

**Questions Of Senator Patrick Leahy (D-Vt.),
Chairman, Senate Judiciary Committee
Hearing on “Protecting Small Businesses and Promoting Innovation by Limiting Patent
Troll Abuse”
December 17, 2013**

Questions for Dana Rao, VP of Intellectual Property & Litigation for Adobe

1) As a manufacturer, Adobe has challenged some patent assertion entities that have sued Adobe’s customers for their use of Adobe products. In your testimony, you reference the difficulties Adobe has sometimes faced trying to “stay” lawsuits against its customers while it litigates the merits of the infringement suit.

What are the advantages of obtaining a stay in these cases, and what are some of the potential effects for Adobe or its customers when a stay is denied? Would the customer stay provision in S.1720 help Adobe to take action when its customers are being targeted in infringement suits?

Due to patent trolls’ increased focus on customers as their preferred choice of target, a manufacturer is now faced with defending its product in several jurisdictions instead of one. Defending in multiple jurisdictions on the same patent for the same product is expensive and unnecessary. Instead, manufacturers like Adobe would prefer to address the common issues in a single forum. This minimizes costs on the customer and the manufacturer. In addition, the patent holder is able to litigate its common issues in one forum, minimizing its costs as well. When stays are denied, the same action now proceeds in multiple jurisdictions. This significantly increases the burden on the defendant. Businesspeople and engineers have to appear as witnesses in multiple courts, impacting the ability of the defendant to conduct its ordinary business. Discovery proceeds redundantly and expensively for all of the cases. Different rulings of the courts will cause uncertainty about the scope of the patent and its applicability, leaving the resolution unsettled for both parties. All of these factors increase the pressure on the defendant to settle these meritless lawsuits. This pressure is a tactical advantage for the plaintiff, and is being purposefully leveraged today by the patent troll. S. 1720 provides a procedure to accomplish these goals by requiring a court to grant the stay under certain conditions. If the conditions are met, the stay must be granted. The stay can be lifted if the patent holder can make the appropriate showing in the new forum. This common sense process will help defendants manage the costs of their litigation docket. In addition, consolidating similar cases into one case will also maximize the use of our limited judicial resources. While this is an excellent provision to help minimize costs where manufacturer suits are involved, Adobe notes that a strong fee shifting provision is necessary to establish the deterrent required for all troll cases. The same pressure faced by end user defendants in the manufacturer cases are faced by the end users when sued directly by the patent trolls.

2) A number of commentators have raised concerns about the quality of patents in the software industry. The Leahy-Smith America Invents Act created several important mechanisms to improve patent quality, and the Patent & Trademark Office (PTO) is also undertaking efforts to improve its process for granting patents.

What are your views on how these processes are working? What more can or should be done by Congress, the courts, or the PTO to improve the quality of patents that are issued?

Adobe believes that the PTO's efforts with the Software Roundtable and the AIA's post-grant procedures are important components to improving the quality of patents. More important than any of those measures, however, is full funding of the PTO. Ensuring we have adequate resources to search, reject, and approve patents is the most important factor in strengthening patent quality. In addition to full funding, proposals on improving software patent quality through use of specific common technical dictionaries, requiring claim charts in prosecution to show support for claim elements, and expanding the sources of prior art available to examiners are all valuable components of patent quality improvement. However, we believe that the current patent troll problem that we are trying to solve is not driven merely by poor quality patents. Rather, these problems are being driven by the asymmetric costs of litigation. Knowing that it will cost a defendant millions of dollars to defend itself in patent litigation, a plaintiff can choose any patent with which to bring a lawsuit. Any patent will do, since the goal is to avoid reaching the merits. As long as this imbalance exists, the problem of patent trolls, opportunists seizing on the disproportionate costs created by the patent litigation process, will continue. To combat the patent troll, we need to couple improvements in patent quality with reform to our patent litigation process. Fee shifting and reducing the costs of patent discovery are the two most important components of that solution.

