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10 December 2013

The Honorable Patrick J. Leahy
United States Senate
437 Senate Russell Office Building
Washington, D.C. 20510

RE: OVERWHELMING PROOF OF H.R. 3309 FATAL FLAWS

Senator Leahy:

I have attached some 20 detailed and insightful analyses of H.R. 3309 from the likes of the Six Major University Associations, the American Bar Association, the Committee on Rules of Practice and Procedure of the Judicial Conference of the US, the National Venture Capital Association, present and past CAFC Chief Judges Rader and Michel, The Patent Office Professional Association, The American Intellectual Property Law Association --- and the list goes on per the attached list, each providing its own unique perspective and insight on the profound problems which are the fatal flaws embedded in H.R. 3309. Not exactly a bunch of “trolls”.

Over the past five sessions of Congress many of the Key Patent-System Players have appeared on various sides of the various issues or not at all for a wide variety of reasons, allowing the Multinational attackers to dominate the narrative, and it was only after the details surrounding H.R. 3309 were revealed and afforded the light of day that the disparate perspectives and interests of these Key Patent-System Players evoked a response of historic proportions in the form of a remarkable barrage of analytical commentaries on the profound problems which are the fatal flaws embodied in H.R. 3309.

These entities constitute the fabric of the American Patent System, the cradle of innovation, jobs, and American exceptionalism and yet not one was consulted by the House with respect to the impact of H.R. 3309.

The practical reality is that the implementation of the AIA has already made sweeping changes to the US Patent System, the effects of which are just now beginning to be recognized and felt. Accordingly, it is absolutely imperative that business and Government both be given time to understand and digest the impact of these changes before any further changes are undertaken.

Said another way, the AIA is now the law of the land, and the fact that the various Stakeholders did not agree on whether it was good or bad doesn't matter now. What matters now is that:

a. Essentially all of the Stakeholders agreed that the AIA would make "sweeping changes" to our Patent System which would take years to play out;

b. Because most of the major changes have just begun to become effective, we have had precious little time to see and understand the impact of their implementation on innovation and jobs; and,

c. That it would be unwise to make further changes until we understand the new status quo of the US Patent System, and can evaluate the need for and the cumulative effect of additional change.

We are therefore urging Members on both sides of the issues and both sides of the aisle to put a hold on all further Legislation which impacts the Patent System until at least the next session of Congress when we will all have a better understanding of the impact and consequences of the AIA --- both intended and unintended --- and that in the interim you conduct a series of real Hearings in which the views of all the Stakeholders are heard, not just the multinational attackers, so that you can then decide what if any further action is appropriate.

Sincerely,

Daniel E. Leckrone
Chairman & CEO

Statement from the Higher Education Community on S. 1720, the "Patent Transparency and Improvements Act of 2013"

We write to communicate the views of the higher education community on S. 1720, the "Patent Transparency and Improvement Act of 2013." We commend Chairman Leahy and his original co-sponsors Senators Lee, Whitehouse, and Klobuchar for introducing legislation effectively focused on curbing abusive patent litigation practices while preserving the ability of patent holders effectively to enforce their patent rights.

The passage of the America Invents Act (AIA), which our associations strongly supported, strengthened and harmonized U.S. patent law to the benefit of the nation's innovation system. S. 1720 effectively extends the enhancements of the AIA by targeting abusive litigation practices that corrode the capacity of the patent system to exploit the AIA enhancements to innovation and economic competitiveness.

Universities are a key component of the nation's innovation system, conducting the preponderance of the nation's fundamental research – research that expands the frontiers of basic knowledge and understanding and, in so doing, yields discoveries that have extraordinary, far-reaching impact – the laser, MRI, life-saving drugs, defense technologies, food and agriculture, and so much more. The US patent system plays a critical role in the transfer of discoveries resulting from university research into the commercial sector for development into products and processes that benefit society. Because the discoveries arising from university research tend to produce early-stage patents, the university technology-transfer process must preserve a capacity for licensing such high-risk/high-payoff patents for further commercial development. And the innovation process also needs to sustain a climate in which the startup companies that are the frequent licensees of such patents can gain a financial footing and grow.

Two consequences follow from this process of commercialization of the largely publicly funded university research that has produced extraordinary benefits to this nation:

1) the not-for-profit universities and their often undercapitalized startup companies are vulnerable to abusive patent litigation practices, but

2) measures to curb abusive litigation practices must target those practices in ways that do not undermine the ability of universities and their licensees to enforce their patent rights.

The capacity of university patents to encourage investment is dependent on their right to exclude others. Patents are often the most critical assets of startups and small businesses. It is critical that legislation addressing patent litigation balance the value of protection from abusive litigation practices against the need to preserve the strength of patents to foster innovation.

For these reasons, we were very concerned about several provisions in the Innovation Act (H.R. 3309) that recently passed the House. In our judgment, H.R. 3309 failed to meet the balance between reducing abusive litigation practices and preserving the strength of patents, and we therefore were obliged to oppose the bill despite its worthy goals. We commend Chairman Leahy for omitting in S. 1720 the following provisions which, however well-intentioned, would entail greater cost than benefit by undermining the ability of universities and their licensees to enforce their patent rights:

- Fee shifting and joinder: These proposals as constructed in H.R. 3309 are especially problematic for not-for-profit universities and undercapitalized licensees, due not only to the prospect of the substantial financial burdens that could result from litigation not initiated or controlled by universities, but, perhaps even more problematically, the prospect of such outcomes gravely chilling the ability of universities to transfer their early-stage patents into the commercial sector because of the major new financial confronting potential licensees. The chilling effects range from dampening the willingness of inventors to disclose their inventions and support the transfer of those inventions throughout the commercialization process, to discouraging passive investors from investing their funds in development of new technology dependent on effective patent protection. These problems are caused by the overbroad language of these provisions in H.R. 3309. If fee shifting and joinder provisions are included in S. 1720, we would like to offer language to address these problems. The U.S. Supreme Court, however, is currently reviewing two cases concerning appropriate standards for awarding attorneys' fees under 35 U.S.C. § 285; it would seem prudent to withhold statutory treatment of fee shifting and joinder pending resolution of these cases.

- Expansion of covered business method (CBM) patents: Proposals for expanding this narrow and time-limited AIA transition provision would sweep into the current CBM definition patentable subject matter that was not intended to be covered under the rubric of business method patents. The amplitude of such an expansion would negatively impact patent owners, including universities and their non-profit technology transfer organizations, adding uncertainty to patent holders, reducing the incentive for early challenges to patents, and upsetting the balance between the post-grant and inter partes procedures codified in the AIA.

- Detailed Statutory Instructions to Courts on Pleading and Discovery: The discretion of the courts to continue management of individual cases on their merits should be preserved. Case-specific situations vary widely, so the courts should be able to continue their management of cases, with adjustments as warranted, such as Judge Rader's model discovery rules, court review and correction of perceived abuses.

The Patent Transparency and Improvement Act includes a number of provisions that would curb abusive litigation in ways that sustain ability of patent holders to defend their patents; of particular relevance to universities are the following two:

- Assuring transparency of patent ownership will go a long way to limiting the ability to conduct abusive litigation practices by hiding behind "shell" companies,

- Protecting end-user customers from unwarranted infringement allegations can help innocent retail companies and small businesses far removed from the product manufacturer.

Each of these provisions, however, should be modified to assure that they do not override their abuse-curtailing benefits with unintended consequences due to overly broad and costly requirements for transparency, and opportunities for collusion among entities in the product chain from manufacturers to end-point customers in the customer stay provisions.

USPTO funding: Among the many achievements of the landmark Leahy-Smith America Invents Acts, one of the greatest disappointments was the inability to include reliable full funding of USPTO. As former USPTO Director David Kappos has testified, providing the USPTO with full fee access is essential for the USPTO to fulfill the potential of the AIA to strengthen the U.S. patent system and its capacity to support invention, innovation, and economic development. We strongly encourage the inclusion of such a USPTO funding provision in S. 1720.

We thank the Chairman and his co-sponsors for their effective work in addressing the costly and corrosive problem of abusive patent litigation. We believe that S. 1720 goes a long way toward effectively addressing this problem while preserving the ability of patent owners legitimately to enforce their patent rights. We are committed to working with the Chairman and the Judiciary Committee to achieve the shared goal of building on the substantial achievements of the AIA to further strengthen the U.S. patent system and its capacity to nurture the innovative capacity of the nation and enrich the lives of its citizens.

December 11, 2013

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.

<u>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.</u>

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,

Louis J. Foreman
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Chief Executive Officer, Edison Nation
Charlotte, NC
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Dr. Gary K. Michelson, M.D.
Independent Inventor
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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. <u>Mandatory Stays of Litigation (H.R. 3309 & S. 1720).</u> 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 <u>all</u> 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 <u>de minimis</u> 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. <u>Transparency of Ownership (H.R. 3309, S. 1013 & S. 1720).</u> 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. <u>Heightened Pleading Standards (H.R. 3309 & S. 1013).</u> 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. Theses 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. <u>Mandated Document Discovery Restrictions and Burden Shifting (H.R. 3309 & S. 1013).</u>
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. <u>"Reasonably Could Have Raised" Estoppel (H.R. 3309 & S. 1720).</u> 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 <u>alternative to</u> – not a serial, second-bite-at-the-apple <u>supplement to</u> – 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 <u>possibly</u> have raised, and a narrow estoppel applying only to issues <u>actually</u> 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. <u>Mandated Document Discovery Restrictions and Burden Shifting (H.R. 3309, S. 1013 & S. 1720).</u> 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. <u>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.</u> (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.

December 16, 2013

Senator Patrick J. Leahy
Chairman, Committee on the Judiciary
437 Russell Senate Office Building
Washington DC 20510

Senator Charles E. “Chuck” Grassley
Ranking Member, Committee on the Judiciary
135 Hart Senate Office Building
Washington DC 201510

Dear Chairman Leahy and Ranking Member Grassley:

We write today as representatives of regional, state and local associations of Printing Industries of America to thank the Senate Committee on the Judiciary for holding a hearing to examine the issue of “Protecting Small Business and Promoting Innovation by Limiting Patent Troll Abuse.”

Together, we represent are more than 30,000 individual printing plants in this country in virtually every city and town in America. The average printing company employs just 27 workers and more than 60 percent of printing companies are family-owned businesses – a statistic to which I know the Chairman can relate personally. In aggregate, we employed over 800,000 workers and in 2012 shipped over $147 billion in products.

Unfortunately, we’re also an industry that has attracted the damaging attention of patent assertion entities (PAE) or “patent trolls.” Patent trolls in our estimation do not innovate, do not promote economic growth, and do not contribute to the greater good of education or scientific research. Most importantly, patent trolls do not create jobs – the businesses we represent do.

We commend this Committee for exploring legislative solutions to address the complexities of patent law, and we encourage a healthy debate on these ideas. Our overriding view is that legislation should deter patent trolls from the outset to protect printing companies from ever becoming part of the cycle of abusive patent litigation. However, if printers do in fact find themselves involved in extortionate legal situations, we hope that new laws will be in place to provide less costly, less burdensome courses of defense.

Some of these solutions include:

- Deterring patent troll activity by cracking down on deceptive behavior that accompanies bad faith demand letters. This would help tremendously in reducing the vague and threatening aspects of demand letters our members currently receive.
- Protect customers who are targeted in patent infringement lawsuits by permitting the case against them to be stayed while the manufacturer litigates the alleged infringement.
- Ensuring end users have a robust defense against abusive patent claims through an expanded, permanent Covered Business Method (CBM) review that would consider the quality of functional patents in question.
- Reforming the patent litigation system to include new heightened pleading requirements as well as increasing the transparency of patent ownership; and, finally,
- Reduce the overall cost of abusive patent litigation by balancing discovery demands. This would empower more of our member companies to fight frivolous claims of infringement rather than settle.

The solutions above are all contained in some shape or form in one or more of the following bills under consideration in the Senate:

- Patent Transparency and Improvements Act (S. 1720) (Sen. Leahy/Sen. Lee)
- Patent Quality Improvement Act (S. 866) (Sen. Schumer)
- Patent Abuse Reduction Act (S. 1013) (Sen. Cornyn)
- Patent Litigation Integrity Act (S. 1612) (Sen. Hatch)

We realize that there won't be one simple solution to reform our nation's patent process, but, to borrow a phrase from President Obama, it's critical that we build consensus to produce "smarter patent law." As an industry, we are committed to working with our elected officials to balance the protection of small business and the promotion of innovation – and – above all – to combatting the threat and damages caused by patent trolls.

Sincerely,

Great Lakes Graphics Association (IL, WI, IN)
Printing Industries Association, Inc. of Southern California
Pacific Printing Industries Association (OR, WA, HI, AK, ID)
Printing Industries Association of San Diego, Inc.
Printing Industry of the Carolinas, Inc.
Printing Industries of Arizona/New Mexico
Printing Association of Florida, Inc.
Printing & Imaging Association of Georgia, Inc.
Printing & Graphics Association MidAtlantic (VA, MD)
Printing Industries of New England (CT, RI, MA, NH, VT, ME)
Printing Industries of Michigan, Inc.
Printing Industry Midwest (MN, IA, NE, SD, ND)
Print Media Association (MO, IL)
Printing Industries Alliance (NY/CT)

Printing Industries of Ohio & Northern Kentucky
Graphic Arts Association (NJ, PA, DE)
Printing Industry Association of the South, Inc. (AL, MS, TN, KY, WV, MS)
Printing & Imaging Association of MidAmerica (TX, OK, KS)
Printing Industries of America Mountain States (CO)
Printing Industries of the Gulf Coast (TX)
Printing Industries of Utah
Visual Media Alliance (Northern California)

Cc: Members of the Senate Committee on the Judiciary

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 Charles Grassley
Ranking Member, Committee on the Judiciary
United States Senate
224 Dirksen Senate Office Building
Washington, DC 201510

Dear Chairman Leahy and Ranking Member Grassley:

We, the undersigned trade associations and members of the Stop Patent Abuse Now Coalition ("SPAN Coalition"), applaud bipartisan efforts moving through Congress to curb abusive patent litigation. As Congress continues to consider this much-needed legislation, we would like to voice our strong support for provisions contained in S. 1720, the "Patent Transparency and Improvements Act," that would provide the Federal Trade Commission with further direction, under its existing Section 5 authority, to go after the bad-faith demand letters that patent trolls routinely send to unsuspecting businesses and nonprofits across the country. The current provision would also promote demand letter transparency by requiring that certain minimum disclosures be made by trolls to better identify themselves, the patent in question, and the specific nature of the alleged infringement.

Patent trolls are increasingly harassing businesses and nonprofits of every size with demand letters. These letters come out of nowhere, and often allege that the mere use of everyday technology violates the patent holders' rights. Further, these questionable letters typically state vague or hypothetical theories of infringement, often overstate or grossly reinterpret the patent in question, and, in some cases, make allegations of infringement of expired or previously licensed patents.

At their core, demand letters use the threat of litigation as leverage to extract a "licensing fee" from the recipient business. Recipients often simply settle these nuisance claims rather than run the risk of protracted litigation in federal court. Put simply, it is often much more expensive to hire a lawyer to review or defend against a suspect claim than it is to pay the requested "fee." This is the troll's calculated business model.

Vague and misleading demand letters are central to the patent troll problem. Indeed, many claims begin and end with these letters as companies quickly pay these undeserved "licensing fees," given the expense and complication of defending on the merits in court. We urge Congress to enact meaningful legislative solutions to protect businesses of all sizes from these smash and grab tactics. The fight for patent litigation reform and demand letter relief is truly a main street issue impacting businesses and nonprofits in communities across the country. We look forward to continue working with you on this important issue.

Sincerely,

American Association of Advertising Agencies

National Retail Federation

The Direct Marketing Association, Inc.

Association of National Advertisers

The Mobile Marketing Association

CC: All members of the Senate Judiciary Committee

USIJ

Alliance of U.S. Startups and Inventors for Jobs

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: 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

THE VOICE OF FOOD RETAIL
Feeding Families Enriching Lives

Testimony of Food Marketing Institute

To the Committee on the Judiciary,
Full Committee
United States Senate
Regarding "Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse"
Tuesday, December 17, 2013

Introduction

Chairman Leahy, Ranking Member Grassley, and other distinguished members of the Senate Judiciary Committee, we want to thank you for giving us the opportunity to submit testimony on the need to protect consumers and end users of technology from patent troll abuse. The Senate Judiciary Committee is currently considering a number of bills aimed at patent troll abuse including the Patent Transparency and Improvements Act of 2013, the Patent Quality Improvement Act of 2013, the Patent Abuse Reduction Act of 2013, and the Patent Litigation Integrity Act of 2013. We applaud the Senate Judiciary Committee on the attention given to the serious issue of patent abuse. It is not the intention of this testimony to debate the strengths and weaknesses of these Acts, but instead to explain the need for Congressional action in this area.

