

**Questions Of Senator Patrick Leahy (D-Vt.),  
Chairman, Senate Judiciary Committee**

**Hearing on “Protecting Small Businesses and Promoting Innovation by Limiting Patent  
Troll Abuse”**

**December 17, 2013**

**Questions for Q. Todd Dickinson, former Director of USPTO and current Executive  
Director of the American Intellectual Property Law Association**

- 1) The America Invents Act implemented several important measures to improve patent quality. What are your views on how those processes are working? What more can or should be done by Congress, the courts, or the Patent & Trademark Office to improve the quality of patents that are issued?**

As we indicated in our written testimony, one of the primary goals of the Leahy-Smith America Invents Act (AIA) was to improve patent quality. This followed directly from the main recommendations of the National Academies of Sciences (NAS) 2004 Study, “A Patent System for the 21st Century,” the principal source document for the recent patent reform debate, which found that patent quality itself was the most critical concern in the patent system as a whole. This was ratified as recently as the 2013 Study conducted by the Government Accountability Office (GAO)<sup>1</sup>, also cited in our testimony.

To achieve those goals, the AIA implemented several key measures to improve patent quality. First among them was a core recommendation of the NAS Study:

*“Institute an Open Review procedure. Congress should seriously consider legislation creating a procedure for third parties to challenge patents after their issuance in a proceeding before administrative patent judges of the USPTO. The grounds for a challenge could be any of the statutory standards—novelty, utility, non-obviousness, disclosure, or enablement—or even the case law proscription on patenting abstract ideas and natural phenomena. The time, cost, and other characteristics of this proceeding should make it an attractive alternative to litigation to resolve patent validity questions both for private disputants and for federal district courts. The courts could more productively focus their attention on patent infringement issues if they were able to refer validity questions to an Open Review proceeding.”*

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<sup>1</sup> Intellectual Property: Assessing Factors That Affect Patent Infringement Litigation Could Help Improve Patent Quality, GAO-13-465, Aug 22, 2013, available at <http://www.gao.gov/products/GAO-13-465> (visited Jan. 23, 2014).

In the AIA, this procedure has come to be known as Post-Grant Review or PGR. It is applicable to all patents which will issue from applications filed under the new “first-inventor-to-file” regime, which just came on-line March, 2013.

In addition to PGR, however, the AIA implemented several other post-issuance processes whose intention was to improve patent quality. These include Inter Partes Review (IPR), Supplemental Examination, and, for a very narrow area of patents, the Transitional Program for Covered Business Methods (CBM). All of these processes vary in terms of the grounds for review, the threshold to enter, the availability of estoppel, the availability of grounds for stay of other proceedings, etc. These variances were the result of carefully crafted compromises that took into account varying stakeholder and technology interests, as well as the evolving importance and investment in the underlying technology during the life of the patent.

While it is too early to draw definitive conclusions about the ultimate success of these post-grant processes, at least one significant early indication may be drawn from the apparently greater-than-expected usage of the post-grant processes in the first stages following their implementation.

Other aspects of the AIA were also enacted to improve patent quality such as the institution of a first-inventor-to-file system that will provide a more objective basis for establishing the priority of rights and allowing third party submission of prior art during the patent examination process. More time is needed to evaluate the effectiveness of these reforms.

It is for these reasons and others that we strongly urge that we give these processes time to demonstrate whether or not they are dealing effectively with some of the problems identified during the debate on the AIA, problems which are being identified yet again in the debate this time around.

We would point out again that the AIA itself requires that USPTO study the reforms implemented by the AIA and report back to Congress by September 16, 2015. Those reports would serve as an important and more empirically-driven body of data which would allow for greater clarity and direction in making any necessary changes.

As far as what else can be done to improve quality, there were several additional proposals for improving the quality of patents in NAS 2004 Study that were not implemented in the AIA<sup>2</sup> and which AIPLA could support. These include eliminating the special exemptions to full publication of pending U.S. patent applications as permitted under the American Inventors Protection Act of 1999 to promote a more transparent patenting process, formally eliminating the requirement that an application for patent include a disclosure of the “best mode” contemplated by the inventor carrying out the invention, and codifying an exemption from infringement under which uses of a claimed invention related to scientific, research, or experimental inquiries are exempted as acts of infringement.

