



January 17, 2014

The Honorable Patrick Leahy
Chairman
The Honorable Charles Grassley
Ranking Member
U.S. Senate Committee on the Judiciary
224 Dirksen Senate Office Building
Washington, DC 20510

RE: Response to Written Questions from Members of the Committee for the Hearing Titled, Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse – December 17, 2013

Dear Chairman Leahy and Ranking Member Grassley:

Thank you again for the opportunity to testify before the Judiciary Committee regarding The Patent Transparency and Improvements Act and the need to curb the patent litigation abuses that are plaguing the U.S patent system. We appreciate the opportunity to share our views on the pressing need for effective legislative reforms to address this growing problem.

Below are responses to the Questions for the Record requested by Chairman Leahy, Ranking Member Grassley, and Senator Whitehouse.

Question from Chairman Leahy

Q: Numerous groups have raised concerns about transparency in the patent system, and the ability of trolls to target companies through “shell companies.” The legislation I have introduced includes two transparency provisions to help address those issues. One requires plaintiffs who file a lawsuit to disclose the certain ownership information under the standard that has long been used in the Northern District of California. The other requires ongoing disclosure to the Patent and Trademark Office when a patent is transferred so that the PTO has a record of current ownership.

Do you agree that improving transparency will help address abuses in the patent system, and if so, why? As someone who has worked in companies that possess a significant patent portfolio, do you view these requirements as manageable for patent holders to comply with?

R: Yes, improving transparency can help address abuses in the patent system, and we believe that the requirements you propose would be manageable for any patent holder. As a general matter, improved transparency will shed light on the operation of the patent system, which creates important disincentives for bad behavior. The ownership disclosure provisions could be particularly useful by clearly identifying ownership information, as well as providing information related to any entity with a

right to sublicense or enforce a patent, as well as any entity with a financial interest in a patent. The provision requiring ongoing disclosure of transferred patents to the USPTO would also be helpful in that there would be an official record maintained by USPTO to demonstrate patent ownership and provenance. Together, these common-sense provisions would provide basic, highly relevant information that is important for all parties, and the courts, to understand at the beginning of a case, potentially saving considerable time and resources should the case progress.

Questions from Senator Grassley

Q: In your view, are the reforms in Senator Leahy's bill adequate to address the threat from patent trolls that you confront? Why or why not?

R: We are greatly encouraged by the interest from this Committee and the House to curb patent litigation abuses. Our view is that there is no single solution to patent litigation abuses and that multiple reforms are necessary to provide effective relief. Certain provisions of the Patent Transparency and Improvements Act, introduced by Senators Leahy and Lee, can be very helpful. The transparency provisions in Section 3, for example, help to shed light on the patent marketplace and thereby discourage bad behavior. Section 5, regarding bad faith demand letters, will help curb the abusive practice of mass-mailing frivolous demand letters in the hopes of securing a settlement from victims.

These provisions alone, however, are insufficient to curb the abuse plaguing our patent system. Although helpful to solve some problems, this legislation would not, for example, discourage the filing of frivolous lawsuits, decrease the cost of patent litigation generally, or reduce the resultant ability of abusive companies to extract expensive settlements from innocent defendants merely because it's cheaper to settle than to fight. American businesses are counting on Congress to address these harms, and to that end, we respectfully urge the Committee to include the provisions co-sponsored by Senators Cornyn and Grassley, such as heightened-pleading, discovery reforms, and fee shifting, in any bill. These measures, more than any others in our view, are essential to any meaningful and impactful reform. We note that versions of these provisions are key parts of the Innovation Act (HR 3309), introduced by Chairman Goodlatte and recently passed with strong bipartisan support by the House of Representatives.

Q: AMD is a holder of numerous patents. Do you believe that the reforms dealing with strengthening pleading requirements, improving transparency requirements and limiting discovery will hurt AMD's ability to enforce its patents against infringers?

R: No, just the opposite. We strongly support these specific areas of reform because they would set reasonable standards that will protect any patent owner from frivolous and abusive claims, while providing those same owners full and open access to the courts. From AMD's perspective, these provisions would not impede our ability to enforce patents against infringers because we see them as best practices that we would willingly apply in any case.

