

December 16, 2013

The Honorable Patrick J. Leahy
Chairman, Committee on the Judiciary
United States Senate
224 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Chuck Grassley
Ranking Member, Committee on the Judiciary
United States Senate
224 Dirksen Senate Office Building
Washington, DC 20510

**Re: S. 1720 (the “Patent Transparency and Improvement Act of 2013”) and
S. 1013 (the “Patent Abuse Reduction Act of 2013”)**

Dear Mr. Chairman and Ranking Member:

We write as inventors whose discoveries to date have added hundreds of billions of dollars in value to the U.S. economy and improved the quality of lives of billions of consumers around the world. Now that the House of Representatives has passed H.R. 3309 it is more important than ever that the Senate take pause to hear from inventors – the true creators of new jobs and game-changing technologies that have allowed this country to remain preeminent throughout the world in this era of the innovation economy.

In particular, we respectfully ask for the Senate Judiciary Committee to not rush to judgment but to instead collect the best information available before acting, by conducting a hearing with testimony from inventors, startups, and universities who create the fundamental technology innovations that drive our economic growth and job growth. Doing so will provide the information needed to surgically curb the harms done by a handful of abusers without collaterally bludgeoning the people who are the very foundation of our innovation economy.

We support many elements of the current legislative proposals and continue to believe a bill that targets abusive behavior in patent litigation is achievable and necessary. But we are alarmed by (i) the unprecedented haste with which the current patent legislation is moving forward, (ii) the scant attention being paid to the views of the independent inventors whose creativity is the source of technological progress and whose livelihood will be directly impacted by that legislation, and (iii) the aggressive promotion of overbroad proposals that will not curb the patent litigation abuse suffered by retailers or “mom and pop” small businesses.

The currently proposed legislation would do little to solve the real problems caused by bad actors in the patent system. Instead, its chief impact would be to significantly weaken the ability of legitimate inventors to enforce valid patents, which means these inventors would be powerless to stop large corporations from stealing their ideas. The legislation would deny inventors and other non-deep-pocketed entities such as startups and universities the fair, timely and affordable access to our court system needed to protect their patent rights.

This will in turn make it exceedingly difficult for inventors to raise capital. As a result, many of the next generation of inventions will never be created, let alone disclosed to the public in patent applications, because their development will never get funded.

Why are inventors' concerns being ignored? Our Constitution gave Congress the power to promote the progress of science and useful arts by securing for "inventors" the exclusive right to their discoveries for limited times. In that light, we were dismayed that not a single inventor was invited to testify before the House Judiciary Committee during the rush to pass H.R. 3309. Instead, the debate has been dominated by the voices of secondary actors, the voices of huge corporations that have amassed vast numbers of patents assigned to them by inventors.

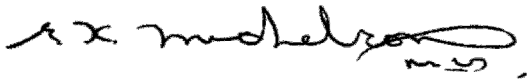
Inventors are humans, corporations are not. Inventors create, corporations proliferate goods and services. Both are needed in our innovation-driven economy, but one should not drown out the other. We respectfully ask that our human voices and concerns be fully heard and weighed in a second hearing conducted by the Committee, before key elements of patent law be changed that would do great harm to the foundations of our innovation economy.

Please see the attached for our recommendations on specific issues.

Sincerely,



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RECOMMENDATIONS ON PATENT ABUSE LEGISLATION

From Louis J. Foreman, Dr. Gary K. Michelson, M.D. and Dr. Gregory G. Raleigh Ph.D.

For convenience, these recommendations address provisions found in three bills:

- the Innovation Act (H.R. 3309) (Goodlatte)
- the Patent Abuse Reduction Act of 2013 (S.1013) (Cornyn), and
- the Patent Transparency and Improvement Act of 2013 (S. 1720) (Leahy)

Our guiding principle in these recommendations is that changes to the U.S. civil litigation system should be undertaken only with great caution, when (i) there is a demonstrated need for change and (ii) there are no less Draconian solutions available.