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<sup>2</sup> A detailed discussion of these proposals can be found in the appendix to the testimony of Robert A. Armitage before the United States House of Representatives Committee on the Judiciary, hearing on “H.R. 3309, Improving the Patent System to Promote American Innovation and Competitiveness,” October 29, 2013, pages A14-A38, available at [http://judiciary.house.gov/\\_files/hearings/113th/10292013/Armitage%20Testimony.pdf](http://judiciary.house.gov/_files/hearings/113th/10292013/Armitage%20Testimony.pdf).

Additionally, Section 11(C) of S. 1720 and Section 8(C) of H.R. 3309 each call for the GAO to conduct a study on “patent examination at the Office and the technologies available to improve examination and improve patent quality.” The completion of such a study may shed more light on USPTO procedures that can be reformed to improve patent quality.

We would reiterate from our testimony that a long-term, sustainable funding mechanism is the single most important thing that would advance the goal of patent quality. To help fund the new programs and initiatives of the AIA, Section 11 included a 15% surcharge on patent fees, and Section 10 granted the USPTO the authority to set the fees for patent and trademark services. A new patent fee schedule, which included increases for numerous patent services, went into effect on March 19, 2013. Support for these fee increases by AIPLA and others in the user community were based on the understanding that the funds would be available solely to the Office to help “implement a sustainable funding model, reduce the current patent application backlog, decrease patent application pendency, improve patent quality, and upgrade the Office’s patent business information technology (IT) capability and infrastructure.” 78 Fed. Reg. 4212 (January 18, 2013). Sequestration undercut many of the planned quality improvement initiatives of the Kappos Administration at the USPTO and highlighted the severe impact even seemingly modest diversion of fees has on both on-going operations and long-range planning.

While this was clearly an extremely unfortunate result, it also had the effect of highlighting the unsatisfactory solution to the problem enacted in the AIA. We understand from the hearing that there are Senators who may be considering introducing amendments which would provide much stronger assurance that fees paid to the Office remain with the Office, and we would strongly support such an initiative.

- 2) You have expressed concern that Congress should give appropriate deference to the Judicial Branch. However, some proponents of reform feel strongly that individual courts are not responding to litigants’ needs. Within the judicial branch, what further steps could be taken by the Judicial Conference, the Supreme Court, or the Federal Circuit to ensure that courts process patent cases fairly and efficiently?**

In a system comprising over 94 districts and some 677 authorized district court judges, it may not be surprising that there are individual judges or individual districts where case management of patent litigation varies, and in some cases not be seen as favorable to one side or the other. That said, we believe that the Federal court system is very aware that the ways in which patent litigation is managed by judges may impact the ability of some patent holders to leverage their rights in ways that are contrary to the best overall interests of the system.

However, to reiterate briefly from our testimony, we are concerned that the practices of a few might give rise to a system of statutory case management requirements that are so rigid that they not only improperly constrain federal district court judges from the proper carrying out of their appointed duties, but may in cases yet to be seen, have significant unintended consequences which might actually hinder the efficient proceedings of a trial and the proper administration of

justice or impede access to the courts for those with legitimate claims. The inflexibility of procedural rules that are fixed in statutes severely constrains the ability of the Courts to moderate or fix problems which were unforeseen at the time the rules were enacted or problems that arise as litigation practices develop. The rules could only be adjusted through further legislative action, a notoriously difficult and lengthy process. There are certain advantages to allowing district courts to develop and test rules and procedures at a local level before adopting changes nationwide.

With regard to your specific question regarding other steps, the Supreme Court of the United States has traditionally had the authority to propound the Rules of Civil Procedure, and in doing so has relied on the recommendations of the Judicial Conference of the United States. The Judicial Conference is currently engaging in a review effort that could significantly impact areas of trial management. Judge Jeffrey S. Sutton, Chair of the Committee on Rules of Practice and Procedure of the Judicial Conference, published a request for “Comments on Proposed Rules and Forms Amendments” on August 15, 2013. Among others, this rules package includes proposals to amend Rule 26, Duty to Disclose; General Provisions Governing Discovery; Rules 30 and 31, Depositions by Oral Examination and by Written Questions; Rule 33, Interrogatories to Parties; and Rule 34, Production of Documents, and the repeal of Rule 84, Forms which includes Form 18 for patent pleading. These all relate to areas of concern which have been raised with this Committee. Comments are due February 15, 2014. It is also our understanding that the leadership of some of those district courts which have a reputation for many of the concerns expressed by your question have taken steps to moderate these concerns and that data from at least one of those courts is bearing that out.