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

Question for the Record of Sen. Sheldon Whitehouse

Question for All Witnesses

Proactive Action by Corporate Defendants

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

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

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

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

Thank you for the opportunity to respond to these important questions. Initially, we would remark that we believe that the problems affecting Rhode Island are faced by businesses throughout the country, and faced by many of Adobe's customers.

We also have provided comments on your specific bullet points below:

- Referring patent trolls and their attorneys who initiate frivolous lawsuits and fraudulent and harassing conduct to the appropriate law enforcement authorities and disciplinary bodies, including, in the case of attorneys, state bar disciplinary boards;
 - While demand letters themselves may qualify for prosecution as a deceptive practice, behind the threat of a letter is a lawsuit, and there is little that either the state Attorney Generals' offices or the state bars can do to prevent a lawsuit. Notifying the appropriate state agencies and state bars is certainly a tool that could be used by large company defendants who have the resources to build multi-prong defenses. In a situation where a patent troll never sues and only engages in a deceptive letter writing campaign, it is possible that referral to a state Attorney General's office would be effective. However, it is unlikely that a Federal patent court action will be stayed by referring the letter writing conduct to a state attorney general's office. In addition, the burden of proof required to show the type of conduct necessary to initiate discipline from a bar is quite high and would require significant additional resources from the small business defendant. Given those limitations, we believe it is essential that we address the unique problems of the patent litigation process by removing the incentive to bring meritless suits. This would provide a longer lasting, more effective, and more efficient solution. It is important to note that Congress did already recognize this problem when it enacted a fee shifting provision into the patent law. However, given the crisis we are seeing today, it is time to strengthen that law to further discourage meritless lawsuits, with a balanced provision that still ensures legitimate patent holders have access to the courts.
- Pursuing equitable remedies, such as injunctions against future suits by trolls with a demonstrated record of frivolous litigation, fraud, and harassment;
 - It is not clear that this is a viable cause of action under current law. It may be possible to obtain an agreement from pursuing future litigation as a settlement for avoiding a fine or sanction, but it isn't clear that an equitable remedy is available for this behavior. If possible, we would welcome a bill introduced that creates this cause of action. However, there may be constitutional issues barring a troll from filing a lawsuit based in past behavior. Given those issues, it is imperative that we implement the current proposals in Senators Leahy's, Lee's, Cornyn's, and Hatch's bills. It is time to act and provide real solutions to this unique but vital area of our economy.
- Pursuing Rule 11 sanctions against attorneys bringing frivolous suits;
 - This is a current remedy available to us. However, it is our experience that Rule 11 sanctions are rarely granted from this type of behavior. Typically

the reasons for denial are similar to the reasons for denial of fees shifting: it is difficult for a court under the standard to determine, in a patent case, that the plaintiff's position was frivolous. This difficulty is exactly why we need to change the patent law to have the presumption of fees being shifted to the prevailing party. Only in that instance will fee shifting be an effective deterrent against the abuses of the patent litigation system. Forcing the patent holder to have a reasonable position before bringing a patent lawsuit will enable legitimate patent holders to seek redress and minimize the number of meritless suits. In addition, providing fees that would be awarded for poor defendant conduct will also help the plaintiffs and would increase the likelihood that plaintiffs will be able to find representation, given the value of those shifted fees. Unfortunately, relying on Rule 11 sanctions to solve the patent troll problem would, in our opinion, merely see the continued growth of the patent troll problem plaguing our businesses.