FMI proudly advocates on behalf of the food retail industry. FMI's U.S. members operate nearly 40,000 retail food stores and 25,000 pharmacies, representing a combined annual sales volume of almost $770 billion. Through programs in public affairs, food safety, research, education and industry relations, FMI offers resources and provides valuable benefits to more than 1,225 food retail and wholesale member companies in the United States and around the world. FMI membership covers the spectrum of diverse venues where food is sold, including single owner grocery stores, large multi-store supermarket chains and mixed retail stores. For more information, visit www.fmi.org and for information regarding the FMI foundation, visit www.fmifoundation.org.

Our testimony explains why Congressional action is necessary to put an end to predatory patent troll practices that harm consumers and retailers:

- There is a difference between a beneficial and procompetitive use of patents and the harmful behaviors of predatory patent trolls. Patent trolls have established a business model that bears no relation to the value or merits of a patent assertion and instead relies on the high costs of litigation to demand large settlements.
- End users such as retailers are ill-equipped to assess patent claims and fight against invalid patent assertions, yet are the primary targets for predatory patent activity. Most end users do not want to be involved in the patent system and simply want to use technology products without fear of attacks from patent holders.
- Demand letters are often the root of the patent troll problem. We urge Congress to target predatory and deceptive demand letters in any legislation it passes. The demand letter is often both the beginning and ending of patent troll activity. Therefore, any legislation that fails to address problematic demand letters will fall far short of solving the patent troll problem.

I. Patent Trolls Represent a Business Model Wholly Separate From Legitimate Patent Holder Activity

It is important to distinguish the predatory patent troll business model from legitimate patent holder activity. Patents, when used correctly, foster innovation and competition that is beneficial to society. Beneficial patent activity begins when an inventor "invents or discovers a new and useful process, machine, manufacture, or composition of matter, or any new useful improvement thereof"[1] and obtains a patent. The inventor then chooses to practice, license, or assign his or her patent. The ultimate owner of the patent fosters the technology by practicing the invention or licensing the invention to a party who will practice the invention. The patent holder can protect its technology by preventing parties not covered by a license from making, using, selling, or offering to sell[2] the patented technology. While it is not required, this process almost always results in the practice of a beneficial technology and license agreements are ideally made before the licensee begins to practice the patented invention. Patent holders and licensees have the opportunity to seek each other out and form agreements based on the value of the patented technology.

The predatory patent troll business model is wholly different from this beneficial patent activity. A predatory patent troll often begins by buying low value patents of old or failed technology. These patents are picked for their broad or hard to interpret language that can be construed to cover technology in use, or at least given the pretense that it covers technology in use. The patent troll then generates a large volume of demand letters, often deceptive, asserting these patents against practicing entities. The patent trolls pursue negotiations in bad faith leveraging the high cost of litigation to obtain settlements for amounts greater than the value of the patent asserted. If the patent troll chooses to litigate, they will often pursue strategies designed to generate costs for their opponents. Patent trolls have no desire to promulgate technology or negotiate licenses *ex ante*. Instead, they seek *ex post* licenses based primarily on avoiding litigation costs and disruption to business.

The main driver of predatory patent troll activity is the high costs of litigation with little chance of recoupment. The American Intellectual Property Law Association estimates that the cost of litigation ranges from $350,000 to $3,000,000 to reach the end of discovery and from $650,000 to $5,000,000 to try a case.[3] These high costs create a market for otherwise low value or worthless patents. A patent owner is in the position to offer an attractive deal compared to the cost of a defendant winning a patent trial. FindTheBest.com provides a typical example. They were threatened with a patent of extremely questionable validity. The patent troll offered them a choice between an extremely expensive patent trial and a $50,000 settlement offer.[4] Irrationally, FindTheBest.com chose to go to trial and spent $200,000 to invalidate the patent troll's patent.[5]

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[1] 35 U.S.C. § 101

[2] 35 U.S.C. § 271

[3] Comments of American Intellectual Property Law Association to the United States Patent and Trademark Office, Request for Comments on a Patent Small Claims Proceeding in the United States, April 30, 2013, *available at* http://www.uspto.gov/ip/global/patents/comments/aipla_comment_letter_on_small_patent_claims_4-30-2013.pdf.

[4] Joe Mullin, *FindTheBest destroys "matchmaking" patent, pushes RICO case against troll*, ARS TECHNICA, Nov. 23, 2013, http://arstechnica.com/tech-policy/2013/11/findthebest-destroys-matchmaking-patent-pushes-rico-case-against-troll/.

[5] *Id.*

Fortunately, the patent was invalidated early in litigation on Section 101 grounds, saving FindTheBest.com from having to enter into a costly discovery process.[6]

While the high cost of litigation discourages defendants from mounting a substantive defense, it encourages litigation by patent plaintiffs. Typically, we would expect a defendant to only consider a threat to litigate credible when the probability of success times the anticipated damages minus the plaintiff's cost of litigation is greater than zero.[7] If this value is below zero a defendant would not accept any settlement offers because the plaintiff's value of the suit is negative. However, if the plaintiff develops a reputation of litigating even negative value cases, then the defendant cannot rely on the plaintiff acting rationally during negotiations. A defendant faced with an irrational plaintiff will be forced to accept any settlement offer that is less than the defendants cost of litigation plus the probability of plaintiff prevailing times the expected damages.[8] It is worth noting that this formula produces significant values even when the probability of success or expected damages is zero. Indeed, a study has shown that cases involving frequently litigated patents are only successful ten percent of the time.[9]

This patent troll strategy creates social costs. The strategy incentivizes frivolous litigation which is a drain on practicing entities' resources.[10] Practicing entities are also encouraged to file applications for low quality patents because of their increased value in secondary markets. These patents, which compound the problem, would otherwise not be worth filing. Finally, the patent trolling strategy has the overall effect of decreasing innovation by expanding patent thickets.[11] Companies that successfully innovate increase their risk of being targeted by patent trolls who can use old patents to hold that success hostage for easy payouts. End users who adopt new technology increase their risk of being sued by patent trolls capitalizing on their inability to afford patent litigation.

II. End Users, Who are Technology Consumers and Not Technology Manufacturers, are Attractive Targets to Predatory Patent Trolls

End users of technology, such as retailers, can infringe a patent by using or selling the covered technology.[12] However, end users are rarely targeted with lawsuits under traditional beneficial patent activity. This is because the manufacturer is the most attractive party for a patent holder to assert its rights. The patent holder only has to negotiate or file suit against one

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[6] *Lumen View Tech. LLC v. Findthebest.com, Inc.,* 13 Civ. 3599, 2013 U.S. Dist. LEXIS 166852, at *34-37 (S.D.N.Y. Nov. 22, 2013).

[7] Erik Hovenkamp, Predatory Patent Litigation 8 (Aug. 5, 2013) (unpublished manuscript) (on file with SSRN at http://ssrn.com/abstract=2308115).

[8] *Id.* at 16.

[9] John R. Allison, Mark A. Lemley, & Joshua Walker, *Patent Quality and Settlement Among Repeat Patent Litigants*, 99 Geo. L.J. 677, 686-87 (2011).

[10] Hovenkamp, *supra* note 6, at 17.

[11] *Id.* at 17-18.

[12] 35 U.S.C. § 271

party to obtain licensing fees and damages for all manufactured products. This lowers the transaction costs for the patent holder. Society also benefits from manufacturer suits because the manufacturer is the party with the most knowledge of the technology and the greatest interest in defending against invalid assertions. This minimizes the amount of capital lost on non-productive activities. End users suits are typically only attractive to patent holders when the patent holder cannot feasible bring suit against the manufacturer or the end user is using a non-infringing technology in a way that becomes infringing.

A. Retailers Do Not Possess the Expertise or Knowledge to Efficiently Respond to Patent Demands

Retailers do not possess the in depth knowledge of technology products that manufacturers have. Compared to a manufacturer, a retailer typically needs to seek large amounts of outside knowledge in order to interpret a claim for infringement against a technology product they use or offer for sale. This makes it difficult and costly for the retailer to make an initial determination whether the claim is valid or whether the patent is likely invalid or not infringed. The retailer also has greater difficulty in preparing a case than a manufacturer if the retailer discovers the patent holder's claim is without merit.

Retailers also traditionally have very little, if any, experience with patent law. While a retailer may innovate, the retailer's core business model does not involve inventing or practicing inventions. Retailers instead strive to provide the best products at the lowest prices while giving consumers a high level of service. As a consequence, retailers usually have to seek expensive outside counsel in order to deal with patent infringement claims. While retailers and their in-house counsel are becoming increasingly savvy to the intricacies of patent law, it is primarily due to continuous threats from patent troll activities.

B. Patent Trolls Target Retailers Because the Higher Cost of Defense and Disruption to Business Encourages Settlement Regardless of the Merits of the Alleged Infringement

Patent trolls are increasingly targeting end users because the end users' lack of resources, relevant technical knowledge, and expertise makes them easy prey for meritless suits.[13] Retailers, who often operate on low margins, are particularly vulnerable to patent troll demands. "Many retailers do not . . . employ legal counsel in-house, let alone a highly specialized patent attorney."[14] These low margins mean that any extra costs, whether they are costs to settle or costs to litigate, cannot be easily absorbed and must be passed on to the consumer either through increased prices or reduced services. Patent troll suits are also a huge drain on a company's time and employee resources. This further reduces the ability of a company to effectively operate and provide consumers with the services they demand.

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[13] *Demand Letters and Consumer Protection: Examining Deceptive Practices by Patent Assertion Entities Before the S. Comm. on Commerce, Sci., & Transp. Subcomm. On Consumer Prot.*, Prod. Safety, and Ins., 113th Cong. 3 (2013) (written testimony of Lary Sinewitz, Exec. Vice President of BrandsMart USA).

[14] *Id.*

Retailers are so vulnerable to patent troll suits that they can be forced into settlements without even infringing a patent. For example, BrandsMart USA received a two paragraph letter claiming infringement based on "technology that enables debit cards and gift cards to read and process information via the magnetic strip on the back of the card."[15] BrandsMart USA consulted a patent attorney and discovered they used technology different from that asserted.[16] The patent troll refused to drop their demand when informed of this and instead lowered their settlement offer.[17] BrandsMart eventually paid five figures for the patent troll to go away and another five figures in legal fees for the trouble.[18] This transaction occurred entirely outside of the court system because the threat of legal fees unrecoupable by § 285 was too great.

Meritless suits not only increase costs to consumers, but decrease the service provided to them as well. For example, White Castle testified before the House of Representatives that it will be limiting it's usage of QR codes and hyperlinks, as well as passing up creative web designs due to patent troll threats.[19] White Castle has also stated that it is considering going away with digital menu boards "despite the potential business efficiencies they create for our operators and customers by allowing us to provide real-time up-to-date information about our latest products, promotions, and offering."[20]

III. Demand Letters are the Cornerstone of Patent Trolling and Must be Addressed to Limit Abuse

Predatory patent troll activity often begins and ends with a demand letter. A company will receive a demand letter and decide that it is not worth fighting the claim in court. The company will then settle and usually sign a non-disclosure agreement forbidding them from revealing the details of the settlement with any other parties. These activities happen largely out of the public eye, which makes information scarce for those parties that receive demand letters in the future. This also means that we have very little data on how widespread the patent troll demand letter problem is.

Predatory demands letters are distinguishable from good faith demand letters. A good faith demand letter assists a party in determining which claim of a patent is infringed, which product is infringing, and how that product infringes. A predatory demand letter is the opposite, obfuscating the patents and products infringing. A predatory demand letter is often deceptive, hostile, and threatening. Examples of deceptive behavior include not identifying which patents or

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15 *Id.* at 2.

16 *Id.*

17 *Id.*

18 *Id.*

19 *The Impact of Patent Assertion Entities on Innovation and the Economy Before the H. Comm. on Energy & Commerce Subcomm. On Oversight and Investigations*, 113th Cong. 5 (2013) (written testimony of Jamie Richardson, Vice President Gov't & S'holder Relations, White Castle System, Inc.).

20 *Id.* at 5-6.

claims are allegedly infringed, alleging infringement based on a patent that is not actually infringed, or alleging infringement on a product that is already covered under a license by an upstream manufacturer or distributor. Deceptive demand letters are used to obtain settlements based on false or misleading information. Demand letter abuse must be addressed in any legislation that seeks to stop predatory patent trolls.

Conclusion

End users, such as retailers, desperately need patent reform targeted at predatory patent troll behaviors.

American Hotel & Lodging Association

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December 17, 2013

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

The Honorable Charles E. Grassley
Ranking Member
Committee on the Judiciary
United States Senate
152 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman Leahy and Ranking Member Grassley:

The lodging industry is pleased that the House of Representatives recently took action to address patent assertion entities (PAEs) by passing Chairman Bob Goodlatte's (R-VA) Innovation Act (H.R. 3309). We now urge the Senate to immediately consider Chairman Leahy's bill, The Patent Transparency and Improvements Act of 2013 (S.1720) and take further steps to curb the damaging practices of "patent trolls."

PAEs buy patents on inventions for products they don't manufacture, and sue or threaten to sue organizations they claim infringe on the patents. This problem is exploding, and PAEs are targeting end-users of electronic devices with allegations of patent infringement. All told, abuse of the patent process by certain PAEs costs the U.S. economy $80 billion yearly in lost revenues and productivity.

The lodging industry employs 1.8 million employees across the United States, is comprised of 4.9 million guest rooms, and generates $155.5 billion in annual sales. Approximately 55% of our industry is classified as small businesses, made up of properties with fewer than 75 rooms. These properties do not have the financial resources to fight aggressive patent litigation and often their only recourse is to settle.

In Texas alone during the past year, patent trolls have sued almost 100 hotels, claiming the wireless internet routers and access point devices they purchased to provide Wi Fi to guests infringe upon patents held by PAEs. These hotels have to fight the lawsuits in court while incurring enormous legal fees or accept a forced settlement, even though they did nothing more than purchase a Wi Fi device from a retailer for installation at the properties.

As the Committee considers this important issue, we urge that any resulting legislative proposals include the strongest protections possible for end-users, who are merely customers buying products and using them as intended yet are being targeted by PAEs. Further, we strongly support language in the bill aimed at reining in PAE's issuance of fraudulent demand letters and urge consideration of additional reforms to the current demand letter process to ensure that end-users are further protected from predatory PAEs.

We view S.1720 as an important step toward protecting the rights of legitimate patent holders while addressing the growing problem of abusive litigation targeted at the small businesses that are an important driver of our economy. We urge you to consider this legislation as soon as possible and enact end-user protections against patent litigation. Our members are at the heart of the American economy. Ensuring their viability, free from abusive lawsuits, is something we all can benefit from.

Sincerely,

American Hotel & Lodging Association
Alaska Hotel & Lodging Association
Arkansas Hospitality Association
Arizona Lodging & Tourism Association
California Hotel & Lodging Association
Colorado Hotel & Lodging Association
Connecticut Lodging Association
Florida Restaurant & Lodging Association
Georgia Hotel & Lodging Association
Hawai‘i Lodging & Tourism Association
Illinois Hotel & Lodging Association
Indiana Restaurant & Lodging Association
Louisiana Hotel & Lodging Association
Maine Innkeepers Association
Maryland Hotel & Lodging Association
Massachusetts Lodging Association
Michigan Lodging and Tourism Association
Nebraska Hotel & Motel Association
New Hampshire Lodging & Restaurant Association
New York State Hospitality & Tourism Association
North Carolina Restaurant and Lodging Association
Ohio Hotel & Lodging Association
Oklahoma Hotel and Lodging Association
Pennsylvania Restaurant & Lodging Association
Rhode Island Hospitality Association
South Carolina Restaurant & Lodging Association
Tennessee Hospitality Association
Texas Hotel & Lodging Association
Utah Hotel & Lodging Association
Virginia Hospitality & Travel Association
Washington Lodging Association
West Virginia Hospitality & Travel Association
Wisconsin Hotel & Lodging Association
Wyoming Lodging and Restaurant Association

December 17, 2013

Abusive patent infringement claims threaten community banks

On behalf of the Independent Community Bankers of America (ICBA) and the nearly 7,000 community banks we represent, thank you for convening this important hearing entitled "Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse." We appreciate the opportunity to put forth our views on the issue of abusive patent litigation brought by patent assertion entities (PAEs), popularly referred to as "patent trolls," which assert infringement of dubious-quality patents against legitimate businesses, including many community banks.

According to a recent study, direct costs associated with litigation brought by PAEs are substantial, totaling an estimated $29 billion in accrued litigation and non-litigation cost in 2011.[1] Managing these aggressive and frivolous patent lawsuits has become an expensive distraction for an increasing number of community banks that often lack the financial and legal resources to properly dispute these claims and are forced to settle out of court. These claims and settlements sap valuable monetary, management and legal resources from community banks that would otherwise be directed toward serving the financial needs of their customers. What's more, PAEs use settlements to build war chests to target other legitimate small businesses. We need tools to stop this vicious cycle.

ICBA appreciates the efforts of Congress in 2011 to pass the Leahy-Smith America Invents Act, which established a transitional proceeding at the Patent and Trademark Office (PTO), known as a Covered Business Method (CBM) review, to re-examine the validity of dubious business method patents. We are encouraged by the initial efforts of the PTO to "stand-up" the CBM program. If made permanent and more accessible to smaller community banks that may lack financial resources to cover the initial filing fees, the CBM review will mature into a valuable tool to combat these frivolous claims.