Q: In your opinion, which types of abusive patent litigation are best addressed by the courts, PTO or legislation?

R: While the courts have considerable authority to help address frivolous cases, as well as certain abusive tactics, the considerable growth of abusive litigation over the past several years demonstrates that the courts alone are unable to uniformly address this expanding problem. Legislation is needed to provide clear guidance to the courts to help address abuses such as mass-mailings of demand letters, broad, or poorly defined claims, dilatory, ill-defined, and excessive discovery tactics, and other abuses that have become commonplace in the U.S. patent system. Specifically, the types of reforms described in The Innovation Act, as well as the transparency provisions in Senator Leahy's legislation, will have the greatest impact if passed into law.

Q: How would fee shifting change the incentives and dynamics in patent litigation?

R: Unlike most American businesses, some patent holders have little to no litigation risk and, therefore, have an incentive to litigate meritless claims in the hopes of getting a lottery-like return. A defendant, on the other hand, is always assured of high litigation costs and the risk of crippling liability. This risk-reward imbalance results in uneven bargaining power, which is often used to unfairly extract licenses or settlements that substantially exceed the value of the asserted patents. In fact, several notorious patent trolls are known for pursuing frivolous claims against a larger number of defendants with the expectation of receiving only a settlement from each. Each settlement funds additional lawsuits filed against additional parties, creating a domino effect. Entities who exploit the system know that a defendant is far more likely to pay to settle a lawsuit rather than pay the same or more in attorney fees and expenses to prove that the allegations are frivolous. Changing the risk-reward equation through fee shifting provisions creates a new dynamic, in which plaintiffs are no longer incentivized to file and litigate meritless claims, or seek to extract settlements by threatening expensive litigation.

Q: What do you believe are the most promising proposals currently being considered by Congress that would help deter abusive activity in the patent system?

R: We believe the most promising proposals currently being considered are the heightened pleading requirements, discovery reforms, and attorney fee shifting provisions that were originally proposed in Senator Cornyn's proposed legislation, and were ultimately passed in The Innovation Act authored by Chairman Goodlatte. We also note that the White House has expressed strong support for these measures. Other provisions, such as the transparency and demand letter reforms proposed by Chairman Leahy would also be useful in addressing specific types of abuses.

Q: Some of the witnesses have expressed concerns that the heightened pleading requirements would complicate and delay litigation because of disputes over whether the pleading requirements have been met. Do you believe that these concerns are justified?

R: No – we strongly believe that, on balance, heightened-pleading requirements would simplify and expedite litigation. Under current law, a plaintiff can file a patent infringement lawsuit by merely

identifying the patent-in-suit and providing a general allegation that the defendants' products infringe. As a result, it can be months or even years before a defendant knows what is actually at issue. A plaintiff needn't explain what claims are being infringed, what product infringes or how the product infringes. That's like being able to sue for trespassing real property without explaining where the property is located. The result is an unnecessary waste of the parties' and the court's limited resources. But, heightened pleading requirements would add clarity to a patent infringement lawsuit from its inception. As proposed in the Innovation Act and as proposed by Senators Cornyn and Grassley, a plaintiff would be required to allege patent infringement with specificity, identifying not only the specific products at issue, but also the plaintiff's reason for believing that these products infringe.

We agree that there may be a temporary increase in the number of disputes regarding whether the pleading requirements have been satisfied, but I also know that the number and frequency of these disputes will decrease as law develops to more clearly define the requirements of these provisions. (Indeed, any new legislation runs the risk of this initial, and temporary, increase in disputes regarding the statute's requirements.) It is also clear that, on balance, the proposed heightened-pleading requirements will simplify and expedite litigation. First, the provision would deter purely frivolous lawsuits, thereby reducing the number of cases filed in district court, which will allow courts the opportunity to address legitimate lawsuits more quickly. (As a patent owner, this factor is particularly important to AMD.) Second, the provision will force both parties to focus on the issues that are actually in dispute, rather than wasting time and money to identify the issues in dispute. Third, by clearly identifying the parties' dispute from the inception of the lawsuit, the heightened-pleading proposal will reduce the number of motions filed on issues that are ultimately not relevant to the resolution of the parties' dispute.