- Increased use of joint defense agreements;
 - In our opinion, joint defense agreements are used in every possible instance that they can today, to help minimize costs. The value of this tool is currently being maximized, and, unfortunately, the problems of patent troll abuse continue to grow.
- Purchase of patent litigation insurance;
 - It is not clear insurance solves this problem. Insurance is a cost-shifting exercise, and by providing patent trolls a large, well-funded, source of settlement may actually encourage their current behavior. Instead, we need to address the root of the problem. We must restore balance to the patent litigation process by removing the incentives that exist today that are attracting these opportunists into the patent area. Once we remove those bad actors, legitimate patent holders will find it easier to file their cases, and there will be more judicial resources to hear those legitimate cases.
- Increased licensing and purchase of relevant patents; and
 - Currently many companies are parts of consortia to license and acquire patents. Adobe certainly believes in licensing and acquiring valuable intellectual property rights that will benefit its business. We license and acquire relevant patents regularly. However, we do not believe it is an appropriate solution to require companies like Adobe to pay for meritless claims. The patent suits brought by the patent trolls are based on patents that have little value. Leveraging the high costs of defense, they are forcing companies to settle for patents that they do not need. This practice must stop.
- Simply refusing to pay unjustified claims.
 - Currently Adobe does litigate troll cases. This is a strategic decision by Adobe because we do not believe giving into extortion is an effective response. The extortionist will simply come back for more. However, the vast majority of small businesses being affected by this behavior do not have the resources to defend themselves against this type of behavior.

That is why we need to change the incentives of the patent litigation system and also reduce the overall cost of the patent litigation system so patents can be tried and heard on their merits, and are not being used as a tool to take advantage of the high cost of defense.

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

Questions for Mr. Rao

1. What do you believe are the most promising proposals currently being considered by Congress that would help deter abusive activity in the patent system?
 - a. The problem we are facing is largely a result of opportunists taking advantage of a particular asymmetry in patent litigation, and to the harm of real world businesses. The high cost of patent litigation, and its complex nature , allows patent trolls to acquire meritless patents, initiate a suit, and extort settlements from defendants who don't have the expertise or resources with which to defend themselves. This is an outcome of the nature of our current patent litigation process, and is best, and most effectively, addressed with targeted reforms designed to restore balance to that system. Strengthening the current fee shifting standard in patent litigation as described in Senators Cornyn's and Hatch's bills would help fulfill the promise of the existing fee shifting provision. We can also craft this language to ensure that legitimate small inventors are still able to use the patent system to gain their day in court. Providing the courts the ability to ask for a bond unless a bond will burden a small inventor's non-patent activity, or would burden a university or named inventor, will help deter the patent troll threat from the beginning. In addition, we should implement targeted reforms that will lower the cost of patent litigation, which is good for both sides. As specified in Senator Cornyn's bill, requiring that initial pleadings have a minimal amount of information (e.g. a theory of infringement, naming the accused products, identifying particular infringing claims) will help make patent infringement more cost-effective. Delaying discovery on all issues except claim construction helps patent holders and patent defendants limit costs until it appears necessary to go forward. Finally, as discussed in Senator Leahy's bill, ensuring that customer suits are stayed in favor of

manufacturer actions proceeding on the same patent and products helps both the customer and judicial economy.

2. As noted by some of the witnesses, the Supreme Court is poised to address some of your patent abuse concerns, such as the correct threshold for fee-shifting. In your opinion, should Congress wait to see what the Court does first? How would fee shifting change the incentives and dynamics in patent litigation?
 - a. Adobe believes it is entirely appropriate for Congress to strengthen the existing fee shifting standard in 35 U.S.C. 285. It is for the courts to “say what the law is.” It is up Congress to answer policy questions and set the appropriate standards to achieve those goals. In this case, Congress has identified a problem with patent troll abuse of the patent litigation process, and therefore should act to restore balance to that process. As noted above, opportunists are taking advantage of the high cost of patent litigation to seek meritless settlements from businesses big and small across the country. If a patent troll knew there was a likelihood it might have to pay the fees of a defendant, if the patent troll’s position lacked merit, the patent troll would have to think twice before bringing a meritless lawsuit.

Patent holders, like Adobe, typically review their patent claims for quality and relevance before bringing suits against their competitors. They know that a patent litigation is a serious matter, and should be commenced with integrity and respect for the process. In addition, they know that a competitor may file a counter-claim against the plaintiff. Therefore, the plaintiff has an incentive to make sure that their complaint is based on reasonable, verified positions. A patent troll plaintiff has no such disincentive, since it faces no threat of counter-claim. Therefore, Congress must place a disincentive in the statute.