However, further steps are needed. Below, we suggest additional measures to protect community banks from the abuses perpetrated by PAEs.

Demand Letters

Community bankers across the country have seen a dramatic increase in the number of demand letters received from law firms representing PAEs. The typical letter states that the community bank is in violation of a patent or a suite of patents held by the PAE. Typically, the PAE is willing to settle or sell a sub-license, often a "limited or one-time offer," to the community bank for using the technology in question. These letters are often accompanied by a list of patent numbers from the PTO but contain no description of what the actual patents are or how the community bank is in violation. The community banker is then forced to choose between costly and time-consuming litigation to challenge the patent or compliance with the letter's demands, regardless of how dubious the infringement claims are. Compliance with the demand letter strengthens the PAE's incentive to target additional community banks to extract exorbitant and fraudulent fees. Furthermore, if a demand letter is ignored, a second more threatening letter is often issued along a dramatic increase in the settlement or sub-licensing fee further illustrating the extortive nature of this act.

[1] The Direct Costs from NPE Disputes by James Bessen and Michael J. Meurer (Boston University School of Law) 6/22/12

To address this issue, ICBA urges Congress to pursue legislation that would strengthen demand letter transparency. Each demand letter send by a PAE should be detailed and personalized to each recipient and not sent "scatter-shot" to dozens of community banks in a given state. Each demand letter should provide a detailed description of the patent, including each claim of each patent that is allegedly infringed, as well as a detailed description of the alleged infringement. The letter should also disclose the actual owner of the patent and all relevant case history involving the patent.

Additionally, a PAE that sends more than 10 demand letters in a calendar year should be required to enter these letters and other detailed information regarding their patents and their assertions of infringement in a Federal database housed at the PTO or the Federal Trade Commission (FTC). This would increase transparency in an extremely murky area and allow those accused of infringement to identify other similarly situated businesses to enter into joint defense funds and pool valuable legal resources. This would also decrease the tool of intimidation used by PAEs by letting those that receive demand letters know that they are not alone in this process.

Demand letters are a considerable drain on a community bank's finite resources, even though community banks often opt to settle on receipt of a demand letter. Legislation that increases demand letter transparency would go a long way to helping community banks make informed decisions on whether to settle ("feed the troll") or to fight the claim through litigation.

End User Indemnification/Warrantees

Community banks often white-label products that are purchased from vendors to serve their customers. Community banks are "end-users," not creators of these products and services and should not be on the hook for the infringement claims of PAEs. Community banks are especially vulnerable to being sued because they lack the resources and market power to fairly negotiate the protections they need when contracting with large sophisticated vendors. Additionally, the vendors that provide these products and services to community banks often do not stand behind them with regard to patent issues. As a result, when a community bank is accused of infringement, the vendor, often better situated to refute the claim, sits on the sidelines and refuses to defend its customers.

To address this problem, Congress should amend current law to ensure that vendors that sell products or services to community banks provide the appropriate warranties and indemnification to protect the end users from patent infringement claims.

Thank you again for convening this very important hearing. We look forward to working with this committee to curb abusive patent infringement claims that threaten community banks and the customers and communities they serve.

PhRMA
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December 17, 2013

The Honorable Patrick Leahy
Senate Judiciary Committee
United States Senate
Washington, DC 20510

The Honorable Mike Lee
Senate Judiciary Committee
United States Senate
Washington, DC 20510

Dear Chairman Leahy and Senator Lee:

The Pharmaceutical Research and Manufacturers of America (PhRMA) commends you both on the introduction of S. 1720, the Patent Transparency and Improvements Act. We believe your legislation represents a thoughtful approach to the current patent litigation reform debate. As the Senate Judiciary Committee focuses on addressing issues surrounding patent litigation raised by some sectors of the business community, we request that the rights of innovators to protect their Intellectual property not be compromised.

S. 1720 properly focuses on reforms that are targeted at abusive behavior such as the blanket sending of demand letters and patent infringement suits that inappropriately target small retailers and businesses for the use of technology rather than the actual manufacturer or seller of that technology. These reforms should go a long way towards addressing harmful practices that may do harm to the economy. We believe your bill also makes several positive improvements such as requiring the USPTO to use the same patent claim construction rules in the new post-grant and inter-partes review proceedings that are used in the courts; the protection of intellectual property licenses in bankruptcy and provisions clarifying double patenting.

We must be clear, however, that regardless of the positive impact your legislation may have, our ultimate support for patent litigation reform will rest primarily on the manner in which any resulting legislation balances the effort to curb abuses in the system with the legitimate interests of patent owners who seek to enforce their patent rights. We would hope that any additional steps to alter patent litigation procedures be taken with the utmost caution to avoid unintended consequences. For innovators whose patent rights are threatened by infringing activity, the ability to quickly and efficiently enforce their rights in court is paramount.

PhRMA looks forward to continuing to work with you on improvements as the Committee process moves forward, so that the end result will benefit all patent holders across all industries. We thank you for your leadership and diligence in this regard.

Sincerely,

Chester (Chip) Davis, Jr., JD
Executive Vice President
Advocacy and Member Relations

Statement from the Higher Education Community on
S. 1720, the "Patent Transparency and Improvements Act of 2013"

We write to communicate the views of the higher education community on S. 1720, the "Patent Transparency and Improvement Act of 2013." We commend Chairman Leahy and his original co-sponsors Senators Lee, Whitehouse, and Klobuchar for introducing legislation effectively focused on curbing abusive patent litigation practices while preserving the ability of patent holders effectively to enforce their patent rights.

The passage of the America Invents Act (AIA), which our associations strongly supported, strengthened and harmonized U.S. patent law to the benefit of the nation's innovation system. S. 1720 effectively extends the enhancements of the AIA by targeting abusive litigation practices that corrode the capacity of the patent system to exploit the AIA enhancements to innovation and economic competitiveness.

Universities are a key component of the nation's innovation system, conducting the preponderance of the nation's fundamental research – research that expands the frontiers of basic knowledge and understanding and, in so doing, yields discoveries that have extraordinary, far-reaching impact – the laser, MRI, life-saving drugs, defense technologies, food and agriculture, and so much more. The US patent system plays a critical role in the transfer of discoveries resulting from university research into the commercial sector for development into products and processes that benefit society. Because the discoveries arising from university research tend to produce early-stage patents, the university technology-transfer process must preserve a capacity for licensing such high-risk/high-payoff patents for further commercial development. And the innovation process also needs to sustain a climate in which the startup companies that are the frequent licensees of such patents can gain a financial footing and grow.

Two consequences follow from this process of commercialization of the largely publicly funded university research that has produced extraordinary benefits to this nation:

1) the not-for-profit universities and their often undercapitalized startup companies are vulnerable to abusive patent litigation practices, but

2) measures to curb abusive litigation practices must target those practices in ways that do not undermine the ability of universities and their licensees to enforce their patent rights.

The capacity of university patents to encourage investment is dependent on their right to exclude others. Patents are often the most critical assets of startups and small businesses. It is critical that legislation addressing patent litigation balance the value of protection from abusive litigation practices against the need to preserve the strength of patents to foster innovation.

For these reasons, we were very concerned about several provisions in the Innovation Act (H.R. 3309) that recently passed the House. In our judgment, H.R. 3309 failed to meet the balance between reducing abusive

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Association of University Technology Managers • 111 Deer Lake Road, Suite 100, Deerfield, IL 60015 • (847) 480-9282
Council on Governmental Relations • 1200 New York Ave., NW, Suite 750, Washington, DC 20036 • (202) 289-6655

litigation practices and preserving the strength of patents, and we therefore were obliged to oppose the bill despite its worthy goals. We commend Chairman Leahy for omitting in S. 1720 the following provisions which, however well-intentioned, would entail greater cost than benefit by undermining the ability of universities and their licensees to enforce their patent rights:

- Fee shifting and joinder: These proposals as constructed in H.R. 3309 are especially problematic for not-for-profit universities and undercapitalized licensees, due not only to the prospect of the substantial financial burdens that could result from litigation not initiated or controlled by universities, but, perhaps even more problematically, the prospect of such outcomes gravely chilling the ability of universities to transfer their early-stage patents into the commercial sector because of the major new financial confronting potential licensees. The chilling effects range from dampening the willingness of inventors to disclose their inventions and support the transfer of those inventions throughout the commercialization process, to discouraging passive investors from investing their funds in development of new technology dependent on effective patent protection. These problems are caused by the overbroad language of these provisions in H.R. 3309. If fee shifting and joinder provisions are included in S. 1720, we would like to offer language to address these problems. The U.S. Supreme Court, however, is currently reviewing two cases concerning appropriate standards for awarding attorneys' fees under 35 U.S.C. § 285; it would seem prudent to withhold statutory treatment of fee shifting and joinder pending resolution of these cases.

- Expansion of covered business method (CBM) patents: Proposals for expanding this narrow and time-limited AIA transition provision would sweep into the current CBM definition patentable subject matter that was not intended to be covered under the rubric of business method patents. The amplitude of such an expansion would negatively impact patent owners, including universities and their non-profit technology transfer organizations, adding uncertainty to patent holders, reducing the incentive for early challenges to patents, and upsetting the balance between the post-grant and inter partes procedures codified in the AIA.

- Detailed Statutory Instructions to Courts on Pleading and Discovery: The discretion of the courts to continue management of individual cases on their merits should be preserved. Case-specific situations vary widely, so the courts should be able to continue their management of cases, with adjustments as warranted, such as Judge Rader's model discovery rules, court review and correction of perceived abuses.

The Patent Transparency and Improvement Act includes a number of provisions that would curb abusive litigation in ways that sustain ability of patent holders to defend their patents; of particular relevance to universities are the following two:

- Assuring transparency of patent ownership will go a long way to limiting the ability to conduct abusive litigation practices by hiding behind "shell" companies,

- Protecting end-user customers from unwarranted infringement allegations can help innocent retail companies and small businesses far removed from the product manufacturer.

Each of these provisions, however, should be modified to assure that they do not override their abuse-curtailing benefits with unintended consequences due to overly broad and costly requirements for transparency, and opportunities for collusion among entities in the product chain from manufacturers to end-point customers in the customer stay provisions.

USPTO funding: Among the many achievements of the landmark Leahy-Smith America Invents Acts, one of the greatest disappointments was the inability to include reliable full funding of USPTO. As former USPTO Director David Kappos has testified, providing the USPTO with full fee access is essential for the USPTO to fulfill the potential of the AIA to strengthen the U.S. patent system and its capacity to support invention, innovation, and economic development. We strongly encourage the inclusion of such a USPTO funding provision in S. 1720.

We thank the Chairman and his co-sponsors for their effective work in addressing the costly and corrosive problem of abusive patent litigation. We believe that S. 1720 goes a long way toward effectively addressing this problem while preserving the ability of patent owners legitimately to enforce their patent rights. We are committed to working with the Chairman and the Judiciary Committee to achieve the shared goal of building on the substantial achievements of the AIA to further strengthen the U.S. patent system and its capacity to nurture the innovative capacity of the nation and enrich the lives of its citizens.

December 11, 2013

American Institute of CPAs
1455 Pennsylvania Avenue, NW
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WRITTEN TESTIMONY FOR THE RECORD

OF

BARRY MELANCON, PRESIDENT AND CEO

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

HEARING

ON

THE PATENT TRANSPARENCY AND IMPROVEMENTS ACT, S. 1720

DECEMBER 17, 2013

COMMITTEE ON THE JUDICIARY

UNITED STATES SENATE

T: 202.737.6600 | F: 202.638.4512 | aicpa.org

The American Institute of Certified Public Accountants (AICPA) would like to thank Chairman Leahy, Ranking Member Grassley, and members of the Committee on the Judiciary for the opportunity to submit this statement for the record of the hearing on the Patent Transparency and Improvements Act, S. 1720, held on December 17, 2013.

The AICPA is the world's largest member association representing the accounting profession comprised of over 394,000 members in 128 countries and a 125-year heritage of serving the public interest. AICPA members represent many areas of practice, including business and industry, public practice, government, education and consulting. The AICPA sets ethical standards for the profession and U.S. auditing standards for audits of private companies, nonprofit organizations, federal, state and local governments. It develops and grades the Uniform CPA Examination and offers specialty credentials for CPAs who concentrate on personal financial planning; fraud and forensics; business valuation; and information technology.

We applaud the Committee's efforts to address the increasing problem of abusive patent litigation. The AICPA has for many months urged Congress to take swift action on patent reforms as it pertains to frivolous patent litigation initiated by some Patent Holding Companies (PHCs) and Patent Assertion Entities (PAEs), more commonly known as patent trolls.

As you know, PHCs/PAEs are entities which acquire patents with a goal of finding inventors and companies that the PAE claims are infringing one or more of their patents. (It should also be noted that some patent aggregators license their aggregated patents to corporations to defend against patent litigation, not to initiate it). PAEs license patents without actually manufacturing or using the patented service or product. As President Obama has explained, these companies "don't actually produce anything themselves" and instead develop a business model to "essentially leverage and hijack somebody else's idea and see if they can extort some money out of them."

Some PAEs are bringing lawsuits against companies regarding patent infringement for mundane daily uses of technology, including document scanners, podcasts and Wi-Fi networks. Federal Trade Commission Chairwoman Edith Ramirez has noted that patent trolls file half of their lawsuits against non-tech companies that simply have IT software embedded in their products.

In the last two years, the number of lawsuits brought by PAEs has nearly tripled, and account for 62% of all patent lawsuits in America, according to a recent White House study. All told, the victims of PAEs paid $29 billion in 2011, a 400% increase from 2005.

S. 1720 builds on the reforms that were made during the last Congress in the America Invents Act. We commend Chairman Leahy and Senator Lee, the bill's sponsors, for acknowledging that abusive patent litigation is a drag on our economy.

AICPA member firms and state CPA societies are among the many small- and medium-sized businesses that have been targeted by PHCs. Many of our members report that they have received letters from licensing entities of a PHC. The letters indicate that the member has been identified as one that may be using patented technology, and that the purpose of the letter is to begin discussions regarding the need for the purchase of a license to use the patented technology. The alleged patent infringement relates to processes and systems involving using a copier or scanner to scan and email a document to a computer or other location.

The letter also includes information that the PHC has had a positive response from the business community to its licensing program and that most businesses are interested in taking a license promptly. If the member refuses to pay a license fee (some demands are for $1000 per employee) or ignores the letter, the PHC, via its attorney, threatens to bring legal action in federal court to enforce its patent rights, which includes attaching a draft complaint for patent infringement.

Because many smaller businesses do not have the legal resources to contest such challenges, the vast majority of PAE lawsuits are settled out of court.

In response to this growing problem – which some have characterized as litigation extortion – we favor legislative reforms to the patent system that protect off-the-shelf use by consumers and businesses, reduce costs and hurdles to defend against PAEs, increase transparency about PAEs, and shift costs to PAEs for unsuccessful litigation.

Let me discuss each of those guiding principles in greater detail.

<u>Protect "off-the-shelf" use by consumers and business</u>

This principle, in part, aspires to force the dispute to concern the proper parties: patent owner vs. supplier (rather than the user). It would stay judicial proceedings against consumers when a) infringement suit has also been brought against a vendor, retailer, or manufacturer or b) declaratory judgment action has also been brought by a vendor, retailer, or manufacturer. And it may allow alleged infringers to potentially pool resources with others who receive similar letters and determine whether to form a common interest group or collectively leverage a common supplier.

<u>More readily available challenges or defenses for small businesses / individual</u>

This principle involves a proposal for an alternate tribunal for small business or "Main Street" customers that is cheaper and faster. To qualify, an entity would have to satisfy some qualifications of less than a given number of employees and operation of product only in an off-the-shelf use. Quicker adjudication would reduce costs to a challenger. There would be potential cost shifting to the patent owner for successful micro-entity challenge in a IPR or PGR proceeding if a suit has been initiated or a demand letter has been sent. There would be a refund of filing fees and reasonable attorney fees to the micro-entity for a successful challenge.

<u>Greater transparency in the entity asserting the patents</u>

"Real Party in Interest" provisions relating to ownership of patents would be required at the U.S. Patent Office, in court, and in demand letters. It would require disclosure of more than a holding company. This would allow recipients to better identify a patent owner and pool resources if a common real party in interest.

Cost-shifting to patent holding companies (PHC) for unsuccessful litigation.

A PHC that is a losing party would ultimately pay a defendant's costs and fees, under this principle. It would require a fine-tuned definition of "PHC" – no operations, size of company, assets, not original inventor. This would not prevent demand letter campaign activity, but there would some protection for an alleged infringer in the event a suit is filed.

Together, those four principles represent a solid foundation in reforming the patent litigation system, and we are pleased that several of the principles are addressed in S. 1720.

The AICPA appreciates the attention that Chairman Leahy and members of the committee have given this growing problem. Stopping this drain on the American economy will require swift action. Of course, no single piece of legislation will end all abuses of the patent system. But by following the four principles outlined above, we can put a stop to the most egregious actions of PHCs.