1. Mandatory Stays of Litigation (H.R. 3309 & S. 1720). These proposed provisions mandate that courts impose a stay of judicial proceedings against a “covered customer” when an upstream manufacturer or subcomponent supplier is a party to the lawsuit or a separate lawsuit relating to the accused product or process.

There is no evidence that our nation needs Congressionally-mandated stays in patent litigation. Every federal court is already fully empowered to grant stays in the interests of justice, and no data exists to show that courts have inappropriately failed to grant stays in the classic customer/manufacturer circumstances that stakeholders now cite as the basic rationale for the new law.

The stay proposals as written would harm inventors by immunizing certain deep-pocketed infringers. The glaring shortcomings of the proposed mandatory stay provisions were recently pointed out by no less of an authority than David Kappos, the celebrated former Under Secretary of Commerce for Intellectual Property and Director of the USPTO. Mr. Kappos recently testified that, among its multiple other flaws, the litigation stay provisions of H.R. 3309 would immunize from infringement liability all parties (not merely individual end users and retailers), as long as they are located somewhere in a product channel downstream of the first component part maker. Such an unprecedented and broad grant of infringement immunity would include “large commercial actors such as manufacturers combining procured components into value-added completed devices, as well as assemblers,” and might also “leave an American innovator with no infringer at all to pursue where infringing manufacturers are located outside the reach of the US courts, such as overseas, or lack adequate assets to answer for infringement.”

Does Congress truly intend to grant such wholesale immunity from infringement liability for the astonishing, previously unheard-of reason of where an accused infringer happens to be located amid its supply chain – a vagary that can be altered or otherwise manipulated overnight? Doing so would eviscerate a foundational principle that has served our patent system well throughout its entire history: infringement is based on the unlicensed use of patented technology, not on the identity, or supplier arrangements, of an accused infringer.

In our view, there are far simpler and more balanced ways of protecting against the abuse of innocent bystanders.

RECOMMENDATION: Congress should identify and adopt narrowly tailored solutions that would immediately de-leverage shakedown artists without eliminating any key foundation of the U.S. patent system. For example

- Congress could simply restore a minimum “amount in controversy” requirement to patent lawsuits at an appropriate dollar amount, ensuring that truly de minimis nuisance litigation would be excluded from the courts.

- Congress could establish a small claims patent court, after deliberating on the public comments received by the USPTO on the subject earlier this year, as recommended by the ABA IP section and the AIPLA.
- Congress could also require those who send patent demand letters to “Mirandize” their demands by identifying where the recipient can receive assistance before responding to the letter, whether that assistance comes from within the USPTO or from industry groups organized to combat abusive patent holder behavior.
- Congress could limit “covered customer” to small businesses and retailers who sell unaltered goods.

In short, Congress should fully explore a range of narrowly focused solutions so that the unintended consequences of a new law do not harm inventors and legitimate patent licensing activity.

2. Fee Shifting (H.R. 3309 & S. 1013). The proposed changes that encourage fee shifting will create a new source of leverage for giant companies accused of infringement, to the detriment of inventors and their agents.

Section 285 of the current Patent Act already provides a balanced approach to fee shifting when a case lacks merit. Because it provides that courts “in exceptional cases may award reasonable attorney fees to the prevailing party,” the current Patent Act is consistent with the longstanding “American Rule” that each party should bear its own costs in litigation. The proposed legislation would reverse the American Rule in patent cases, making the imposition of fees mandatory, unless the position of the non-prevailing party or parties was “substantially justified” in H.R. 3309, or “objectively reasonable and substantially justified” in S. 1013.