That is not to say that the Judicial Conference should not be given more direct encouragement by the Congress to streamline litigation procedures. In our opinion, it would not be misplaced for the Congress to include in legislation a call to the Judicial Conference to continue to study and implement appropriate rules or guidelines to address the legitimate concerns about the various aspects of case management which have been raised. Our concern is that there is a significant difference between directing them to use their authority to do something in their own discretion and directing them in such specificity that judicial discretion is removed.

Secondly, the patent court pilot program (PPP) in the district courts has been operational for only a short period of time, and it is our understanding that it has initially worked well, among other things, to implement local rules governing patent litigation and foster a cross-district interaction which will likely lead at a minimum to an important sharing and implementation of best practices. It is also important for the Congress to continue to study how the PPP has progressed and to understand how it has helped in the fair processing of patent litigation and expanding the expertise of those various courts to conduct patent litigation. In that vein, it might also be a mechanism for Congress to pilot one or more of the changes under consideration before applying them system wide. We would note that the statute creating the PPP, Public Law 111-349, requires the Administrative Office of the courts to study the PPP and provide periodic reports to Congress.

With regard to what the Court of Appeals for the Federal Circuit and the Supreme Court can do themselves, we would reiterate their actions regarding any number of procedural issues during

the pendency of the AIA, which went very far in clarifying the law and introducing targeting “compromises” on some of the most contentious issues being debated legislatively. These include:

- injunctive relief, *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006);
- damages, *Lucent Technologies, Inc. v. Gateway, Inc.*, 580 F.3d 1301 (Fed. Cir. 2009)
- venue, *In re TS Tech USA Corp.*, 551 F.3d 1315 (Fed. Cir. 2008);
- willfulness, *In re Seagate Technology*, 497 F.3d 1360 (Fed. Cir. 2007); and
- inequitable conduct, *Therasense, Inc. v. Becton, Dickinson & Co.*, 649 F. 3d 1276 (Fed. Cir. 2011).

The courts have continued the trend of dealing with these issues, including ones which have been widely debated in this current legislation, such as awarding attorney’s fees under Section 285. The Supreme Court has granted certiorari on the standard for finding “exceptional circumstances” meriting the award of attorney’s fees in *Octane Fitness v. Icon Health and Fitness*, U.S., No. 12-1184 and the standard of review that appellate courts should apply to a Section 285 determination in *Highmark Inc. v. Allcare Management Systems, Inc.*, U.S., No. 12-1163. Additionally, the Federal Circuit recently held that a trial court should consider all of the circumstances relevant to whether a case was brought in bad faith when determining whether to award attorney’s fees. *Kilopass Technology, Inc. v. Sidense Corp.*, No. 2013-1193, (Fed. Cir. Dec. 26, 2013).

We would respectfully suggest that throughout the decade-plus-long debate over legislative remedies to various aspects of patent litigation, the courts contemporaneously worked to respond to concerns of dysfunctionality in the patent litigation system, finding targeted, surgical approaches which have not only improved the system and helped address the concerns in critical ways, but have done so in a timely manner. This will undoubtedly be true as the results of the AIA post-grant processes in the USPTO make their way through the appellate process, as well.