We are pleased to support the overall intent of S. 1720, specifically the provisions in the legislation that pertain to the principles as outlined above. We stand ready to continue to work with Congress on this matter that is so crucial to jobs, innovation, and our economy.

Thank you.

THE OVERWHELMING PROOF

Key Patent-System Players
Reveal and Oppose
Fatal Flaws
H.R. 3309 The Innovation Act

The Six Major University Organizations – 2 Dec 2013

The Six Major University Organizations – 8 & 19 Nov 2013

University of California Analysis of Concerns

The American Bar Association – 14 Nov 2013

Committee on Rules of Practice and Procedure of the Judicial Conference of the US – 6 Nov 2013

National Venture Capital Association – 20 Nov13

Law360 Article CAFC Chief Judge Randall Rader comments – 4 Nov 2013

CAFC (retired) Chief Judge Paul Michel speech excerpts

Patent Office Professional Association – 18 Nov 2013

Institute of Electrical and Electronics Engineers ("IEEE") – 19 Nov 2013

American Intellectual Property Law Association ("AIPLA") – 19 Nov 2013

The National Association of Patent Practitioners ("NAPP")

The Coalition for 21st Century Patent Reform – 18 Nov 2013

Intellectual Property Owners Association ("IPO") – 18 Nov 2013

Biotechnology Industry Organizations – 14 Nov 2013

Pharmaceutical Research and Manufacturers of America ("PhRMA")- 13 Nov 2013

Connect - 19 Nov 2013

Eagle Forum – 29 Oct 2013

Louis J. Foreman letter – 19 Nov 2013

International Aspects Committee – 12 Nov 2013

December 2, 2013

Higher Education Community Statement on H.R. 3309, the Innovation Act

As six national higher education associations collectively representing over 2,000 colleges and universities, we write to express our opposition to H.R. 3309, the Innovation Act, in its current form. Although we support the goals of this legislation to reduce abusive patent litigation practices, the cumulative impact of a number of the provisions of this bill would seriously undermine the ability of legitimate patent holders to enforce their patent rights, crippling the capacity of the U.S. patent system to continue to serve as an engine of invention and innovation that has strengthened the nation's economic competitiveness and enriched the lives of its citizens in countless ways.

The impact of H.R. 3309 would run exactly counter to the collaborative efforts of universities, industry, and government to increase the breadth and pace of the commercialization of university research. More than half of U.S. economic growth since World War II is a result of technological innovation, much of which has resulted from federally funded scientific research. The ability of universities to transfer inventions resulting from such research into the commercial sector for development relies heavily on the ability of these institutions and their licensees to defend their patents. But the sweeping provisions of H.R. 3309 would undermine that ability, chilling innovation by discouraging the legitimate enforcement of patent rights.

The most problematic provisions of H.R. 3309 for universities are the extremely broad fee-shifting provisions. Coupled with an uncertain court waiver of fees for nonprevailing parties and joinder provisions that could draw universities into litigation they have not initiated, these provisions present a massive financial risk to universities and their licensees, including the undercapitalized startups that hold the promise of productive new innovations if allowed to develop and flourish. The excessive breadth of additional provisions calling for heightened pleading requirements, increased transparency, limitations on discovery, open-ended customer stays, and the weakening of post-grant review estoppel present additional obstacles to the legitimate defense of patents.

The problem of abusive patent litigation is real, but H.R. 3309 in its current form is so sweeping and poorly targeted in its provisions that it will cause significantly more harm than good to the U.S. patent system so recently reformed by the America Invents Act (AIA). Our associations supported passage of that landmark legislation, but we cannot support H.R. 3309, which we believe will move U.S. patent law in the opposite direction from the AIA. We urge that H.R. 3309 be returned to the Judiciary Committee for further work. If it is brought to the House floor for a vote, we ask you to vote no.

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November 8, 2013

Statement from the Higher Education Community on H.R. 3309, The Innovation Act

We write to communicate the views of the higher education community on H.R. 3309, The Innovation Act. We commend the Chairman for the open, thoughtful process undertaken in the development of H.R. 3309, and we strongly support the goal of H.R. 3309 to reduce abusive patent litigation and the corrosive impact it has on the U.S. patent system and the capacity of that system to foster innovation and economic competitiveness. The bill includes several provisions intended to reduce abusive practices, including fee shifting, heightened pleading standards, increased transparency of patent ownership, and limitations on discovery. Although each of these provisions, if appropriately balanced and circumscribed, could help achieve the goal of reducing abusive litigation practices, their overbroad scope as written raises the specter of unintended problems and thereby raises particular concerns for universities.

- The <u>fee-shifting</u> provisions of amended Sec. 285 are extremely broad, applying to any civil action in which any party asserts a claim for relief arising under any Act of Congress relating to patents. That scope sweeps in over 25 statutes containing patent law clauses, including the Space Act, the Atomic Energy Act, the Non-Nuclear R&D Act as well as all titles of the omnibus bills in which the Bayh-Dole Act and amendments became law. The breadth of the proposed amendment will impair parties' ordinary enforcement procedures and litigation activities outside the scope of abusive patent litigation. Moreover, the burden of proof and substantive standards for the nonprevailing party to avoid fee shifting weight these provisions heavily in favor of fee-shifting as the default outcome. The amplitude of these impacts will interfere with ordinary enforcement of patent exclusive rights and defenses available in patent proceedings, including proceedings wherein the central issue is not patent infringement at all but may entail contract disputes. The chilling effect of the uncertainty about whether such an expense would be due and who ultimately would pay it is disproportionately adverse for parties of limited means such as universities, their nonprofit technology transfer organizations, and their small business licensees. Most of these problems can be averted while targeting patent abusers if the fee shifting is limited to the prevailing defendant in a claim of patent infringement in which the plaintiff is not the named inventor of or an original assignee to an asserted patent and does not make or sell a product related to the subject matter described in the asserted patent.

- The new Sec. 299(d) joinder provisions would mandate that a court under certain circumstances grant a motion by a defendant in an infringement suit to join an interested party of the plaintiff who has no substantial interest in the patent(s) at issue other than asserting the infringement claim in litigation. The definition of "interested party" in Sec. 299(d)(3) is extremely broad. Taken together, the all-encompassing fee-shifting and joinder language would bring higher education institutions and their inventors, non-profit technology transfer organizations associated with those institutions, federal laboratories, and federal agencies within the fee-shifting purview. The combination of fee-shifting provisions and mandatory joinder would likely constitute an unfunded mandate on universities, both public and private. These effects constitute a substantial disincentive for universities and startups to enforce patents on new technologies and innovations, which undermines the goal of the patent system.

- The pleading requirements of new Sec. 281A call for information that may not be known until after discovery (which itself is limited; see below), and it is not clear whether a patentee can amend a complaint to include new patent claims or infringing products based on what is learned in discovery.

- The increased transparency of patent ownership called for in Sec. 4 requires a plaintiff to provide the Court and USPTO the identity of (1) assignee of the patent, (2) entity with right to sublicense or enforce the patent, (3) entity with any financial interest in the patent or in the plaintiff, and (4) ultimate parent entity of assignee. The patentee must keep that information updated for the life of the patent, and must to submit to the USPTO any changes in this information within 90 days. The breadth of the information required may well exceed the capacity of even the best-intentioned plaintiff to acquire and provide.

- The discovery limitations of new Sec. 299A, notwithstanding the discretion to expand the scope of discovery provided in Sec. 299A(b), could make it more difficult to provide information called for in other sections of the bill and could militate against cases where allowing broader discovery would be more efficient. Judges already have discretion to limit discovery, and the federal judicial branch is taking steps to address the issue of unreasonable and abusive discovery demands. It would seem best, therefore, to leave limitations on discovery to the discretion of courts.

In addition to the litigation reform provisions of H.R. 3309, the bill includes a number of provisions in Sec. 9 intended as improvements or technical corrections to the Leahy–Smith America Invents Act (AIA).

- We believe that the expansion in new Sec. 9(e) of the kinds of patents that can be challenged under that AIA's post-grant review procedures for covered business method (CBM) patents is extremely problematic. Changes in the definition or interpretation of the definition of covered business method patents and the authority for the USPTO to waive the $12,000 filing fee for a CBM petition threaten to expand the scope of patents that can be challenged under what was intended as a transitional program that just recently went into effect. Similar to the over-breadth of the fee-shifting and joinder provisions, the increase in the breadth of the definition of business method patent threatens to sweep into the current definition patentable subject matter that was neither intended to be covered under the rubric of business method patent nor is asserted by abusive patent acquisition entities. Again, the amplitude of the expansion will negatively impact patent owners

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including, among others, institutions of higher education and their non-profit technology transfer organizations, which do not engage in abusive patent enforcement behavior.

- The narrowing in Sec. 9(b) of the AIA's new post-grant review's estoppel provision by eliminating "or reasonably could have raised" has been justified procedurally as eliminating an AIA drafting error and justified substantively as assuring the new post-grant procedure functions effectively. But the assertion of a drafting error is very much in dispute, and more fundamentally, as a matter of substantive policy, the elimination of "reasonably could have raised" promises to have an impact precisely opposite to one of the principal goals of the AIA by extending, rather than limiting, patent litigation.

H.R. 3349, the Innovation Protection Act: Among the many achievements of the landmark Leahy-Smith America Invents Acts, one of the greatest disappointments was the inability to include reliable full funding of USPTO. The bipartisan H.R. 3349 accomplishes this critical objective by providing USPTO with autonomy over the fees that it collects. As former USPTO Director David Kappos testified before your committee, providing the USPTO with full fee access is essential for the USPTO to fulfill the potential of the AIA to strengthen the U.S. patent system and its capacity to support invention, innovation, and economic development.

We thank the Chairman for the work of you and your staff to address the costly problem of abusive patent litigation. We believe that H.R. 3309 has the potential, if properly crafted, to address this problem in significant ways, and we look forward to working with you to achieve such an outcome.

AAU Association of American Universities
ACE American Council on Education
AAMC Association of American Medical Colleges
APLU Association of Public and Land-grant Universities
AUTM Association of University Technology Managers
COGR Council on Governmental Relations

November 19, 2013

Statement from the Higher Education Community on
Amendment in the Nature of a Substitute to H.R. 3309

We write to communicate the views of the higher education community on the Amendment in the Nature of a Substitute to H.R. 3309. We commend Chairman Goodlatte for the improvements in this Manager's Amendment in comparison to the previous version of H.R. 3309. Included among those improvements, in our view, are the elimination of the expansion of the kinds of patents that can be reviewed under the AIA's post-grant review procedures for covered business method patents and retaining the transitional nature of those procedures, and the narrowing of the joinder provisions -- although we are concerned about some remaining aspects of these provisions.

Despite these improvements, however, we believe that a number of provisions in the Manager's Amendment are problematic, including the extremely broad scope of civil actions to which fee shifting would apply and the high, indefinite threshold for a court's waiver of that fee shifting, the extent of the heightened pleading requirements, the breadth of the information required in Sec. 4's transparency provisions, and the narrowing of the scope of the estoppel provisions in the AIA's new post-grant review procedure. It continues to be our view that the courts are best suited to manage litigation according to the facts of a case, and a number of the proposals unduly limit that court discretion in meritorious patent infringement cases. We are concerned that these proposals would undercut the value of a patent to encourage investment in new technology, which is why patents exist, and how universities use them.

We strongly encourage the addition of H.R. 3349 to the Manager's Amendment. Providing the USPTO with full access to its fee revenue is the most significant action that can be taken to enhance the quality and effectiveness of the U.S. patent system.

We respectfully request the Judiciary Committee to address these issues of concern as it considers the Manager's Amendment.

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University of California (UC), Preliminary Analysis of Concerns:
Amendment in the Nature of a Substitute to HR 3309, the "Innovation Act"

The University of California leads U.S. universities in the number of patents awarded annually by the U.S. Patent and Trademark Office (U.S. PTO). Having a strong U.S. patent system that supports patent holders whose rights are infringed is crucial to ensuring that early stage innovations created at universities will be taken up by businesses and turned into products that benefit society. If patent protections are weakened, or it becomes more difficult to enforce patent rights, it will impair the commercialization of early stage inventions from universities. Unfortunately, after an initial review of HR 3309, the "Innovation Act," and the Manager's Amendment, UC remains concerned that the legislation, if enacted in its current form, would make it more difficult and costly for good faith patent holders to enforce their patent rights when infringement occurs.

While taking steps to weed out abusive patent litigation practices is an important goal, any efforts to do so should be carefully structured to not weaken patent protections making it more difficult for patent holders to enforce their patent rights. UC is concerned that HR 3309 as drafted, including the Manager's Amendment, would make it especially hard for non-deep-pocketed entities such as universities, start-up companies, non-profits and small businesses to enforce their patent rights when infringement occurs. The University looks forward to working with Congress to address concerns prior to HR 3309 moving forward.

Section 3. Patent Infringement Actions

Pleading Requirements: UC understands the need for cases to be pleaded with particularity to avoid abusive litigation practices. However, it would be better to continue to allow the Judicial Conference to establish uniform Federal court rules and pleading requirements, through the Federal Rules of Civil Procedure (FRCP), than to have separate pleading requirements established just for patent cases under HR 3309. A complaint should be able to continue to satisfy Rule 11 of the FRCP as a standard to bring a case.

UC is concerned that the pleading requirements in HR 3309 are too specific, and could make it more difficult for good faith patent holders to protect their patent rights in the Federal Courts when infringement occurs. The pleading requirements ask for information that may not be known by the patent holder alleging infringement, until after discovery has taken place, which would make it difficult for good faith patent holders to comply with the pleading requirements. The language should specify that a party would only be required to state information that is known at the time of filing a case. The particular pleading requirements do not seem to adequately consider the type of knowledge patent holders may have about the particulars of an infringement at the beginning of a case.

For example, the pleading requirements ask patent holders to plead what the "accused instrumentality" of an infringement may be, the exact theory of infringement, and whether it is direct, or contributory infringement, and, if it is not a direct infringement case. These particular pleading requirements ask for information that may not be known by a patent holder at the time the pleading requirements in HR 3309 would be required to be satisfied, which could make it difficult for patent holders to bring legitimate cases of infringement forward. In addition, a patent holder may not know just from the alleged infringer's products, what it can examine and where the exact infringement may be coming from, prior to additional discovery taking place. The pleading requirements may also require patent holders to attest to information that can't be known by the patent holder to the litigation when initial pleadings are filed. For example, some patent claims may include a method of manufacture, which may be an infringer's trade secret or prior user right.

It is also unclear under HR 3309, whether a patent holder would be able to amend a specific complaint later to include new patent claims or new infringing products in light of what is learned of the infringer in discovery. The new pleading requirements also ask "whether such patent is subject to any licensing term or pricing commitments through any agency or standard setting body," which could be a difficult requirement to meet at the outset of an infringement case, when the extent of the infringing activity may be largely unknown. Another concern with the pleading requirements is that they are specific to what is required to be pleaded by patent holders alleging infringement, and would not apply to defendants.

Attorney's Fees: UC is concerned that HR 3309 would change the standard for awarding attorney's fees in patent related cases, under Section 285, to a standard that requires Federal judges to award attorney's fees to a prevailing party, on a "shall" award attorney's fees and other expenses basis, rather than continuing to allow judges to exercise discretion to determine whether to award fees in a particular case, based on the specific facts of a case. UC is concerned that a shift toward a "loser pays" attorney's fees model will make it substantially more difficult for universities, nonprofit organizations, start-ups, small businesses, inventors, and other non-deep pocketed patent holders, to bring forward cases of patent infringement, because it would become too risky and costly to bring a case forward. A "loser pays" basis for awarding attorney's fees, could result in less protection for patents, and less access to the courts to address infringement, especially for universities and other non-deep pocketed entities, which may not be able to take the risk of bringing an infringement action forward, if the patent holder is concerned that there is any chance that the litigation could result in a negative outcome, resulting in an award of attorney's fees and costs on a "shall" grant basis as would be required under HR 3309.

The changes to Sec. 285 Attorneys Fees and HR 3309 generally, also cause concern because the provisions would apply to any federal court action in which any party alleges a claim under any "Act of Congress related to patents," which captures a number of Federal statutes, aside from just those arising under Title 35 of the U.S. Code. Instead, HR 3309 would apply to over 25 statutes containing patent law clauses, including the Space Act, the Atomic Energy Act, the Non-Nuclear R&D Act as well as all titles of the omnibus bills in which the Bayh-Dole Act and amendments became law. The overly broad scope of HR 3309 would cause unintended consequences and draw in potentially unrelated subjects aside from patent infringement actions. The scope of HR 3309 should be narrowed to apply only to patent infringement actions under Title 35 of the U.S. Code.