These “loser pays” provisions would deter inventors from exercising their Congressionally granted right to assert valid patents in meritorious lawsuits, and are foreign to well established American judicial practices. According to one of the nation's most distinguished civil procedure scholars, Professor Arthur R. Miller, who has served as a member and Reporter for the Advisory Committee of Civil Rules of the Judicial Conference of the United States, the American Rule

reflects the Founders’ rejection of the British ‘loser pays’ system. The Founders rejected the British system in large part to allow all citizens access to courts, in which disputes would be resolved on the merits. Over the years, when Congress has granted exceptions to the American Rule, it has generally been for the purpose of encouraging litigation by creating ‘private attorneys general’ to conduct litigation to enforce public policies that might otherwise be too risky to pursue. The Equal Access to Justice Act is a prime example.

The proposed amendments of Section 285 is quite unlike the Equal Access to Justice Act, where fees can be granted only when the party of limited net worth has prevailed against one specific party – the United States of America. In contrast to the EAJA, the proposed loser pays provisions are designed to actively discourage inventors from pursuing litigation to enforce their Congressionally bestowed rights by massively increasing the financial risk inventors bear when forced to seek relief in court, which, in turn, gives large company defendants extra leverage over legitimate inventors when negotiating license agreements.

Moreover, the U.S. Supreme Court is reviewing the issue of fee shifting in two cases on certiorari from the Federal Circuit. It would be unwise for Congress to act before the Court has resolved those cases.

RECOMMENDATION: Congress should not amend Section 285 of the Patent Act in ways that create greater risks for inventors and patent holders, and in any event should not act on the issue until the Supreme Court has resolved the relevant cases now under review. The current law allows courts to award reasonable attorneys fees to prevailing parties in “exceptional cases,” which enables courts to discourage meritless shakedown patent lawsuits that follow irresponsible mass demand letters.

3. Transparency of Ownership (H.R. 3309, S. 1013 & S. 1720). We support and encourage the disclosure of the ultimate owner of any patent offered in licensing discussions or asserted in litigation. As currently drafted, however, the proposed provisions would require far more and as such are overbroad, unnecessarily burdensome, and impractical.

H.R. 3309 requires patent plaintiffs to disclose in the complaint, and continually update

- highly confidential business information such as the identity of anyone with a right to sublicense or enforce the patents at issue; and
- difficult-to-collect information including the identity of anyone who has a financial interest in the plaintiff.

S. 1013 requires patent plaintiffs to disclose in the complaint

- highly confidential business information such as whether the patent at issue is subject to any license term or commitments through any entity, the identity of anyone with a financial interest in the outcome of the action along with a description of the agreement or other legal basis for such financial interest.

S. 1720 H.R. 3309 requires patent plaintiffs to disclose to the Court and to adverse parties any

- difficult-to-collect information including the identity of anyone with a financial interest “of any kind” and “any other kind of interest that could be substantially affected by the outcome of the proceeding.”

Today, to the extent any such information is relevant to the issues in the lawsuit, it is typically disclosed under seal in discovery. In other instances, the information would be irrelevant, unknown to the plaintiff, or would call for a legal conclusion that may well be determined only after the litigation has progressed.

In short, the proposals have laudable goal of preventing shell games but are drafted in such an overbroad manner that they would inevitably increase the number of issues in dispute between parties, multiplying court proceedings and costs rather than reducing them.

RECOMMENDATION: Congress should require disclosure of the ultimate owner of any patent offered for licensing or asserted in litigation but should allow courts to tailor, on a case-by-case basis, the degree and manner of the disclosure of additional information concerning persons with financial interests related to the patent.

4. Heightened Pleading Standards (H.R. 3309 & S. 1013). These provisions would deter legitimate inventors from asserting valid patents in meritorious cases by requiring that plaintiffs provide at the inception of a lawsuit overly detailed claim charts as well as technical information that is accessible only to the accused infringer. These provisions would allow accused defenders to obtain early dismissal of meritorious cases simply by refusing to provide the information needed to plead the case.

RECOMMENDATION: Congress should refrain from altering the present notice pleading requirements of the Federal Rules of Civil Procedure, and refrain from eliminating Form 18, the standard form to make initial pleadings in patent cases.