- 3) You have expressed concern that some efforts to address the problem of patent trolls may have inadvertent consequences for legitimate patent holders seeking to protect their rights. What do you think are the best strategies for addressing abuses in the system in a meaningful way, without unduly burdening the rights of legitimate patent holders?**

As an association comprised primarily of lawyers, many of whom engage in litigation on behalf of both owners and users of patents, AIPLA is very sensitive to the practices of some patent rights holders to take advantage of the strength of the patent system merely as a means to extract settlements rather than to protect their patent rights, and we are as concerned as anyone of the need to take appropriate and constructive actions to curb these abuses. They are real and they must be dealt with. However, as the question suggests, all of the proposals for litigation reform are currently structured to apply equally to all patent holders who may want or need to enforce their patent, not just patent assertion entities. As the General Accountability Office study found, patent assertion entity litigation may constitute only 19% of all patent litigation, and that the

other 80% is attributed to more traditional operating companies, independent inventors, and research firms and universities.<sup>3</sup> One of our biggest concerns is that any changes to the litigation system have equitable impacts on all patent holders and patent applicants (including their incentive to file for and obtain patents in the first instance) and that they are addressed in a deliberate and prudent manner to help ensure that result.

First, as the GAO study also suggests, we believe that we need to make sure that the data which underlies the concerns that have been addressed is as empirical and comprehensive as possible. There are recent concerns that earlier data on which there has been reliance may not be as credible or focused as first thought. In order to address any abuses, the types and universe of those abuses needs to be defined and understood. The Federal Trade Commission is in the process of undertaking such a study<sup>4</sup>.

We agree with Commissioner Ohlhausen<sup>5</sup> who suggested that this study, and others, should be permitted to complete their work to allow for the clearest and best understanding of these complex issues before additional systemic changes are undertaken. We would also note that former Under Secretary of Commerce for Intellectual Property and Director of the USPTO David Kappos recently addressed this same issue, stating the need for greater data clarity.<sup>6</sup>

With regard to specific inadvertent consequences, it is by definition difficult to identify many of the specific unintended results until the changes are in place. However, some specific examples which have been discussed include:

- **Delaying discovery until after claim construction.** One proposal would require judges to stay all discovery until after the Markman claim construction process has been completed, except for discovery related to claim construction itself. While it is argued that claim construction defines issues and is sometimes dispositive of the litigation, the fact is that this does not occur that often and that other early issues which other discovery might resolve, such as summary judgment, are precluded by this proposal. Moreover, delaying routine discovery that might otherwise have occurred in parallel would likely have the unintended consequence of extending the trial process overall, with its attendant costs and delayed judgment.
- **Requiring bonding or joinder at the beginning of most cases.** The goal of these proposals is to remove incentives for bad actors to file frivolous suits if they have to take costly actions at the front end of litigation, which would be used to fund attorneys' fees and costs if the case is found to be one to which mandatory fee shifting applies. The unintended consequences are that, even with expanding the number of cases in which attorneys' fees and costs might be found, it is highly likely that this is still a limited number of cases. To require an upfront assessment in all or most cases could create an

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<sup>3</sup> GAO Study at page 17.

<sup>4</sup> [http://www.ftc.gov/sites/default/files/documents/federal\\_register\\_notices/2013/09/130926paefrn.pdf](http://www.ftc.gov/sites/default/files/documents/federal_register_notices/2013/09/130926paefrn.pdf)

<sup>5</sup> [http://www.ftc.gov/sites/default/files/documents/public\\_statements/pragmatists-approach-navigating-intersection-ip-antitrust/131204ukantitrust.pdf](http://www.ftc.gov/sites/default/files/documents/public_statements/pragmatists-approach-navigating-intersection-ip-antitrust/131204ukantitrust.pdf); See pp. 19 et seq.

<sup>6</sup> <http://www.law360.com/articles/501142/facts-show-patent-trolls-not-behind-rise-in-suits>

inequity that would not only discourage frivolous lawsuits but many legitimate ones, in particular those potentially brought by small entities.

The best way to addressing abuses without burdening legitimate patent holders have basically been addressed in previous questions.

- Let the AIA reforms play out and assess how they have addressed the litigation concerns they were intended to address.
- Let the courts continue to work their targeted case-by-case reforms and the rule reform processes they have already begun.
- Ensure that any reforms which are implemented are based on empirical independently-sourced data and not from commissioned sources or rhetorical arguments.
- Ensure that any reforms will continue to encourage innovation and access to the patent system generally.