It is also unclear what would qualify under the Attorney's Fees language as a special circumstance where a party could be found to be "substantially justified" in bringing a case forward, which would allow a judge to have discretion about whether to award fees. For example, it is not clear from the language that being a nonprofit would qualify as a special circumstance to be considered, which causes concern. The risk for small businesses and universities to bring legitimate patent infringement cases forward would be substantially increased if the fee shifting language in HR 3309 is enacted as written. It would be better to continue to allow judges to exercise their discretion in awarding attorney's fees in patent infringement cases, rather than to impose a new standard. UC is also concerned about any language which would require a bond to be posted to bring a case because this could again disadvantage non-deep pocketed good faith patent holders from being able to bring their cases of infringement forward if they could not afford to post a bond.

In addition, the U.S. Supreme Court has already decided to review the U.S. Court of Appeals for the Federal Circuit's standard for awarding attorney's fees in two different cases, in the current Court term beginning on October 1, 2013, Highmark *v Allcare* and *Octane Fitness v Icon*. Since the U.S. Supreme Court is already acting to address when attorney's fees in patent cases may be awarded under 35 USC 285, this is a further indication that Congress may not need to act in this area.

Joinder of Interested Parties: HR 3309 establishes new rules for the joinder of interested parties in patent infringement cases once Sec. 285 attorney fees are awarded. UC is concerned that the Joinder provisions would require courts to grant a motion by a defendant in a patent infringement suit, on a "shall grant" basis, to join another "interested party," on a very broad basis. UC is also concerned that HR 3309 uses a very broad definition of "interested party," which is written to include "the right to any part of an award of damages or any part of licensing revenue." This definition of "interested party" arguably would include a university's inventors and licensing partners, and any third party a university inventor has designated to receive some or all of his or her inventor share, which all could be joined to a case. Also, the substitution of "subject matter" for "patent" in the Manager's Amendment indefinitely broadens the provision. The broad joinder provisions could make it much riskier for a patent holder, such as a university, to be able to commercialize university based research through licensing activities, and to seek redress for infringement when it occurs. The joinder provisions should be narrowed in scope to prevent the broad ways in which parties could be joined to cases. Judges should also continue to retain flexibility about whether to join parties to a case given a particular case's circumstances.

Discovery in Patent Infringement Action: HR 3309 introduces new limits on discovery in patent infringement cases under 299A which could result in delays and denials of necessary discovery being obtained and increased costs for good faith patent holders alleging infringement. UC is concerned that the discovery limits could make it much more difficult for patent holders to protect their patents when infringement occurs. It would be better to allow the courts to continue to administer discovery needs in patent infringement cases, such as through the Model Discovery Order issued by Chief Judge Randall Rader, of the U.S. Court of Appeals for the Federal Circuit, rather than to impose new limits on discovery through HR 3309. Judges need to have flexibility in determining what makes the most sense for discovery in particular cases, and imposing limits on discovery, or imposing cost shifting for discovery requests, would have a negative impact on the ability of universities, nonprofit organizations, start-ups and other non-deep pocketed organizations to bring legitimate cases of patent infringement forward.

Section 4. Transparency of Patent Ownership

Section 4 establishes new rules for providing transparency regarding the ownership of patents. UC supports requiring patent holders to disclose their ownership interest in patents as a part of patent litigation, but Section 4 as drafted causes concern because it contains an overly broad definition for what must be disclosed to the U.S. PTO, beyond what would be needed to establish the ownership of a patent involved in a lawsuit. In particular, UC is concerned about the requirement that patent holders would have a duty to disclose in an initial infringement complaint and to update the U.S. PTO and court within 90 days of changes for any assignee of the patent or any party with a "financial interest' in the patent in suit. The mandatory requirement to provide information about "any entity...that the plaintiff knows to have a financial interest in...the patent...or...the plaintiff," is very broad as further defined "right to receive proceeds from such action."

UC is concerned that the definition of "financial interest" could include a university's inventors and licensing partners, and any third party a university inventor has designated to receive some or all of his or her inventor share, and it may be difficult to ascertain all of the parties with a "financial interest" that would be triggered under the language in Sec. 4, and plaintiffs would be subject to penalties for noncompliance. The broad definition of "financial interest," coupled with the penalties for "Failure to Comply," could make it much riskier for patent holders such as a university to be able to commercialize university based research through licensing activities, and to seek redress for infringement when it occurs.

Section 5. Customer Suit Exception

Section 5 would allow a manufacturer of an allegedly infringing product to intervene and stay cases against downstream customers and retailers, who are not in the best position to defend an infringement lawsuit. UC is concerned that Section 5 could lead to automatic stays of downstream litigation that may be unrelated to the infringement case the stay is issued for, which could result in weakening patent rights for other patent holders, whose patents could become held up through a stay issued through the customer suit exception language. It is also not clear why a stay to a patent infringement action should be granted if the manufacturer is a party along with its customer, and why a stay could be issued to protect a customer, but not a manufacturer.

Section 6. Procedures and Practices to Implement and Recommendations to the Judicial Conference

Consistent with the comments under Section 3 above, it would be better to allow the courts to continue to administer discovery needs in patent infringement cases, such as through the model discovery order issued by Chief Judge Randall Rader, rather than to have new limits established through legislation. The language under Section 6 also suggests that the Judicial Conference should adopt rules that would include new cost shifting requirements for discovery beyond discovery for "core documentary evidence." Consistent with the comments regarding attorney's fees, non-deep pocketed entities such as universities, non-profits, small businesses, start-ups and others could be disadvantaged by a rule that would shift costs on a more automatic basis for needed discovery to a requesting party. Under such a rule, UC is concerned that it could become too costly for a non-deep pocketed entity, such as a university to obtain necessary discovery, and too risky to bring a patent infringement case forward. It would be better to leave decisions about what discovery rules should be applied with the judges who work on patent cases on a regular basis, and understand the particular discovery issues that may be pertinent in a particular case. Section 6 may have the unintended consequence of freezing in place a statutory structure that may not make sense depending on the circumstances of each case. It would be better to allow the Judicial Conference to continue to determine the rules for discovery in cases.

Section 9. Improvements and Technical Corrections to the Leahy-Smith America Invents Act

Repeal of 35 U.S. Code Section 145: UC is concerned that repealing 35 U.S. Code Section 145 removes an important safeguard to ensure that patent rights are determined correctly, and the University does not recommend that 35 U.S. Code Section 145 be repealed. 35 U.S. Code Section 145 provides an important safeguard to allow parties to appeal erroneous decisions by the U.S. PTO directly to the Federal District Court that should be retained in the law, so that there is effective review and recourse available, especially where a fair hearing includes the chance to present new evidence into the patent application file. The need for new evidence in a patent application file is rare, but can be critical to a patent issuing or to issuance of patent claims of appropriate breath.

Post-Grant Review Estoppel: Section 9 would repeal the "raised or reasonably could have raised" estoppel standard from the Post-Grant Review section of the America Invents Act (AIA), allegedly because of a scrivener's error. As observed by key players in the enactment of the AIA, this was not a scrivener's error. UC supports retaining the current law's strong estoppel standard of "raised or reasonably could have raised" in Post Grant Review procedures, which will help to prevent litigation abuses and to strengthen patent claims that survive PGR. Retaining the strong estoppel standard would be particularly important for start-up companies that are trying to raise money. Having a constant cloud over a patent does not engender confidence in investors.

Covered Business Method Patent Reviews: UC appreciates that the Manager's Amendment to HR 3309 removed much of the language that would have expanded the business method patents language in Section 18 of the AIA.

Grace Period: UC continues to seek clarification of the continuation of the American grace period in a form of appropriate breath to be effective, as opposed to the currently extremely narrow interpretation of the grace period from the AIA that the U.S. PTO imparted, during the U.S. PTO's rule making process to implement the switch to a First Inventor to File system. Correcting the narrow interpretation of the AIA's grace period is a top priority for universities. Without correction, there is a great risk that opportunities for inventions developed at universities to be commercialized will be compromised. The university community has developed grace period language that would correct the grace period problems arising from the AIA.

Defending Liberty
Pursuing Justice

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November 14, 2013

Honorable Robert W. Goodlatte
Chair
Committee on the Judiciary
U.S. House of Representatives
Washington DC, 20515

Honorable John Conyers, Jr.
Ranking Member
Committee on the Judiciary
U.S. House of Representatives
Washington DC, 20515

Re: H.R. 3309, the Innovation Act

Dear Chairman Goodlatte and Ranking Member Conyers:

I am writing to express the views of the American Bar Association on H.R. 3309, the Innovation Act, which we understand will be scheduled for Committee markup in the near future.

H.R. 3309 would amend the Patent Code as codified in title 35, U.S. Code, and other provisions of federal law relating to patents in several respects, with the objective of reducing abusive litigation practices in patent cases. The ABA understands that these proposed changes are designed to address practices by litigants that have come to be identified as "patent assertion entities," so named because they acquire and hold patents not for commercial exploitation, but solely to sue for monetary relief or extortionist settlements. The ABA agrees that changes in court procedures relating to pleadings, disclosure of real parties in interest, joinder of parties, and discovery can improve the administration of justice in our nation's federal courts, including in patent cases. However, the ABA opposes the enactment of H.R. 3309 as introduced, and urges the Committee to continue further development and revision of the bill to achieve its worthy objectives.

Our primary concerns regard provisions of the bill that call for Congress, rather than the courts, to establish certain rules of procedure for the federal courts, thereby circumventing a rulemaking process that has served our justice system well for almost 80 years. In the Rules Enabling Act, Congress recognized that responsibility for establishing rules of procedure to be applied in our federal courts is best reposed in the Article III courts themselves. Provisions of that Act assure that amendment of the Federal Rules occurs only after a comprehensive and open review is undertaken. Before a proposed rule change can become effective, it must be approved by the

Supreme Court and transmitted to Congress, which retains the ultimate power to reject, modify, or defer any rule or amendment before it takes effect.
This circumvention called for in H.R. 3309 takes two forms: direct legislative enactment of rules of procedure and case management, and statutory direction to the Judicial Conference or the Supreme Court to develop particular rules and procedures for patent cases, with the substance of those rules and procedures specified in the bill. Examples of the former include provisions in section 3 of the bill relating to pleading, joinder, and discovery; requirements in section 4 that an initial complaint include detailed disclosure of parties in interest; and requirements in section 5 to stay actions for patent infringement in certain specified circumstances. Examples of the latter include provisions in section 6 directing the Judicial Conference to develop rules and procedures relating to issues of discovery and case management, with the content of those rules prescribed in the bill.

The ABA believes that the more effective approach is to adhere to the time-proven policy of allowing the federal judicial system to prescribe procedural rules, augmented by the local rules of the district courts. However, H.R. 3309's proposed departures from this system present another concern. By mandating particular rules of procedure applicable only to patent cases, the legislation calls for the same issues to be governed by different rules in patent cases than in all other civil cases. This unhealthy precedent could prompt calls to Congress to provide special rules of procedure for still other areas of the law, leading to the balkanization in the administration of justice—precisely the result that the Rules Enabling Act process was designed by Congress to avoid.

H.R. 3309 has the commendable objective of making it more difficult for ill-founded patent suits to succeed, and making it easier to identify and dispose of those suits more promptly and less expensively. By addressing these abusive litigation tactics, the bill ideally will lead both plaintiffs and defendants to realize that extortionist settlements should no longer be expected or feared. These are salutary objectives that the ABA supports. At the same time, however, overly prescriptive congressionally mandated rules of procedure may have the unintended result of creating more delay and expense, not less, and ill-serve the worthy objectives of H.R. 3309.

The ABA urges the Committee to continue reviewing and refining the bill, with a particular emphasis on providing guidance to the Judicial Conference and district courts in their development and improvement of rules of procedure and case management to address the concerns regarding abusive litigation practices that prompted this proposed legislation. Such guidance can and should be provided without abrogating the ability of the judicial branch to carry out its Article III responsibilities by adopting and adapting rules of procedure and case management.

Sincerely,

Thomas M. Susman

Thomas M. Susman

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COMMITTEE ON RULES OF PRACTICE AND PROCEDURE
OF THE
JUDICIAL CONFERENCE OF THE UNITED STATES
WASHINGTON, D.C. 20544

JEFFREY S. SUTTON
CHAIR

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CRIMINAL RULES

SIDNEY A. FITZWATER
EVIDENCE RULES

November 6, 2013

Honorable John Conyers, Jr.
Ranking Member
Committee on the Judiciary
United States House of Representatives
Washington, DC 20515

Dear Representative Conyers:

We write to offer the initial views of the Judicial Conference Rules Committees on one aspect of H.R. 3309, the Innovation Act.

We are the current chairs of the Judicial Conference's Committee on the Rules of Practice and Procedure and the Advisory Committee on the Federal Rules of Civil Procedure. In those capacities, we have reviewed the legislation and have shared it with the chairs of other committees of the Judicial Conference that may have an interest in the legislation. The Judicial Conference may wish to comment on the Innovation Act in the future, and we may have a few additional comments about the draft legislation in the future. For now, however, we wish to offer a comment about Section 6 of H.R. 3309, which it may be useful to hear sooner rather than later.

In its current form, Section 6 requires the Judicial Conference to develop rules to implement the requirements described in the Act that are intended to address asymmetries in discovery burdens and costs in patent litigation. In doing so, Section 6 sets forth the content of the civil rules that the Judicial Conference is expected to develop through the Rules Committees.

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.

By dictating the outcome of the Rules Enabling Act process with respect to potential rules, Section 6 of H.R. 3309 runs counter to that process. We worry that this kind of approach more often will undermine, rather than further, the development of sound rules and practices. Instead of mandating the outcome of the Rules Enabling Act process, Congress may wish to urge the Judicial Conference's Rules Committees to study whether certain rules should be amended to address abusive patent litigation tactics and/or to implement the provisions of the Innovation Act. That approach would allow Congress to express its interest in addressing these problems *and* would respect the long-established virtues of the deliberative processes created by the Rules Enabling Act.

The Rules Committees and the other relevant Judicial Conference committees will continue to study the bill. If additional concerns are identified, they will be communicated to you as soon as possible. For now, however, we want to let you know immediately about our specific concerns with Section 6. The Rules Enabling Act process has worked well for the last 80 years or so, and we hope to see this collaborative partnership continue to work well long into the future. Thank you for considering our concerns. If you or your staff have any questions, please do not hesitate to contact us or Benjamin Robinson, Deputy Rules Officer and Counsel, at 202-502-1820.

Sincerely,

Jeffrey S. Sutton
United States Circuit Judge
Sixth Circuit
Chair, Committee on Rules
of Practice and Procedure

David G. Campbell
United States District Judge
District of Arizona
Chair, Advisory Committee
on Civil Rules

cc: Democratic Members of the House Committee on the Judiciary

Identical letter sent to: Honorable Bob Goodlatte

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NATIONAL
VENTURE CAPITAL
ASSOCIATION
Funding innovation. Empowering entrepreneurs

November 20, 2013

The Honorable Bob Goodlatte
Chairman
Committee on the Judiciary
U.S. House Representatives
Washington, DC 20515

Dear Chairman Goodlatte,

On behalf of the National Venture Capital Association (NVCA), I am writing to express our views on H.R. 3309, the Innovation Act of 2013. As illustrated by a recent study[1] conducted by UC Hastings law professor Robin Feldman with participation from NVCA members and portfolio companies, patent assertion is a growing and costly burden for some participants in the innovation ecosystem. This is especially true for many small venture-backed companies whose efforts to commercialize innovation often threaten to disrupt marketplaces and their entrenched interests. The costs for established companies in challenging or infringing upon the patents of innovative upstarts are relatively low, while the benefits can be high. Conversely, the costs and burdens of defending against infringement or assertions for those small venture-backed companies is often disproportionately high. These dynamics have made assertions and infringements popular strategies, and they must be addressed.

NVCA believes H.R. 3309 includes several helpful provisions to help curb abuses in patent litigation. However, it is critical that Congress balance the need for patent litigation reform with the needs of those start-ups that depend on strong patent protection and that believe the system is working. Congress must also take care to avoid any unintended consequences that could weaken strong patent protection.

Within this context, NVCA believes several changes should be made to H.R. 3309 in order to strike this delicate balance including the following:

<u>Fee Shifting:</u>
Although a prevailing-party approach for attorney fees may be acceptable for litigants that are similarly situated economically, this approach puts an unfair burden on early-stage companies which are typically capital constrained. The proposed legislation potentially also impacts incentives / risks of new-company formation, because of contingent fee liability (285(c)) with respect to proposed joinder (see below). We hope to have specific language to suggest on this issue in the near future.

<u>Joinder:</u>
As proposed, joinder of "a person who has a direct financial interest" may inadvertently include equity investors (e.g., venture capital fund entities). Although the proposed legislation provides an exception for entities whose "sole financial interest in the patent or patents at issue is an

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[1] Feldman, Robin. UC Hastings; "Patent Demands & Startup Companies: The View from the Venture Capital Community."

equity interest in the party alleging infringement", the proposal also provides a carveout to this exception – for entities that also have the "right or ability to influence, direct or control the civil action". This carveout may preclude venture capital funds from relying on the equity-interest exception, since such funds typically have voting agreements that provide for VC-appointed directors. We believe this concern could be addressed simply with a minimal clarification such as:

> Revise Sec. 3(c) of proposed legislation to reflect the following indicated **changes** to proposed Sec. 299(d)(3)(C)(ii):
>
> "(C) has a direct financial interest in the patent or patents at issue, including the right to any part of an award of damages or any part of licensing revenue, except that a person with a direct financial interest does not include—
>
> (i) an attorney or law firm providing legal representation in the civil action described in paragraph (1) if the sole basis for the financial interest of the attorney or law firm in the patent or patents at issue arises from the attorney or law firm's receipt of compensation reasonably related to the provision of the legal representation; or
>
> (ii) a person whose sole financial interest in the patent or patents at issue is ownership of an equity interest in the party alleging infringement, unless such person also has the explicit right or ability to directly and materially influence, direct, or control the civil action."