5. Mandated Document Discovery Restrictions and Burden Shifting (H.R. 3309 & S. 1013).

Both H.R. 3309 and S. 1013 mandate significant limitations on discovery prior to claim construction rulings, stripping courts of the discretion to manage their own dockets by organizing and scheduling discovery on a case-by-case basis. One size does not fit all patent lawsuits, nor does one discovery schedule. Moreover, a key element of the architecture of our Federal Rules of Civil Procedure is a self-executing discovery regime featuring “equal access to all relevant data,” which allows each party to best assist the court in the resolution

of a case. The proposed provisions contradict that key element and would prejudice plaintiffs by freezing in place an asymmetric access to data – defendants alone would have access to the technical data needed to prove plaintiff’s case. As Professor Miller has testified

Discovery is often the key that opens the door to information critical to the remediation of violations of important constitutional, statutory, and common law principles as well as providing compensation for injuries sustained by citizens because of those violations. Effective discovery is the lifeblood for proving one’s case. Without it, even meritorious cases may fail or not even be instituted.

RECOMMENDATION: Congress should not mandate one particular schedule for discovery but should defer to courts in the management of their own dockets and discovery schedules.

6. “Reasonably Could Have Raised” Estoppel (H.R. 3309 & S. 1720). This is simple – when it becomes necessary for an inventor to protect his or her inventions by asserting patents, it is unfair for defendants to have multiple bites at the same apple, imposing extra years of delay and millions of dollars of additional expense in multi-phased attacks on the validity of those patents. Inventors simply cannot afford the extra cost and delay serial attacks on validity cause them.

The notion that “reasonably could have raised” estoppel resulted from a scrivener’s error is an urban myth. In the extensive debates leading up to the enactment of the America Invents Act, Congress sought, heard, and credited testimony about how “patent assassin” attorneys use multiple reexamination procedures to generate legal traffic jams that tie up issued patents in lengthy and expensive proceedings, degrading the patent owners’ ability to obtain royalties or complete litigation. An important principle emerged: new administrative review procedures for invalidating an already-granted patent are justifiable only if they truly provide a cheaper and faster alternative to – not a serial, second-bite-at-the-apple supplement to – litigation.

This “true alternative to litigation” principle led to the addition of “reasonably could have raised” estoppel language to the House version of two new proposed procedures for challenging a patent after issuance, post-grant review (PGR) and *inter partes* review (IPR). After the Senate adopted the House bill, that language became the law. The AIA barred those who petitioned the USPTO to invalidate a patent via PGR or IPR from asserting that a patent claim is invalid in a district court or ITC proceeding on any ground that the petitioner raised or reasonably could have raised during the PGR or IPR. Thus, petitioners who elected to pursue PGR or IPR relief could not “sandbag” government authorities by presenting some grounds for invalidity to the PTO but hiding other arguments until the dispute reached a court or the ITC.

In short, the strong estoppel provisions of the AIA were no mistake – they resulted from compromise reached during a hard-fought legislative process and should not be lightly set aside. As Robert L. Stoll, who served as Commissioner for Patents at the USPTO from 2009 to 2012, wrote:

Reasonably-could-have-raised estoppel, as enacted in the AIA, represents a compromise position between two competing proposals: an expansive estoppel applying to all issues that a petitioner could possibly have raised, and a narrow estoppel applying only to issues actually raised.

Proposals to delete “reasonably could have raised” would undo that compromise and give accused infringers extra opportunities to serially raise patent validity challenges in multiple venues, unfairly disadvantaging inventors by increasing the complexity and costs of defending and enforcing patents.

Already, these “true alternative to litigation” proceedings have been used extensively to challenge patents. As the former general counsel of the USPTO recently noted, even though AIA has been in effect a short period of time, the number of post-issuance challenges under its new proceedings has greatly exceeded expectations:

Today, the Patent Trial and Appeal Board already is faced with a much greater workload than originally forecast by the USPTO. In fact, the filings in the first year of the program were almost 50 percent greater than predicted. The USPTO now has the third largest patent docket in the country

Accordingly, there appears to be no legitimate need to weaken estoppel, which would thereby multiply the number and mechanisms of post-issuance challenges.