The current fee shifting standard requires that fees be shifted in “exceptional” cases. This is a very high standard, rarely met. While we hope the Supreme Court will lower the standard for “exceptionality”, they cannot read the word out of the statute. More importantly, we need to change the presumption of fee shifting. Today, a patent troll collects hundreds of settlements

from defendants, and then walks away from cases pushed to the merits. Under current law, fees cannot be shifted against the troll because, since the merits were not reached, a court has no basis to find that the troll's position was not exceptional. If we use the standard in Senator Cornyn's bill, the presumption shifts such that fees are awarded to the prevailing party, and a patent troll settling before reaching the merits could not prove that it has a substantially justified position. Adopting this new standard will end the practice of bringing meritless lawsuits seeking hundreds of settlements and walking away before reaching the merits. The Supreme Court cannot change this presumption by reviewing existing law. Therefore, Congress should enact the language in Senators Cornyn's and Hatch's bills to address this problem.

3. Isn't fee shifting in the Patent Act already? What is wrong with the current statute that provides for fee shifting?
 - a. The Patent Act already has its own specialized fee shifting provision, in Section 285. As described previously, we believe the current standard is insufficient to act as the deterrent for which it was intended. Patent trolls can file a suit and walk away before reaching the merits without ever facing the threat of fee shifting, in today's law. We must change the presumption such that fees are shifted to the prevailing party unless the non-prevailing party has a reasonable position in law or fact. That allows the court to shift fees against meritless troll lawsuits without question, and enables courts to withhold fee shifting when the plaintiffs are bringing legitimate patent claims.
4. How much does Adobe spend each year on patent troll litigation, and what is the impact of such spending on consumers and Adobe investment in the United States?
 - a. While we prefer not to disclose the exact amount, as a trade secret of Adobe, we will say we spend millions of dollars and the highest percentage of our overall legal budget on defending ourselves against patent troll litigation.
 - b. Adobe is a business, and costs and profits factor into the pricing of the products we sell, as well as in our hiring and investment decisions. Over my career I have had conversations with business owners where the question was regarding paying a patent troll a

license fee or hiring (or letting go) an employee. Patent troll litigation has real world consequences, for real people. In addition, when we pay those license fees, or defense costs, as a business, those costs are incorporated into our overall cost structure, and thus become part of our product pricing strategy. Every dollar we are spending on defense costs and inappropriate license fees are dollars we are not investing in jobs, product development, or employee benefits. This is not good for Adobe, consumers, or our economy.

5. What are some examples of the costs to business and industry from abusive patent litigation and how would legislation help?
 - a. As discussed above, Adobe is a business, and costs and profits factor into the pricing of the products we sell, and in our hiring and investment decisions. This is not good for Adobe, consumers, or our economy. The patent bills introduced by Senators Hatch and Cornyn would provide an effective deterrent to patent troll litigation. If we can eliminate the meritless patent troll litigation, businesses can repurpose those dollars back into investments. In addition, if we can reduce the number of these meritless patent suits, it also frees up sorely needed judicial resources to focus on the substantive patent lawsuits that are seeking to redress legitimate patent rights.

6. How much of a difference would increasing funding to the Patent and Trademark Office make in addressing the patent troll problem? Would Adobe be willing to pay more for its own patent applications, to help fund the Patent Office better?

We believe that the PTO serves a vital role in helping address the patent troll problem by providing rigorous examination at the front end of the patent process. We believe that if the PTO were able to receive all of the user fees paid into it, those funds would be adequate to support the objective of issuing high quality patents. However, the patent troll litigation we are facing is the outcome of a problem in the patent litigation process. In our experience, for a patent troll that is not looking to have its patent reviewed on the merits, any patent will do. The nature of the patent almost does not matter. Therefore, funding the PTO alone will not solve the patent troll problems we are facing today. The

problems we are facing are patent litigation problem, and require a patent litigation solution.