Estoppel:

During the last round of patent reform legislation and passage of the AIA, NVCA advocated for strong estoppel provisions as the trade-off for supporting a post grant review (PGR) structure. The AIA language provided that invalidity claims that 'reasonably could have been raised' in a PGR cannot subsequently be made in civil action. H.R. 3309 changes the PGR estoppel language so that rather than barring the challenging party from re-asserting invalidity grounds that were "raised or could have been raised" only grounds that were actually raised in a PGR would be barred and therefore small companies would not be able to rely on the validity of their intellectual property to attract capital and build their companies.

Thank you for your leadership. We look forward to working with you and the other members of the Committee on legislation that balances the need to curb patent litigation abuses with the need to maintain strong protection for patent-dependent startups.

Sincerely,

Bobby Franklin

Bobby Franklin
President & CEO

Cc: The Honorable John Conyers, Jr., Ranking Member
Members of the Committee on Judiciary

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Fed. Circ. Chief Calls For Caution On Patent Troll Bills

By **Ryan Davis**

Law360, New York (November 04, 2013, 8:35 PM ET) -- The chief judge of the Federal Circuit on Friday urged Congress to refrain from passing legislation aimed at cracking down specifically on so-called patent trolls, saying district court judges are able to curb abusive patent litigation on their own.

In a speech at the Eastern District of Texas Bench Bar Conference in Plano, Texas, Chief Judge Randall Rader decried "litigation blackmail" where the patent owner tries to extort a settlement from accused infringers that is less than the cost of a defense.

However, he said the solution was not, as some bills introduced in Congress have proposed, to make special rules for patent owners that don't make any products. American law does not make distinctions based on the characteristics of the parties, but on their actions, he said.

"The definition of a 'troll' will always be overinclusive or underinclusive to the detriment of justice," Judge Rader said. "Instead of finger pointing and name calling, the law needs to focus on blameworthy conduct."

Judges already have the authority to reduce abusive litigation tactics and can eliminate the need for new laws passed by Congress if they to make better use of those tools, he said.

"Because I have confidence in the ability of the judiciary to address these issues in a more flexible and thus just manner, I consequently encourage the legislative branch to proceed with great caution in attempting to solve specific and evolving problems with sweeping definitions," he said.

For instance, Judge Rader said that judges should make "liberal use" of their ability to grant summary judgment if a patent plaintiff brings a suit that is not meritorious. Disposing of such cases through summary judgment is "the key to removing the abusers from the system," as it will prevent them from using the cost of protracted litigation to leverage settlements.

"An impotent summary judgment process encourages nuisance settlement strategies because the accused has to assume they will bear the full cost of trial to vindicate their position," he said.

He also said that judges should make more use of the provision of patent law that allows them to order litigants that bring "exceptional" or baseless cases to pay their opponents' litigation costs.

"When a judge perceives that a case exhibits litigation abuse, that case should be 'exceptional' on that basis alone," he said. "The potential of shifting fees helps to balance the playing field so that the wrongly accused at least have hope of recovering their fees if they do not pay a nuisance settlement."

Finally, he praised efforts by judges to reduce the cost of litigation, including recent model orders drafted by the Federal Circuit Bar Association that call for limits on discovery and the number of claims asserted in litigation.

"It only makes sense to actively require the parties to focus their cases so that the true issues can be timely resolved," he said. "Excess claims and excess prior art has clogged the system for too long."

The patent system has long been subject to misguided criticism, including unsubstantiated claims that patent hinder innovation, Judge Rader said. That criticism has been exacerbated by abusive litigation, but judges are capable of solving that problem, he said.

"By addressing litigation abuse, I have full confidence that the judiciary has the tools to restore confidence in the patent system," he said.

--Editing by Elizabeth Bowen.

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Speech Excerpt from CAFC (retired) Chief Judge Paul Michel of the Federal Circuit Court of Appeals described the practical impact of this flawed proposal:

"First, provisions concerning pleadings, fees, discovery and stays all multiply the issues requiring adjudications, adding measurably to the already excessive complexity of such cases and thus increasing still further the harmful delays, costs, disruptions and uncertainties. For example, the stringent pleading requirements of Section 3 for the "initial Complaint" will lead to motions to dismiss, now very rare, in almost every case. The parties must then litigate and the judge must decide if any missing information was "known" to the patent owner or, if not known, was nevertheless "reasonable accessible." And if the Complaint is dismissed, it can be refiled, perhaps with only some of the gaps filled, possibly leading to another round of dismissal litigation.

Complaints typically allege infringement of multiple patents, each with multiple claims, each with many limitations and often against multiple products. Consider a case with 5 patents, each with 5 asserted claims, each with 5 limitations against 5 products. Such numbers are not fanciful. Under the bill, if enacted, the initial Complaint must link every limitation to a feature of every accused product, specifying as well whether infringement is literal or equivalent, whether direct or indirect, and in the latter case, additional details are required. Do the math and you see such a complaint must contain hundreds, likely thousands, of facts in a huge matrix. Seldom will every box in the matrix be filled. Under the proposed bill, any omission will result in dismissal, leading to much wasteful litigation, the very thing the bill seeks to minimize. And what if discovery reveals additional infringing products? Can the complaint not be amended, as at present? "

Patent Office Professional Association
Box 25287, Alexandria, VA 22313

November 18, 2013

Honorable Robert W. Goodlatte
Chairman
Committee on the Judiciary
U.S. House of Representatives
Washington, D.C. 20515

Honorable John Conyers, Jr.
Ranking Member
Committee on the Judiciary
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairman Goodlatte and Ranking Member Conyers,

The Patent Office Professional Association (POPA) represents more than 8,000 patent examiners and other patent professionals at the U.S. Patent and Trademark Office (USPTO). While POPA appreciates the work of the Committee in preparing a Manager's Amendment to the Innovation Act, H.R. 3309, for Committee mark-up, we continue to have concerns regarding this legislation.

First and foremost is the failure of this legislation to address in any way the lack of stable funding for the USPTO and the impacts of sequestration on the Agency's abilities to carry out its mission. The Leahy-Smith America Invents Act of 2011 (AIA) gave the USPTO limited fee-setting authority and the access to all its fee income. No sooner had the first fee-setting rule been implemented, however, than the Agency became subject to a substantial loss of that fee income through sequestration. No attempt has been made in H.R. 3309 to resolve this issue.

Until such time as the USPTO is provided stable and full fee funding, POPA must oppose this legislation.

POPA greatly appreciates the removal of the provisions of H.R. 3309 regarding expansion of the transitional covered business method (CBM) provisions of the AIA. It is noted, however, that the proposed legislation authorizes the Director to waive the payment of fees for a transitional proceeding under the CBM provisions of the AIA. POPA opposes this provision. Permitting the Director to waive this fee would simply act to further incentivize challenges to issued U.S. patents on covered business methods and decrease the certainty of patent owners and investors in the value of the patent. A strong U.S. patent system must provide some certainty to patent owners once their patent has survived legal challenge. Without that certainty, the incentives of the patent system become illusory. Furthermore, with its current unstable funding, it is entirely unclear how the USPTO could afford to waive fees for such a proceeding. The USPTO needs its fees to cover the expense of the work performed for those fees. Indeed, under current fee setting authority, fees are set, on average, to recover costs of the Agency's activities. Waiving a fee for a CBM transitional proceeding would appear ill-advised at best.

Of broader general concern for POPA is that the Innovation Act appears skewed against small inventors. POPA has always supported small inventors, recognizing that it is these very inventors who do the majority of true innovation – whether in their garage, small company or university laboratory. While others are much better able to delve into the specifics of those provisions affecting small inventors, POPA believes that any changes to the U.S. patent system should work to advantage, not disadvantage, small inventors. They represent the very lifeblood of American innovation.

Finally, we are deeply concerned that this legislation is being pushed through the legislative process much too quickly to allow adequate development of the issues and crafting of solid, workable solutions to resolve those issues. POPA hopes that the Committee will continue discussions with stakeholders until the interests of all have been adequately addressed. We look forward to continuing to work with the Committee on crafting patent reforms that will keep America's patent system the strong and vibrant engine of innovation it has been for over two hundred years. We would be happy to discuss with you any questions you may have.

Sincerely,

/Robert D. Budens/

Robert D. Budens, President
Patent Office Professional Association
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IEEE★USA
Building Careers & Shaping Public Policy

IEEE

November 19, 2013

The Honorable Bob Goodlatte
Chairman
Committee on the Judiciary
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Goodlatte,

IEEE-USA supports the stated goals of the *Innovation Act* (H.R. 3309) – to address abusive patent litigation and improve U.S. Patent and Trademark Office ("PTO") examination quality. We appreciate your efforts to improve this bill by offering the Manager's Amendment in the Nature of a Substitute, released yesterday (the "Bill"). This legislation will have significant impact on innovation, a matter central to IEEE-USA's mission.

Our initial review of the Bill indicates that while it contains positive changes from the original bill, newly-introduced problematic provisions and several provisions that remain counterproductive may produce results contrary to the Bill's stated goals. Moreover, the Bill does not help remove significant ambiguities that remain in the America Invents Act ("AIA") with respect to the "grace period." IEEE-USA believes that given the current language of the AIA, no competent patent attorney can advise their client that they have a "grace period" for secret commercialization – a critical period in the formative stages of small businesses and startups.

A positive feature of the Bill is the restoration of the original scope of the transitional review proceedings for Covered Business Method patents ("CBM"). However, the Bill provides an open-ended authority, unrelated to entity size or any other policy principle, under which "subject to available resources, the [PTO] may waive payment of a filing fee for a transitional proceeding." This would provide the PTO plenary authority to arbitrarily pick and choose parties to reward with free proceedings, or to single out certain patent kinds for review free of charge. This provision contradicts § 10(a)(1)(2) of the AIA which provides that "fees may be set or adjusted … *only* to recover the aggregate estimated costs to the Office." Thus, the "available resources" are by definition those paid for by user fees and since all fees are set according to PTO's costs to provide the service, there are no "available resources" for free. Effective January 1, 2014, the PTO's CBM review request and post-institution fees are set based on PTO's estimated costs to more than $30,000 per petition. If such fees are waived for any party, fees for services for other users must be raised to subsidize that party. A single CBM fee waiver would be equivalent to the fee collected from more than 500 micro entity applicants filing a provisional application. IEEE-USA strongly objects to provisions that provide special treatment and a free pass to challengers of issued patents at the expense of patent applicants.

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IEEE-USA could support in principle several provisions, such as heightened pleading standards and enhanced disclosure of real parties in interest, if redrafted in a balanced way and not overly burdensome on litigants. Unfortunately the Bill still misses the mark on these issues. We are concerned that the Bill unfairly shifts procedural burdens, costs and risks to patentees. For example:

- The Bill's patent infringement pleading standards require particularities of asserted claim elements matched to accused infringing product features but have no similar requirements that defendants show with particularity why they do not infringe. Since most patent infringement complaints draw a counter-claim of patent invalidity, any such counter-claim should also be pleaded with comparable particularity (e.g., citing applied prior art references to all claim terms) that would support the invalidity contention.
- The Bill attempts to shift litigation costs and expenses to benefit the prevailing party without adequately defining the term "prevailing party." In as much as litigation often has multiple issues, one party can prevail on one issue and another party can prevail on another issue. The Bill only creates uncertainty on this issue and fails to meet its stated goal.
- Real Party in Interest provisions require that parties asserting patents disclose all entities having a financial interest in the asserted patents. This will deter many investors and those holding security-interests in patents who, for privacy reasons, wish to remain anonymous. In contrast, no disclosure of Real Party in Interest is required for parties challenging patents in declaratory actions or at the PTO in reexamination and in post issuance proceedings.

We believe that other provisions in the Bill are still not sufficiently narrowly crafted to target litigation abuse and therefore would reduce the value and enforceability of patents more broadly. IEEE-USA believes that legislation addressing litigation abuse should be implemented in a manner that is not patent-specific or discriminatory against certain patent owners. For example, we are concerned that the discriminatory enhanced fee-shifting provisions have the potential of creating new unfair risks for particular litigants while rewarding others. While we favor judicial stays against innocent consumers of end products where a stay would promote fair and efficient resolution of a patent suit, we are concerned that the mandatory stay provisions are still overly broad and unduly shift the procedural burdens onto patentees. IEEE-USA objects to provisions that strip away or materially undermine patentees' enforcement rights to exclude the "use" of patented inventions.

IEEE-USA strongly opposes the repeal of Section 145, which unfortunately remains in the Bill. Under this repeal, applicants would be gratuitously denied the fundamental right of de-novo judicial review of adverse patentability determinations by the PTO when it refuses to consider certain evidence. The importance of this 170-year-old protective provision is in its restraining effect on PTO's potential abuse of discretion for all patent applicants – not just for those who would seek judicial review. A repeal of Section 145 would empower administrative decision-making, giving the PTO the final say, displacing the courts and severely eroding U.S. patent rights.

IEEE-USA believes that the "could have raised" estoppel in the current post grant law was a hard-fought compromise in the AIA legislation. The Bill still contains a provision that strikes the phrase "or reasonably could have raised." It would give accused infringers that should have raised all arguments administratively, piecemeal options in court to repeatedly challenge patent validity, unfairly burdening patent holders and increasing the complexity of litigation.

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IEEE-USA notes an important provision that is still missing in the Bill. The presidential sequestration order issued on March 1, 2013 subjects the PTO's fees to sequester even though these fees are not taxpayer funds. This denies the PTO access to all user fees collected and thus, to the resources it needs to tackle the patent backlog. IEEE-USA opposes the sequestration of the PTO's resources.

IEEE-USA is an organizational unit of the Institute of Electrical and Electronics Engineers, Inc. (IEEE), the world's largest organization for technical professionals, and a leading educational and scientific association for the advancement of technology. IEEE-USA fosters technological innovation for the benefit of all, including more than 200,000 U.S. engineers, scientists, and allied professionals who are members of the IEEE.

IEEE-USA's members serve on the "front line" of the US patent system. Our membership includes inventors who create and use cutting-edge technology, who research and publish professional articles and journals, and who develop published standards that form the bases of widely adopted and critical technologies. IEEE-USA members are more than merely scientists and research engineers; they are also entrepreneurs and employees of firms that acquire, license, and market patented technology; proper operation of patent law is a critical interest of IEEE-USA.

We look forward to a continuing dialog with you and other members of the Judiciary Committee to address the concerns we have with the legislation as it develops during this legislative session.

Sincerely,

Marc Apter

Marc T. Apter
IEEE-USA President

cc: The Honorable John Conyers, Jr., Ranking Member
Members of the Committee on the Judiciary

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AIPLA
AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION

November 19, 2013

The Honorable Bob Goodlatte
Chairman
Committee on the Judiciary
United States House of Representatives
2138 Rayburn House Office Building
Washington, DC 20215

RE: Manager's Amendment to H.R. 3309, the Innovation Act

Dear Chairman Goodlatte:

I am writing on behalf of the American Intellectual Property Law Association (AIPLA) to give our perspective on the Manager's Amendment to H.R. 3309, the Innovation Act. AIPLA appreciates the amendments to H.R. 3309 that address some of the concerns voiced about the introduced bill, and we believe the bill is moving in the right direction. We are particularly pleased with the removal of provisions that would have expanded the Transitional Program for Covered Business Method Patents (CBM). However, we continue to have several concerns with H.R. 3309, and cannot support it as currently reflected in the Manager's Amendment.

AIPLA is a national bar association with approximately 15,000 members who are primarily lawyers in private and corporate practice, in government service, and in the academic community. AIPLA represents a wide and diverse spectrum of individuals, companies, and institutions involved directly or indirectly in the practice of patent, trademark, copyright, and unfair competition law, as well as other fields of law affecting intellectual property. Our members represent both owners and users of intellectual property, as well as patent litigation and prosecution attorneys, which gives AIPLA a unique perspective on particular abusive patent litigation practices.

Initially, we would note that many areas addressed by H.R. 3309 are also areas addressed by the recently-enacted provisions of the Leahy-Smith America Invents Act (AIA), whose impact on the system has not been fully realized nor completely understood. We agree with former USPTO Director David Kappos, who testified before your committee recently, that it is preferable that the reforms implemented by the AIA be given adequate time for implementation and evaluation before making further significant changes.