RECOMMENDATION: Congress should not amend the AIA’s estoppel provisions. Though still in their infancy as a governmental means for resolving disputes, the post-issuance proceedings as set forth in the AIA have been used extensively to date to reduce litigation costs, showing that amending the AIA’s estoppel compromise is not appropriate at this time. Again, the proposed legislation would unfairly create new gamesmanship advantages for larger, market-dominant incumbent companies accused of infringement while burdening inventors.

7. Mandated Document Discovery Restrictions and Burden Shifting (H.R. 3309, S. 1013 & S. 1720). All three bills call for sweeping changes to the rules and procedures of civil litigation. Following the circulation of a draft of H.R. 3309 that required such changes to the rules and procedures on document discovery, the Rules Committees of the Judicial Conference of the United States wrote a diplomatic letter to the House Judiciary Committee, as follows:

We greatly appreciate, and share, the desire to improve the civil justice system in our federal courts, including by reducing abusive procedural tactics in patent litigation. But legislation that mandates the contents of the federal rules contravenes the longstanding Judicial Conference policy opposing direct amendment of the federal rules by legislation instead of through the deliberative process Congress established in the Rules Enabling Act, 28 U.S.C. §§ 2071-2077. Congress passed the Rules Enabling Act to create a thorough and inclusive process for addressing procedural problems in the federal courts. Under that process, the Rules Committees collect information that is essential to promulgating effective rules by commissioning empirical studies, analyzing relevant case law, and consulting with experts and others with direct experience in the area. Proposals for change are published for public comment and thoroughly analyzed by the Civil Rules Committee, the Standing Rules Committee, the Judicial Conference, the Supreme Court, and Congress. This multi-layered process ensures a thorough evaluation of proposals while reducing the ever-present risk of unintended consequences. (Emphasis added.)

To paraphrase: far more investigative work, deliberation, and consultation between the separate branches of government ought to occur before significant changes to the federal rules of civil procedure are promulgated. We agree.

RECOMMENDATION: Congress should not amend the federal rules of civil procedure regarding discovery or otherwise, except in a manner consistent with the Rules Enabling Act, in full partnership with the judicial branch.



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Re: Senate Judiciary Committee Hearing on "Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse"

Dear Mr. Chairman and Ranking Member:

U.S. Start-Ups and Inventors for Jobs (USIJ) is an alliance of over 40 life sciences and high tech companies who have come together to help safeguard our nation's innovation ecosystem. In particular, we are deeply concerned that the patent litigation legislation pending in the Senate, as currently drafted, will cause great harm to the next wave of innovation we expect to come from U.S. start-up companies.

We ask that the Senate Judiciary Committee hold an additional hearing in January at which the testimony of start-ups, individual inventors, and universities can be heard.

These stakeholders rely on the protections of our patent system to justify investment in the high risk, big innovations that drive our economy. Much of the legislation, as currently drafted, will severely undermine the ability of start-ups to raise the capital they need to fund new inventions and bring them to market. Investors will not make the major investments needed to bring the next level of innovation forward without the promise of strong patent protection. Simply put, our nation's next big innovations that will refresh and grow our economy will never get off the ground.

We readily acknowledge that recently there have been a number of examples of abusive patent litigation (and pre-litigation) practices. But the medicine to cure such bad behavior should not be so toxic that it hinders legitimate inventors, startups, and universities from gaining fair, timely, and affordable access to our courts when their inventions are copied. Illegitimate demand letters are a problem but illegitimate copying of U.S. patented technology is a far greater problem with far greater negative consequences for our economy. We would like to work with Congress to help craft legislation that curbs bad behavior while preserving the way our innovation system and courts operate to protect inventions.

Sincerely,

Earl "Eb" Bright
Chairman, Advisory Committee, USIJ