**Question for the Record of Senator Sheldon Whitehouse**

**Hearing: “Protecting Small Businesses and Promoting Innovation  
by Limiting Patent Troll Abuse”**

**December 17, 2013**

**Question for All Witnesses**

**Proactive Action by Corporate Defendants**

Many Rhode Island businesses have been the victims of patent troll abuse, receiving bad-faith demand letters and being forced to settle lawsuits or engage in costly litigation based on dubious patent claims. Small and medium-sized companies, many of whom do not have an attorney on staff, often do not have the resources to effectively fight patent troll abuse, which is why reforms such as prohibiting bad-faith demand letters and allowing manufacturers to stay suits against customers are necessary and appropriate.

Large corporate defendants, on the other hand, may have additional resources at their disposal that could allow them to take proactive steps to combat abuses by patent trolls. Consideration of such steps should be included in the discussion of how to address patent troll abuses.

Independent of legislation to reform the patent litigation system, what are some proactive steps that large corporations that are frequently defendants in patent suits could take to better defend themselves against patent troll abuses? In particular, please address the positive and negative aspects of the following potential actions:

- Referring patent trolls and their attorneys who initiate frivolous lawsuits and fraudulent and harassing conduct to the appropriate law enforcement authorities and disciplinary bodies, including, in the case of attorneys, state bar disciplinary boards;
- Pursuing equitable remedies, such as injunctions against future suits by trolls with a demonstrated record of frivolous litigation, fraud, and harassment;
- Pursuing Rule 11 sanctions against attorneys bringing frivolous suits;
- Increased use of joint defense agreements;
- Purchase of patent litigation insurance;
- Increased licensing and purchase of relevant patents; and
- Simply refusing to pay unjustified claims.

**Answer of Q. Todd Dickinson:**

Let me begin by acknowledging that AIPLA, is not a corporation but rather a non-profit bar association, and as such we are not in the same position to answer the question posed by Senator Whitehouse with regard to actions large corporations might take in the various circumstances cited.



With that said, we would like to comment on these potential actions from the viewpoint of a bar association with mostly lawyer members who routinely represent clients as plaintiffs or defendants in patent litigation and have an understanding of the various concerns and abuses, potential and real, that have been raised in this debate.

- **Referral to Appropriate Law Enforcement Authorities and Disciplinary Bodies**

In theory, it would be possible to refer patent owners to law enforcement authorities or their attorneys to state or presumably the USPTO disciplinary authorities for bringing a frivolous action. However, it is important to note that in most instances this question, is in the hands of the trial judge, and the targeted behavior --while potentially abusive in terms of taking advantage of the court system--would not otherwise rise to the need for separate disciplinary conduct. The trial judge has the discretion and the proximity to the action to recognize and deal with the issue in the first instance, if it should arise. Presumably, in exceedingly exceptional cases, either on their own initiative or on motion, the judges may also be in a position to make a referral such as is suggested by this question. To rise to the level of “frivolousness,” such that it would constitute either an actionable offense under state law or a state bar’s disciplinary rules, and would not be dealt with in the regular course of the trial, strikes us, however, as an exceedingly rare situation and not one for which a general rule might be propounded in legislation that has been discussed in this debate. In addition, to incentivize actionable offenses under state law or encourage invoking disciplinary rules might create additional unwanted and unnecessary proceedings that can be handled through the current court system or administrative agencies. Also, targeting lawyers, as opposed to their clients, often would not be appropriate and would not be directed at the party who is ultimately responsible for the abusive behavior.

It should also be noted that there are other, less onerous prophylactic measures already in place, which are currently the subject of debate and appellate litigation. For example, the granting of attorneys’ fees and costs in exceptional cases remains available as a bulwark against all but the most egregious actions. Also, courts already have statutory ways to deal with attorneys who abuse the litigation system. *See, e.g.*, 28 U.S.C. § 1927 (permitting courts to have counsel personally satisfy excessive fees and costs in litigation). In addition, the fact that any formal discipline, no matter how minor, may lead to significant professional consequences. Formally sanctioned attorneys may lose clients, their professional affiliations, and even the right to practice, all of which constitute a significant deterrent.