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That said, AIPLA recognizes that certain patent litigation abuses, and more specifically patent assertion abuses, have become a source of serious concern. Although recent independent studies have shown that assertion entities themselves are not actually responsible for recent increases in patent litigation, we understand that certain entities may assert overbroad or invalid patent claims with an intent to simply extract quick settlements. These actions are often directed at multiple potential defendants, some of whom may feel compelled to settle primarily to avoid the cost of litigation. We also understand that the threat of such frivolous litigation could burden the U.S. economy as some of these businesses may feel they need to respond by diverting funding away from other activities.

To the extent that reform is necessary to deal with such concerns, we urge the Committee to take a balanced approach that continues to encourage innovation. We believe that any legislation in this area certainly should reduce incentives for abuse, but it should do so while preserving the traditional rights of patent owners to protect and secure reasonable returns on their innovations, safeguarding the interests of users before the USPTO and the courts, and maintaining judicial discretion to appropriately manage litigation.

Moreover, AIPLA believes that any reforms should approach the process by carefully targeting specific abusive actions rather than a particular category of actors. In addressing this problem, Congress should avoid singling out patent litigation or a particular category of litigant with inflexible statutory changes to the judicial process. Instead, it should encourage courts to more readily exercise their discretion with existing tools for case management, or, where necessary, the courts acting collectively could provide new tools that maintain the discretion and flexibility so important to trial judges.

To be clear, there are some provisions of H.R. 3309 which we currently support, including the following:

- Section 9(c), which aligns the claim construction standard in *inter partes* review and post-grant review (PGR) with the standard used by district courts. As an alternative to costly and often burdensome litigation, these processes should apply the same standards of review as used in the courts, so that consistent claim construction across these post-grant validity challenges will provide greater certainty in final decisions and reduce the need for further litigation.

- Section 9(b), which corrects a so-called "scrivener's error" made during the AIA legislative process by striking "or reasonably could have raised" from the estoppel provisions of 35 U.S.C. §325. In order for the newly implemented PGR proceedings to improve patent quality as intended, especially in the early stages of patent term when reliance, commercialization and related investment are likely at their minimum, parties need to be encouraged to use this new review proceeding to address questionable patents early on. Moreover, the current estoppel provision would require patent challengers to anticipate any and all possible validity arguments at this very early stage; otherwise they would waive their right to raise different validity defenses if they are later sued for infringement. This may substantially deter parties from using the proceeding.

- We support in principle Section 5, which would give courts clearer instruction to stay customer suits in favor of a suit against a manufacturer where the parties consent. This, more than other provisions, would directly ease the burden on potentially innocent end-users. However further clarification of this provision is needed, particularly as to the requirements for a stay and when a court may deny a request for a stay.

However, AIPLA continues to have significant concerns about other provisions of the legislation which would introduce many new requirements into the patent litigation process. We fear that many of these would intrude on the established role of the Judicial Conference and would overly restrict the traditional discretion of district court judges to manage their cases. In this regard, AIPLA is concerned that the bill will mandate inflexible rules, many of which may have unintended consequences including impeding access to the courts, and we further believe that the Judicial Conference in its own discretion is in a better position to work with the district courts to institute appropriate case management rules.

Among our concerns are the following sections:

- Section 3(a), which removes judicial discretion by imposing significantly heightened pleading requirements for patent lawsuits;
- Section 3(b), which removes judicial discretion by mandating a presumption of awarding attorneys' fees in all cases;
- Section 3(c), which singles out patent litigation or a particular category of litigation with amendments to the rules of joinder;
- Section 3(d), which removes judicial discretion with statutory limitations on discovery in all patent litigation;
- Section 4, which imposes on patent owners who enforce their rights through litigation disclosure requirements for the life of the patent; and
- Section 6, which directs the Judicial Conference to adopt rules and procedures detailed by Congress.

We would note that the Judicial Conference Advisory Committee on Civil Rules has begun the process for amending the Federal Rules of Civil Procedure to reduce costs and delays in litigation through active case management and proportionality in discovery. Additionally, the U.S. Supreme Court has granted certiorari in two cases dealing with the standard for fee shifting in patent cases under the current 35 U.S.C. § 285. Given these developments, legislative action in this area may be premature or even unnecessary.

We also have several other additional concerns, including:

- Section 9(i)(6): "Time Limit for Commencing Misconduct Proceedings." This new provision is reportedly being advanced by the USPTO because it believes it is unable to

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complete the review of misconduct allegations against registered attorneys and agents in a timely manner, thus apparently necessitating the filing of potentially unwarranted charges to avoid tolling the statute of limitations. We strongly opposed the original provision in the AIA, and we are equally concerned about this amendment. This provision seeks to extend the threat of discipline against individuals within our membership, with the related potential for increases in malpractice insurance rates against all registered members, for unjustified reasons. Many of the provisions of the AIA, more challenging than this, impose one year deadlines on the USPTO, e.g. PGR and CBM. It remains incumbent upon the USPTO to complete their work in this highly sensitive area in the amount of time both they and the Congress allocated the USPTO in the AIA.

- Section 9(a), which eliminates Section 145. While we understand the concern that these actions may constitute a burden on the resources of the USPTO, even though infrequently used, we believe that this provision maintains an historic alternative means of providing for review of examiner decisions and establishing the rights of inventors, and should be retained.

Finally, and perhaps most importantly, AIPLA strongly believes that the single most important reform for improving the quality of patents is requiring a fully-funded USPTO. Congress understood the importance of giving the USPTO access to all of its user fees at the time of the AIA, but 2 years after its passage USPTO funds are again being made unavailable to the Office due to sequestration. The hoped-for improvements from the AIA were starting to be felt as new examiners were hired to tackle the backlog of pending patent applications, essential new IT systems were being developed, and new administrative procedures and proceedings were put into place. Sequestration has delayed all these efforts and improvements, which undoubtedly risks undercutting major initiatives designed to continue improving the patent system.

Until full funding is restored to the USPTO, AIPLA has reservations about trying to implement further reforms such as those included in the Innovation Act. To that end, AIPLA strongly supports H.R. 3349, the Innovation Protection Act, and suggests it become central to any legislative initiative.

In summary, and for the reasons noted above, AIPLA does not currently support the Manager's Amendment to H.R. 3309. We would welcome the opportunity to continue to work with you and your staff on these issues moving forward. Thank you for considering our views.

Respectfully submitted,

Wayne P. Sobon
President
American Intellectual Property Law Association

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The Honorable Robert Goodlatte
Committee on the Judiciary
2138 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Goodlatte:

The National Association of Patent Practitioners (NAPP) is a nonprofit trade association for patent agents and patent attorneys. NAPP has approximately 400 members in the US and various foreign countries. The practices of the practitioner members are focused primarily on patent prosecution, namely practice before the USPTO. Our practitioner members represent thousands of clients who seek patents, which for the most part are small and mid-sized business and individual inventors, well-understood to be the driving force of the American economy. As part of NAPP's mission, we aim to create a collective nationwide voice to address issues relating to the patent prosecution practice. Additional information about NAPP can be found at www.napp.org.

NAPP understands the motivation of the House Judiciary Committee for considering legislation to curb abusive patent litigation. However, the provisions contained in the recently introduced Innovation Act (H.R.3309) are not narrowly crafted to address abusive practices, but instead broadly undermine the ability of patent owners to enforce their constitutionally protected, government (USPTO) granted patent rights. The only ways to enforce a patent is to approach an infringer (through a demand letter) or to file a patent lawsuit. The patent bill being considered will impose substantial burdens on the ability to enforce patents effectively and efficiently, both "legitimate" patents asserted properly and "illegitimate" patents that the USPTO mistakenly granted. The result will be to hinder the value of patents and lessen incentives for patentable innovation across technology areas. The Committee cannot simply allow a few non-representative concerns about abusive litigation to override the need to strike an appropriate balance with all patent holders and not weaken incentives for U.S. innovation.

The following lists specific concerns NAPP has identified in H.R. 3309, the Innovation Act, as currently drafted:

- Fee shifting provisions of amended Sec 285 are extremely broad, applying to any civil action in which any party asserts a claim for relief under the Patent Act. The presumption is heavily in favor of fee-shifting as a default outcome. The provisions will interfere with ordinary enforcement of exclusive patent rights. The chilling effect of the uncertainty about whether such expense would be due and who ultimately will pay it is disproportionately adverse to parties of limited means such as individual inventors and small-business entrepreneurs.

- Increases pleading requirements in a way that raises questions about the balance between patent infringement plaintiffs and defendants. Plaintiffs are required to have information available at the time of lawsuit, and any invention for which infringement cannot be proven without litigation discovery (e.g., software) could be impossible to enforce. This provision calls into question the commitment to prompt and effective access to the courts by patent owners more broadly (Section 3(a)).

- Imposes restrictions on discovery that could serve to delay ultimate resolution of patent litigation, further clog federal court dockets, and increase costs, by creating satellite motions and fights about whether discovery should be granted (Section 3(d)).

- Raises serious questions regarding balance between those who might seek to enforce a patent and those who might seek to invalidate a patent by mandating requirements for transparency of ownership only to the former (Section 4). In connection with fee-shifting, similarly, patent owners put themselves at risk if they dare to sue, but patent pirates can remain hidden behind corporate shields in denying or infringing patents at will.

- Includes a customer suit exception provision that is not targeted narrowly and could lead to delayed resolution of disputes (Section 5).

- Prescribes activities for the Judicial Conference, or the Supreme Court, that may more appropriately be considered areas for reflection by those bodies (Section 6).

- Eliminates Section 145 proceedings as a procedural option for patent applicants (Section 9(a)), curtailing their right to introduce further evidence of patentability of their inventions.

- Proposes an inappropriate limitation on patent term adjustment by the PTO (Section 9(f)).

NAPP is hopeful this legislation will be amended to address the above concerns.

Sincerely,

Priya Sinha Cloutier
Chair, NAPP Government Affairs Committee

National Association of Patent Practitioners
1629 K Street NW, Suite 300 • Washington D.C., 20006
Phone: 703-634-3423

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THE COALITION FOR 21ST CENTURY PATENT REFORM
Protecting Innovation to Enhance American Competitiveness
www.patentsmatter.com

November 18, 2013

The Honorable Bob Goodlatte
Chairman
Committee on the Judiciary
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Goodlatte:

The Coalition for 21st Century Patent Reform applauds you for continuing to move ahead on the "Innovation Act" (H.R. 3309) with the introduction of your Manager's Amendment, in which there are a number of positive features and improvements.

Specifically, as we indicated in our letter to you upon introduction of H.R. 3309, we are pleased that the bill properly repeals the "or reasonably could have raised" estoppel for civil litigation, which inadvertently appeared in the text of the AIA through a scrivener's error. Likewise, we are pleased that the bill requires the USPTO to construe patent claims involved in the AIA's new post-issuance proceedings in accordance with the ordinary and customary meaning of the claim language, as understood by one of ordinary skill in the art and the prosecution history pertaining to the patent. We also applaud removal of most of the provisions relating to the CBM transitional program (although we remain concerned that CBM proceedings are still expressly exempted from the aforementioned claim construction requirements).

As you know, we have long been a proponent of a relaxation of the "exceptional" case standard to permit fee shifting in more cases to encourage both plaintiffs and defendants to assert only meritorious positions, and support the bill's language that would amend Section 285 to achieve that result. We also believe that the significant improvements have been made in the language of pleading requirements section, although we believe its continued requirement that each Complaint disclose detailed contentions on a product-by-product, claim-by-claim and element-by-element basis is unworkable, and should not be retained in the final bill. We also believe that repeal of Section 145, which has long served as an important procedural protection for innovators, is a bad idea that should be dropped from the bill.

We continue to have a serious concern that the provision related to stays of discovery pending claim construction would prolong all patent litigation by a year or more, substantially increase its cost, and deny parties with meritorious positions of the timely relief they deserve. Unless it is substantially revised, this provision should not remain in the bill.

As the bill continues to move through the legislative process, 21C remains committed to continuing to work with you and the other members of the Committee, and of the House, to achieve measured, targeted legislative reforms designed to curb litigation abuse.

Sincerely,

Carl B. Horton
Coalition for 21st Century Patent Reform

cc: The Honorable John Conyers, Jr., Ranking Member
Members of the Committee on the Judiciary

Intellectual Property Owners Association

11/18/2013

H.R. 3309, Manager's Amendment of 11/18/2013, and IPO Positions

	H.R. 3309 – Goodlatte	H.R. 3309 Manager's Amendment (Unless otherwise noted, provisions listed in H.R. 3309 column are included in the Manager's Amendment in substantially the same form.)	IPO Position
1. Cost Shifting Including Attorney Fees	• Awards to prevailing party unless non-prevailing party position "substantially justified" or exceptional circumstances make unjust. • If losing party unable to pay, court may make recoverable against joined "interested party." •Party asserting claim, who later extends covenant not to sue, is deemed "non-prevailing party."	• Amends exclusion to require the non-prevailing party's position <u>and conduct</u> to be "substantially justified."	• Award to prevailing party unless position and conduct of non-prevailing party were objectively reasonable and substantially justified. • Not required if exceptional circumstances make unjust.
2. Disclosure of Real Party-in-Interest (RPI)	• Disclosure to court, USPTO, and adverse parties in infringement suits except ANDA suits; encumbers patent with ongoing duty of disclosure to USPTO. • Includes assignee, entity with right to sublicense or enforce patent, financial interest in patent or plaintiff, and ultimate parent. • Financial interest defined as ownership/control of > 5% of plaintiff or right to receive proceeds from assertion of patent. • Nondisclosing party may not recover fees/damages related to period of noncompliance, and court may award adverse party costs incurred as result of nondisclosure. • Court may join "interested party" upon showing by defendant that plaintiff interest is primarily asserting the patent in litigation.		• Expand current rules to include ultimate parent of owner. • Oppose multiple mandatory disclosures at prescribed times and potential limitation of damages. • Oppose requiring disclosure of non-ownership interests: direct financial interest, exclusive licensees and others with right to enforce patent.
3. Stays of Litigation Against End Users	• Requires stay as to customer where manufacturer is party to same or other action on same patent. • Parties must consent to stay. • Motion must be filed within 120 days. • Customer must agree to be bound by judgment entered against manufacturer. • May be lifted where manufacturer suit will not resolve major issue in customer suit or unjust to party seeking to lift.	• Motion must be filed within later of 120 days or the date the first scheduling order is entered. • Customer must agree to be bound by any issues <u>finally decided</u> as to the manufacturer. • If manufacturer seeks or consents to entry of a consent judgment or does not appeal a final decision, court may determine that decision is not binding on customer.	Support stay against customer while suit proceeds against manufacturer. Should be carefully tailored to avoid unintended adverse consequences to innovators, manufacturers and customers.
4. Heightened Pleading Standard for Patent Infringement	• Requires pleading each asserted claim, allegedly infringing product or process including names and model numbers if known, and theory of how each accused product or service infringes each asserted claim except in ANDA suits and where information not reasonably accessible. • Requires description of all rights to assert patent. • Requires description of certain licensing commitments, e.g. through standard setting. • Requires explanation of inaccessibility and attempts to access where information not disclosed. • Permits court to allow filing of confidential information under seal. • Eliminates Form 18; Supreme Court may create new form.		Support modifying Form 18 to include identification of at least one claim alleged to infringe, statement explaining such infringement, and statement addressing any indirect infringement alleged.

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Intellectual Property Owners Association

11/18/2013

H.R. 3309, Manager's Amendment of 11/18/2013, and IPO Positions

	H.R. 3309 – Goodlatte	H.R. 3309 Manager's Amendment (Unless otherwise noted, provisions listed in H.R. 3309 column are included in the Manager's Amendment in substantially the same form.)	IPO Position
5. Post Grant Review and Inter Partes Review	• Eliminates provision barring PGR petitioner from later asserting in a civil action that a claim is invalid on any ground that the petitioner "reasonably could have raised" during PGR. • Requires USPTO to change approach to claim construction in PGR and IPR.		• Support eliminating provision barring PGR petitioner from later asserting in civil or ITC action that a claim is invalid on any ground petitioner "reasonably could have raised" during PGR. • Support requiring USPTO to change approach to claim construction in PGR and IPR.
6. Expanding Transitional Program for Covered Business Method Patents	• **Amends scope of prior art.** • **Allows USPTO Director to waive fee.** • Eliminates 8-year sunset. • Limits to pre-AIA patents. • Codifies PTAB panel decision interpreting Section 18 as encompassing patents claiming activities incidental and complementary to financial activity.	• Only includes **bold** provisions.	Oppose provision in H.R. 3309.
7. Identification of Core Discovery and Discovery Fee Shifting	• Limits discovery prior to claim construction ruling to information necessary to construe claims or resolve motions. • Court may expand where resolution within specified period of time affects rights of a party with respect to patent(s). • Instructs Judicial Conference to develop rules: identifying "core documentary evidence" that must be produced by both parties, requiring party seeking additional discovery to bear costs including attorney fees, and allowing court to deny request for additional discovery if excessive, irrelevant, or abusive. •Requires Judicial Conference to study efficacy of rules and procedures for first four years after implementation, authorizes modification following this study.	• Court <u>shall</u> expand discovery limits where resolution within specified period of time affects rights of a party with respect to patent(s). • Permits court to allow additional discovery as necessary to prevent manifest injustice. • Instructs the Judicial Conference to develop the same types of rules, but gives the Judicial Conference more discretion in implementation. • Further authorizes the Judicial Conference to modify rules during the first four years after implementation to prevent a manifest injustice, the imposition of an excessively costly requirement, or an unintended result.	n/a
8. Bankruptcy Protection	Bars bankruptcy trustee from terminating certain licenses.	• Adds trademarks to definition of "intellectual property" in title 11. • With regard to trademarks, holds bankruptcy trustee to any contractual obligation to monitor and control the quality of a licensed product or service.	Support provision in H.R. 3309.
9. Double Patenting	Codifies doctrine of double patenting for first-inventor-to-file patents.		n/a
10. Repeal of 35 U.S.C. §145	Prevents patent applicant rejected by the USPTO from filing suit in district court.		Oppose.