Finally, it is important to also note that heightened-pleading requirements present no downside to a legitimate plaintiff. We don't take lightly any legislation that would place an additional burden on a plaintiff, as AMD actively enforces its patent rights against infringers, and we occasionally have needed to resort to filing a patent infringement lawsuit. However, a party seeking to enforce its patent rights, rather than seeking to extort a settlement, will investigate to determine which products are infringing and the basis upon which it finds infringement. In short, a legitimate plaintiff will have already done the homework required by the provisions of the Innovation Act and proposed by Senators Cornyn and Grassley.

Q: Some have claimed that proposals contained in the bills will disadvantage legitimate companies, vendors and universities. Do you believe that these concerns are justified? Others have claimed that the proposals will weaken the ability of patent holders and inventors to protect their patents against infringers. Do you agree? How do you respond to those concerns?

R: No, we believe that the proposals related to heightened pleading requirements, discovery reforms, and attorney fee-shifting, would not disadvantage legitimate companies, vendors or universities. We believe that these provisions provide benefits to all patent holders, by reducing the costs of and inefficiencies in patent litigation. In addition, the fee shifting provision will discourage infringers from blatantly violating the patent rights of legitimate companies, vendors and universities. Finally, should

these provisions become law, small businesses and small inventors will have stronger protections against frivolous claims, as well as expensive and abusive litigation tactics that are all too often levied against them. All patent holders will still have full access to the courts to protect against infringers using the same standards as all other patent holders. This is a fair and reasonable approach that improves the patent system for all parties, as well as the courts.

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

R: We agree in part with Mr. Dickinson’s statement regarding law enforcement agencies, but disagree with his conclusion. Some of the demand letter mass-mailings are consumer fraud and/or a deceptive trade practice, and we are encouraged that the appropriate law enforcement agencies are beginning to investigate and respond to these issues. Along these lines, we support Senator Leahy’s proposed legislation to clarify that the Federal Trade Commission has jurisdiction to deal with some of these bad-faith demand letters.

However, and crucially, not all abusive tactics fall into the “consumer fraud” or “deceptive trade practice” buckets. These other tactics include, for example, requesting unnecessary discovery for the mere purpose of increasing an opponents’ expenses, pursuing meritless litigation even after a defendant has demonstrated that it does not infringe the patent, and filing a lawsuit with the singular goal of extracting a settlement less than the cost of litigation. Congress needs to act to fix these harms.

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

R: No, we disagree. This argument understates the benefits of deferral and overlooks the economic inefficiencies of the current system. Substantial discovery is generally unnecessary for claim construction. Under the proposed discovery provisions, significant resource and cost expenditures shift

until after the threshold questions surrounding claim construction are understood. Once claim construction is determined as a matter of law, it is generally self-evident whether additional discovery is necessary or whether a case should be dismissed. Further efficiencies are realized because a plaintiff's position on the merits must be defined early on in the litigation in order to reconcile its theory of infringement with its theory of claim construction. This frustrates the so called "fishing expedition" strategy adopted by many of today's patent trolls. Finally, while the discovery provisions of S. 1013 and H.R. 3309 preliminarily shift the emphasis on discovery to understanding claim construction issues, they are not a bar to other discovery. Other provisions allow the court to permit discovery (1) to timely resolve actions, (2) to resolve motions, and (3) as necessary to prevent manifest injustice. The Innovation Act (H.R. 3309) expands the court's discretion to allow additional discovery in some competitor suits and in other "special circumstances."

Q: In your opinion, does the recent rise in patent litigation encourage innovation?

R: Absolutely not. The rise in patent litigation discourages innovation by draining funds that might otherwise be invested in innovation, as well as undermining the protections afforded by the U.S. patent system that is one of the most important cornerstones of U.S. innovation. Curbing patent litigation abuse by passing strong legislative reforms such as those we are advocating is essential to preserve U.S. innovation leadership and the U.S. economy.