That said, harassing conduct by patent owners in the form of unwarranted demand letters, especially against smaller and less sophisticated end users, is an increasing problem and one which we have addressed in our testimony. We believe in general that this may constitute a form of consumer fraud which may be very capably addressed by agencies such as the Federal Trade Commission and states’ attorneys general in the regular course of their jurisdiction. If such behavior does indeed rise to the level of harassment, criminal or otherwise, then it may be appropriate to refer those committing such acts to the appropriate authorities. The same might be true for attorneys behaving in a similar fashion and state bar disciplinary boards. That is not

to say that this should be a routine matter either, however, and care must be taken to balance this with the legitimate rights of patent holders as well as their constitutionally protected rights to free speech.

- **Injunctions Against Future Lawsuits**

Many of the previous broad comments apply in this instance as well. While we understand the appeal of such a possible remedy, we would again suggest that the specific nature of the actions that were sought to be enjoined would have to be of such a strikingly offensive nature that this would likely be a rare circumstance. Given that patents inherently provide a “right to exclude”, *see* 35 U.S.C. § 154, enjoying enforcement of patent rights may create unintended consequences that can be dealt with through other means.

- **Rule 11 Sanctions**

Rule 11 sanctions are always available against attorneys and parties in federal litigation. They are carefully circumscribed in most if not all jurisdictions, however, and have a notoriously high burden of proof. We would also note that Rule 11 sanctions are usually sought on a particular aspect of a case and not on the case as a whole. Furthermore, Rule 11 does not apply to disclosure and discovery requests, responses, objections, and motions under Rules 26 through 37, sanctions for which are provided under Rule 37, which may further limit their use for the purposes suggested by the question. That said, it should be acknowledged that, when used appropriately, the availability of Rule 11 sanctions has been shown to serve the deterrent function for which it was intended, especially with regard to abusive litigation behavior.

We would not urge a change in the current statute or jurisprudence of Rule 11, and are concerned in particular with regard to legislation introduced in the House of Representatives which would have required a Rule 11 hearing in every patent litigation. This would be an extraordinary waste of resources for both the litigants and the Court considering in particular the ratio of likely sanctionable instances to overall cases. It would also drive up the cost and complexity of patent litigation still further for very little return, and could suppress the ability of smaller or less well-resourced patent holders to access the judicial system.

- **Joint Defense Agreements**

Joint defense agreements are fairly common, especially in defending against “patent troll” actions in which the same patent is asserted against two or more parties. Joint defense or common interest agreements can be effective for pre-trial proceedings in addressing issues common to the accused infringers. However, sometimes strategies among the members of a joint defense group may differ and oftentimes, should the cases ultimately go to trial, the cases would need to be tried separately. To the extent interests diverge, issues, including whether communications among a joint defense group should be treated as privileged, may develop. Also, in cases in which competitors are involved, other sensitivities may arise that make joint

defense agreements difficult to implement in the first instance. Further, where some parties to a joint defense agreement are not perceived to be sharing equitably in the costs of litigation, additional problems may arise. Of course, there are other cases, however, where the interests of the defendants, their potential liabilities, their trial strategies, their witnesses and discovery, etc., are such as to make their use impractical at best.

- **Increased Use of Patent Litigation Insurance**

Patent litigation insurance is available, but it is our understanding that (for reasons best explained by corporate interests) it has not been widely used. Traditionally, where practical, responsible companies would obtain freedom-to-operate advice and seek to obtain the rights to patented technology through license or cross-license prior to formal commercialization, significantly reducing the need for such insurance. This is the advice our members would ordinarily give such clients. For those entities that choose to commercialize without seeking the risk reduction afforded by such procedures, our members would again suggest that the best protection remains a more aggressive up-stream in-licensing program. However, for certain “troll” type matters, in which hundreds of patents may be at issue, traditional freedom to operate advice may not be practical and patent litigation insurance may be limited in value.

- **Simply Refusing to Pay Unjustified Claims**

While this strategy also has a certain appeal, its use requires knowledge that the premises on which it is based are sound. In particular, our members routinely give their clients advice and guidance on what claims are “justified” and which are not, as well as such traditional questions as the likelihood of prevailing in litigation. Companies and clients should seek the best professional advice they can in this regard before adopting this strategy, but reliance on that advice and refusing to submit to claims or litigation that is unjustified always remains a viable option in such circumstances.