. Marvel Enters., Inc.*, No. 13-720 (U.S. Mar. 4, 2015), available at [https://www.publicknowledge.org/assets/uploads/documents/13-720\\_bsac\\_Public\\_Knowledge.pdf](https://www.publicknowledge.org/assets/uploads/documents/13-720_bsac_Public_Knowledge.pdf) (citing twenty-one case law, administrative, academic, and media sources on the harm of patent abuse).

The Honorable Chuck Grassley & Patrick J. Leahy

May 13, 2015

Page 2

requirements, and permits the states to continue to develop new solutions to demand letters as new abuses arise. We would encourage the Committee to pass these provisions without weakening them with unnecessary proposals that others may raise.

### III. CHANGES TO THE AIA POST-GRANT PROCEEDINGS MUST NOT UNDERMINE THE VALUE OF THOSE PROCEEDINGS

The America Invents Act introduced several new proceedings for challenging patents before the U.S. Patent and Trademark Office. These post-grant proceedings are critical for improving patent quality and ensuring that small businesses and individuals are able to challenge patents that interfere with the public's ability to innovate.

At the hearing on the PATENT Act, several witnesses proposed changes to these post-grant proceedings that would raise their cost and make them less accessible to those third parties for whom the proceedings were designed. Several of us have criticized these proposals for being haphazardly developed and not targeted toward the perceived post-grant proceeding abuses.<sup>2</sup>

Accordingly, we concur with Senator Schumer's statement at the hearing, that he would "not be able to support any deal on post-grant that does not preserve the viability of the process for these little startups." We would oppose any amendments that would weaken these necessary procedures overall.

\* \* \*

We thank you for your consideration of our views, and look forward to working with you to pass strong, meaningful patent reform legislation in the coming months.

Sincerely,

Public Knowledge

R Street Institute

Engine Advocacy

Computer and Communications Industry Association

Electronic Frontier Foundation

Application Developers Alliance

cc: Members of the Senate Committee on the Judiciary

<sup>2</sup>See Charles Duan, *The STRONG Patents Act Is a Death Squad for Innovation*, ROLL CALL (Mar. 17, 2015), <http://blogs.rollcall.com/beltway-insiders/the-strong-patents-act-is-a-death-squad-for-innovation/>; Adi Kamdar, *The STRONG Patents Act Is a Prime Example of Weak Reform*, ELECTRONIC FRONTIER FOUND. (Mar. 4, 2015), <https://www.eff.org/deeplinks/2015/03/strong-patent-act-prime-example-weak-reform>; Matt Levy, *Myths and the STRONG Act*, PAT. PROGRESS (Apr. 3, 2015), <http://www.patentprogress.org/2015/04/03/myths-and-the-strong-act/>.



Statement by Dick O'Brien, executive vice president of the American Association of Advertising Agencies, in support of the PATENT Act:

"What you're seeing is the best version of what a patent reform bill should look like."