Question from Senator Whitehouse

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

- Referring patent trolls and their attorneys who initiate frivolous lawsuits and fraudulent and harassing conduct to the appropriate law enforcement authorities and disciplinary bodies, including, in the case of attorneys, state bar disciplinary boards;

R: While potentially helpful in creating a disincentive for the most egregious ethical abuses of such attorneys, state bar disciplinary boards may be slow to act and are powerless over the patent troll initiating the action.

- Pursuing equitable remedies, such as injunctions against future suits by trolls with a demonstrated record of frivolous litigation, fraud, and harassment;

R: We believe that it would be difficult to articulate a reason why a court can and should enjoin a company (any company) from pursuing future patent litigation suits, merely on the basis of their past conduct. Indeed, to extend such a rule to individuals would close the courthouse to individuals who have been deemed to have this "demonstrated record," and corporate patent trolls would be able to circumvent the rule by transferring the patents to a different shell corporation. For these and other

reasons, we believe that the courts should address each case on its merits, and we believe that any party should be entitled to bring a legitimate patent infringement case. Thus, we recommend implementing legislation that would discourage the bad behavior in the first place.

- Pursuing Rule 11 sanctions against attorneys bringing frivolous suits;

R: Rule 11 is an ethical attack on an individual attorney, rather than an indictment of a party's litigation tactics or its position. Because of the stigma associated with attacking the ethics of a particular individual, parties and attorneys are disinclined to file a Rule 11 motion. Even more to the point, because of the impact such a ruling could have on the career of that individual attorney, courts are loathe to grant a rule 11 motion except in the very most egregious of cases. For example, these sanctions would not be available when an attorney has a plausible (albeit unlikely) excuse for his behavior. For these reasons, Rule 11 sanctions are insufficient to discourage abusive tactics. In our opinion, it makes far more sense to punish a party by requiring it to pay its opponents fees when it proceeded with an unjustified position.

- Increased use of joint defense agreements;

R: Joint defense agreements are routinely used in patent litigation, and they help to maintain the privileged nature of communications and information exchanged between co-defendants. This allows defendants to cooperate and share costs in the areas of prior art searching, retention of experts, and the development of invalidity, non-infringement, and unenforceability defenses. However, these agreements do almost nothing to protect defendants from a plaintiff's abusive litigation tactics.

- Purchase of patent litigation insurance;

R: For very small companies, patent insurance may reduce the likelihood of frivolous litigation because potential opponents can be put on notice of the insured's financial ability to reach a decision on the merits. The patent litigation insurance industry however is relatively new, the practice untested, and the insurance policies can be very expensive. This is not a practical solution for mid- and large-sized companies due to the significant costs involved.

- Increased licensing and purchase of relevant patents; and

R: AMD respects the intellectual property of others. When appropriate, we will negotiate and enter in to patent license agreements. Purchasing patents to circumvent licensing fees is certainly a way to address this, but this is not always an option when being targeted by a patent troll nor is it cost effective for a single company. Organizations that leverage the purchasing power of a collection of companies to purchase patents may provide an effective model that is better suited to help address this issue, although this alone is insufficient to curb the types of abuses that are pervasive in the patent system.

- Simply refusing to pay unjustified claims.

R: AMD takes great pains to understand accusations of patent infringement, and we have legal staff dedicated to this task. When claims are made that are rationally unjustified or frivolous, we vigorously defend our position. However, in some cases, business considerations require us to pursue the less expensive approach, which may involve paying an unjustified claim rather than paying significantly more for outside attorneys and experts to defend a lawsuit. In addition, some companies are smaller or less familiar with patent litigation, and these companies may be forced to incur significant outside attorney expenses just to determine that a claim is unjustified.

Again, thank you for the opportunity to testify and to address your questions regarding the importance of passing legislative reforms to address patent litigation abuses. We remain at your disposal to address any additional questions that may arise, and we respectfully urge you to pass legislation as soon as possible given the substantial negative impact patent litigation abuses are having on US companies and innovation.

Sincerely,



Harry A. Wolin

Senior Vice President, General Counsel and Secretary
AMD