7. In his prepared statement, Mr. Dickinson suggested that it might not be necessary for Congress to focus on the rules and procedures in patent litigation to curb the abusive practices of patent trolls. He testified, *“In point of fact . . . many of these practices—sending a multiplicity of demand letters containing vague allegations and minimal information, with persistent but relatively modest settlement terms, and apparently with little preparation for actually bringing a lawsuit—may have less to do with abusing the rules and procedures in patent litigation per se than they have to do with consumer fraud and deceptive trade practices arising from the demand letter . . . Law enforcement has developed measures to deal with such wrongdoers.”* Do you agree? Please explain why (or why not) Congress, rather than another enforcement body, should address the patent troll issue.

Behind every demand letter is a threat. The threat is that the letter writer will bring a lawsuit. The lawsuit is built on the premise that it will cost far more to defend your valid position of non-infringement or invalidity than it would be to merely pay the settlement requested. While we believe that state attorney generals can improve the quality of these letters, and force better disclosure, we do not believe the underlying threat of patent trolls will dissipate by fixing this one aspect of the problem.

8. In his prepared statement, Mr. Bossone said regarding the deferral of discovery provisions in S. 1013 and H.R. 3309, *“[T]hese provisions would routinely defer merits discovery in virtually all patent cases until after the court issues a claim construction order. While there undoubtedly are cases in which such discovery deferrals are appropriate, doing so as a general rule would effectively bifurcate discovery on the merits in most cases and tend to prolong patent litigation by 9-12 months, if not longer, across the board. Such delays would accrue even in routine patent litigation that does not involve meritless claims, small businesses defendants, or “patent trolls” ... In my opinion, these proposals are too rigid and interfere unduly with the responsibility and authority of district courts to manage patent litigation in a case-specific manner.”* Do you agree? Do you believe these provisions would result in added delays or otherwise would unduly interfere with the court’s ability to manage patent litigation?

We believe it is appropriate for Congress to review patent litigation practices and determine a “default” position that will minimize the costs of litigation for both sides. In this case, every patent case must have its claims construed, according to the Federal Circuit jurisprudence. Given that requirement, and the fact that noninfringement and invalidity defenses cannot be built until such claim construction orders are received, we believe that early Markman hearings are appropriate, as the default rule, in patent cases. Staying discovery on other aspects of the case until that hearing will save both sides expense. It is our experience that cases can settle, be disposed of with summary judgment motions, or stipulated for appeal, once both parties understand the scope of the patent. Until claim construction occurs, plaintiff patent trolls can abuse the process by asking for broad discovery on all the defendant’s products and all of their finances because the plaintiff patent troll has not been forced to say what their patent means. If discovery was stayed until after Markman, not only would a good percentage of patent cases go away without ever needing any more discovery (because of settlement, and the vast majority of patent cases settle), the ones that go forward will go forward with narrow and more targeted discovery, reducing the cost of prosecuting the case for both sides. It is important to realize that lowering the costs of reaching the merits is a significant benefit to small inventors, who do not have the resources of their large company targets to withstand a protracted litigation. In addition, Adobe would support any discovery sequencing provision to have sufficient discretion given to the courts to take discovery out of sequence as appropriate, on motion by the parties. It is important not to have a too rigid process, as we agree that one size does not always fit all. However, it does make sense to set forth a default standard that will minimize expenses for the vast majority of the cases, and allow for diversions from that practice as it makes sense.

9. In your opinion, does the recent rise in patent litigation encourage innovation?

This is no evidence that patent troll litigation encourages innovation. And there is certainly good reason to believe it is discouraging innovation. Over half of the patent troll litigations are targeted at small businesses and entrepreneurs who cannot fund their business and pay these trolls. This is having a real impact on those businesses and they are often the most innovative section of our economy. Imposing this high cost on some of our brightest innovators is a poor way for a country to position itself for long term success. We must act now to reduce the cost of these meritless patent suits,

and free up those dollars spent in defending against those suits to be reinvested in jobs, innovation, and our economy.