Note: Please send any corrections to sgarner@ipo.org.

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Biotechnology
Industry
Organization

November 14, 2013

The Honorable Robert W. Goodlatte
Chairman, House Committee on the Judiciary
2138 Rayburn House Office Building
United States House of Representatives
Washington, D.C. 2015

Dear Chairman Goodlatte:

On behalf of the Biotechnology Industry Organization (BIO), I am writing to share our views about H.R. 3309: The Innovation Act of 2013 in light of upcoming Judiciary Committee action. H.R. 3309 was introduced with the goal of furthering reform of the patent system, particularly with respect to patent-related litigation. Some of the provisions in the legislation would complement the 2011 patent reforms in beneficial ways, and should be supported. However, other provisions are problematic as currently drafted because, in sum, they would erect unreasonable barriers to access to justice for innovators, especially small start-ups that must be able to defend their businesses against patent infringement in a timely and cost-effective manner, and without needless and numerous procedural hurdles or other obstacles. We also remain cautious as to whether patent-specific litigation reform is the most appropriate way to address some of the Committee's identified concerns. It is our strong desire to see this bill amended and improved based on our concerns, and we welcome the opportunity to work with you and your staff to do so.

BIO supports the provisions that protect IP licenses in bankruptcy proceedings, harmonize the claim interpretation standards in administrative patent litigation with those in district court, and clarify how the doctrine of "double patenting" applies to related patent applications under the new first-inventor-to-file system. BIO also appreciates the bill's recognition of the already existing and specific statutory schemes that apply to certain types of litigation in the biopharmaceutical sector. Unfortunately, other provisions included in the bill are concerning in their current form. This list includes provisions that:

- Routinely defer or suspend discovery and litigation on the merits in patent infringement cases, whether in whole or against certain parties;
- Permit infringers to add additional parties to the litigation under overly broad criteria; and permit parties to seek reimbursement of their litigation costs from other parties under a vaguely-defined and potentially very broad set of patent-related cases;
- Require unreasonable amounts of pleading specificity and disclosure and public recordation of patent ownership, litigation interests, and other business or confidential information;

- Direct courts and judges how to handle patent case management in an overly-prescriptive and one-size-fits-all manner that would unduly interfere with the responsibility of judges and courts to craft case-appropriate management orders that reflect the complexity of the matters at issue and the respective positions of the parties; and
- Single out patents on certain technologies for unfavorable treatment in open-ended administrative litigation, contrary to long-standing U.S. policy and international treaty obligations.

Taken as a whole, the provisions bulleted above create opportunities for systematic delays in patent litigation by inviting piecemeal discovery and adjudication that would push back a determination of patent infringement liability until much later in the case, and by the inclusion of potentially numerous and unnecessary parties – raising the time and expense of patent litigation, contrary to the legislation's purported goals. While many of the provisions are well-intentioned and aimed at addressing legitimate patent litigation concerns, the current language is overly-broad and would result in too many unintended and unknowable consequences for innovators who rely on the patent system to fund and protect their inventions. In short, we are concerned that, in an attempt to target abusive litigation practices by the few, the proposals impose unjustified burdens on too many legitimate patent owners seeking to enforce and defend their inventions in good faith. Accordingly, such proposals are not supportable without significant amendment.

We appreciate your consideration of our comments and hope to have the opportunity to work with you and your staff to make improvements.

Sincerely,

Jim Greenwood

James C. Greenwood
President and CEO
Biotechnology Industry Organization

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PhRMA
RESEARCH · PROGRESS · HOPE
950 F STREET, NW, SUITE 300 · WASHINGTON, DC 20004 · 202-835-3400 · PhRMA.org

November 13, 2013

The Honorable Bob Goodlatte
House Judiciary Committee
United States House of Representatives
Washington, DC 20515

The Honorable John Conyers, Jr.
House Judiciary Committee
United States House of Representatives
Washington, DC 20515

Dear Chairman Goodlatte and Ranking Member Conyers:

The Pharmaceutical Research and Manufacturers of America (PhRMA) commends the House Judiciary Committee for considering legislation to curb abusive patent litigation. We appreciate the opportunity to work with you toward this goal.

However, many of the provisions contained in the recently introduced Innovation Act (H.R. 3309) perhaps unintentionally undermine the ability of patent owners more broadly to enforce their rights by filing a patent suit and litigating it to completion. This may impose substantial burdens on the ability to enforce legitimate patents effectively and efficiently. The unintentional result may actually hinder the value of patents and lessen incentives for patentable innovation across technology areas.

We understand the concerns of the Committee and applaud their efforts regarding abusive litigation, but any attempts to address these issues must strike an appropriate balance with all patent holders and not inadvertently weaken incentives for U.S. innovation.

The following is a list of concerns PhRMA has identified in H.R. 3309, the Innovation Act, as currently drafted:

- Increases pleading requirements in a way that raises questions about the balance between having information available in pleadings and providing for the prompt and effective access to the courts by patent owners more broadly (Section 3(a)).

- Includes a troublesome new paragraph in the fee shifting provisions on "covenants not to sue" (Section 3(b)).

- Imposes restrictions on discovery that could serve to delay ultimate resolution of patent litigation and increase costs (Section 3(d)).

- Raises serious questions regarding balance in requirements for transparency of ownership (Section 4).

- Includes a customer suit exception provision is not targeted narrowly and could lead to delayed resolution of disputes (Section 5).
- Prescribes activities for the Judicial Conference, or the Supreme Court, that may more appropriately be considered areas for reflection by those bodies (Section 6).
- Eliminates Section 145 proceedings as a procedural option for patent applicants (Section 9(a)).
- Modifies elements of the Transitional Covered Business Method Patent Program created by Section 18 of the AIA (Section 9(e)) by expanding it in time and scope.
- Proposes an inappropriate limitation on patent term adjustment by the PTO (Section 9(f)).

PhRMA is committed to working with Congress on targeted reforms that curb abusive patent litigation. However, we are hopeful this legislation will be amended to address the above concerns.

Sincerely,

Chester (Chip) Davis, Jr., JD
Executive Vice President
Advocacy and Member Relations

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CONNECT®

November 19, 2013

The Honorable John Conyers
U.S. Capitol
Washington, D.C. 20515

Dear Ranking Member Conyers,

As a leading voice for tech start-ups and emerging companies, CONNECT enthusiastically endorses your efforts to introduce patent legislation that is critically important to America's innovation ecosystem and the U.S. economy, H.R. 3349 the Innovation Protection Act. As the U.S. House of Representatives again considers patent reform, we encourage the House to tread extremely cautiously with other proposed legislation, while promptly moving forward with H.R. 3349. The Innovation Protection Act represents the only patent reform bill which advances the one issue that unifies intellectual property stakeholders across the innovation spectrum.

CONNECT was birthed out of the University of California—San Diego over twenty-five years ago with the mission to propel creative ideas and emerging technologies to the marketplace by training entrepreneurs and connecting them to the comprehensive resources they need to sustain viability and business vibrancy. Since 1985, CONNECT has assisted in the formation and development of over 3,000 companies and is recognized as one of the world's most successful regional innovation development programs. CONNECT is the recipient of the 2010 "Innovation in Regional Innovation Clusters" award presented by the U.S. Department of Commerce.

With our extensive history helping startups grow and succeed, we understand the importance of robust and strong patents. Because San Diego has a diverse and mature innovation ecosystem, we also recognize that intellectual property serves the innovation ecosystem in multiple ways allowing different sectors, business models, and investors to succeed. Policymakers in Washington should be extremely cautious in advancing patent reform proposals that do not have broad consensus among patent stakeholders or which favors a certain sector of the innovation ecosystem over other sectors. The one proposal the broad IP community agrees with is the idea to fully fund the U.S. Patent and Trademark Office. Not only would full USPTO funding improve patent quality, but it would also give the USPTO the resources it needs to properly implement the recently enacted AIA, which could help solve some of the problems other legislation is trying to address. Since the AIA did not end fee diversion as promised, H.R. 3349 provides a bipartisan opportunity to rectify the problem.

Again, we applaud you and your bipartisan cosponsors for introducing the bill and stand ready to assist you in any way necessary.

Best regards,

Timothy Tardibono

Timothy Tardibono, M.A., J.D.
Vice President of Public Policy

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PHYLLIS SCHLAFLY
PRESIDENT

October 29, 2013

EAGLE FORUM

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The Honorable Robert Goodlatte
Committee on the Judiciary
2138 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Goodlatte:

As an advocate for a strong, self-governing America with liberty, family, virtue, and private enterprise as her pillars, Eagle Forum must express profound concerns about H.R. 3309, the Innovation Act. In short, this legislation would weaken American patents, patent rights, and the ability of innovators — particularly independent inventors — to secure their constitutionally guaranteed private property right in their discoveries.

H.R. 3309 would further diminish our patent system. This and similar proposals are presented as "litigation reform." Taken as a whole, however, the provisions of H.R. 3309, including judicial stays, fee-shifting, disclosures for real parties in interest, and the postgrant review estoppel standard, all make it easier for infringers to game the system and tie up small inventors in multiple patent challenges that effectively devalue their patents. The bill would deprive the backbone of the "promot[ion] of science and useful arts" of their "exclusive right" to their intellectual property. The bill further tilts the playing field in favor of big business and patent infringers against the little guy. It would diminish property rights and access to the courts, and weaken U.S. patents.

H.R. 3309 expands the postgrant review pilot program for covered business method patents. This would merely give patent infringers another venue for forcing patent holders to mount costly defenses of their patents. It would threaten patents on software in the high-tech tools used throughout our economy. This provision carries serious economic consequences. Whereas we suffer from a $39 billion trade deficit, we actually enjoy a trade surplus on licensing and fees.

Eagle Forum sympathizes with small businesses that receive demand letters and is open to addressing this predatory nuisance in a narrow, targeted fashion. However, H.R. 3309 goes far beyond addressing the grievances of such small business end users.

Finally, Eagle Forum is concerned about the bill's dictating specific case-management rules changes to the judiciary. While we certainly oppose judicial activism that amounts to usurpation of legislative powers, we likewise take issue with legislative intrusion into the inner workings of the judicial branch. This abridges the separation of powers.

We urge a deliberative approach be taken on patent issues. Eagle Forum suggests holding more hearings where independent inventors, venture capitalists, R&D shops, small manufacturers, thoughtful judges such as Paul Michel and Kathleen O'Malley, nonpracticing entities that play a vital role in technology transfer such as universities, and victims of foreign IP theft be given a fair and full hearing. Eagle Forum welcomes the opportunity to work with you toward that end. Unfortunately, we must oppose H.R. 3309 in its current form.

Sincerely,

Phyllis Schlafly

Phyllis Schlafly

cc: The Honorable John Conyers, Ranking Member
Members of the Judiciary Committee

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November 19, 2013

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

The Honorable Bob Goodlatte
Chairman, Committee on the Judiciary
U.S. House of Representatives
2138 Rayburn House Office Building
Washington, DC 20515

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

The Honorable John Conyers, Jr.
Ranking Member, Committee on the Judiciary
U.S. House of Representatives
2138 Rayburn House Office Building
Washington, DC 20515

Dear Messrs. Chairmen and Ranking Members:

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 worldwide.

We support many of the laudable goals sought by recent legislative proposals to amend the U.S. patent system, particularly the goal of curbing the mass distribution of bad-faith demand letters. We also believe the passage and implementation of the America Invents Act (AIA) of 2011 has benefitted the U.S. innovation economy, in large part because the concerns of all stakeholders were carefully weighed during a six-year legislative process, and those concerns were properly balanced in the final bill that was signed into law. Along with many other key stakeholders, however, we must note that the process now underway is strikingly different in terms of the unprecedented haste with which it is being pursued and the lack of breadth and depth of key stakeholder feedback to evaluate the scope of the harm that will be caused by some of the proposed legislative provisions.

Notably, the concerns of key inventor stakeholders like us – principally small companies that create the fundamental inventions that drive our innovation economy – have not yet been evaluated in depth. Historically, the vast majority of legitimate patent holders have honorably sought the fruits of their labor through patent rights promoted by the Constitution and secured by Congress, by licensing when possible and litigating when necessary. Our nation and, indeed, our planet have benefitted enormously as a result of the identification and disclosure of these discoveries through the U.S. patent system. Legitimate inventors and patent holders should not be confused with, or punished as a result of, a small minority of bad actors who create shell entities that send mass demand letters for the purpose of seeking money under the threat of unjustifiable litigation.

We have grave concerns about several newly-proposed changes to our patent laws that go far beyond closing loopholes used by shakedown artists whose demand letters and nuisance lawsuits can impose unjustifiable costs on small businesses. In our view, Congressional precision and elegance are needed lest hasty, overbroad legislation cripple the virtuous cycle of invention, disclosure, licensing, and commercialization that has made the U.S. patent system and technology economy the envy of the world.

As we explain in more detail in the attachment to this letter, many features of the proposed legislation would unfairly create new advantages for larger, market-dominant incumbent companies while burdening the new start-ups whose technological creativity is often viewed as a threat to disrupt that dominance. Several provisions in the proposed legislation would take patent rights away from the small U.S. companies that create our Country's new inventions, and these same provisions would make it easier for dominant companies to utilize and exploit those inventions without paying a fair price. The most egregious provisions include:

- Indiscriminate imposition of stays of litigation for an overbroad class of "covered customers";
- mandatory shifting of fees to nonprevailing parties;
- requiring overbroad disclosures when a complaint is filed;
- bypassing the Rules Enabling Act to directly amend federal civil procedure; and
- weakening the balanced post grant review estoppel provision of the AIA.

Importantly, supporting and encouraging the next generation of disruptive technologies is not only a question of fairness, but also of promoting long term economic growth. As the Kauffman Foundation has amply demonstrated, new start-ups are the sole source of net new job creation in the United States. If Congress is to act, it should take the side of the inventors and patentees, not the side of giant incumbent companies that have already captured a dominant place in the market.

If Congress passes legislation that hampers the ability of start-ups and independent inventors to protect their innovations meaningfully, it will become prohibitive for many inventors like us to justify and sustain the tremendous economic and financial risks that inventors and their investors take to create the disruptive new technologies, products, and start-up companies that enable new global markets that will drive tomorrow's U.S. competitiveness and fuel U.S. job growth. We strongly urge you to pause and analyze the damage about to be done, and consider simpler, more effective, and more focused solutions to the problems of mass patent license demand letters and shakedown patent lawsuits.

Please reach out to get feedback from the successful and responsible independent inventors and entrepreneurs who have created the technologies that have proven to be so important for our nation. Strong patent protections are vital to these men and women so that they can raise the capital required to develop and commercialize their inventions.

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Our Constitution grants Congress the power to promote the useful arts by securing for inventors the exclusive right to their discoveries for limited times. As those inventors, we ask that our rights continue to be secured, not de-secured by passing new laws that increase complexity and uncertainty of patent rights. Independent inventors and innovative startups have been underrepresented to date in the current legislative deliberations, and so we also ask that our concerns be heard and weighed alongside those of other stakeholders. We urge Congress to act without haste, and with great care, so that its laudatory efforts to curb the harms done by a handful of abusers will be accomplished surgically, without creating greater harm to the foundations of our innovation economy.

Please see the attached for our recommendations on specific issues.

Sincerely,

Louis J. Foreman
Chief Executive Officer, Enventys
Chief Executive Officer, Edison Nation
Charlotte, NC

Gary K. Michelson. M.D.
Independent Inventor
Founder, Michelson Medical Research Foundation
Founder, 20 Million Minds
Inductee, National Inventors Hall of Fame
Los Angeles, CA

Gregory G. Raleigh, Ph.D.
Chief Executive Officer and Chairman, ItsOn
Member of the Board, Headwater Partners
Redwood Shores, CA

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CONFIDENTIAL DRAFT

<u>VIA E-MAIL</u>

M E M O R A N D U M

To	National Bankruptcy Conference Executive Committee
CC	Sally Schultz Neely Alan N. Resnick
From	International Aspects Committee
Re	Proposed Amendment to Section 1520 Section 6(d) of Innovation Act, H.R. 3309
Date	November 12, 2013

The Innovation Act, which is primarily focused on patent litigation reform, contains an amendment to section 1520 of chapter 15 of the Bankruptcy Code that we believe is inappropriate and that we recommend the Conference strongly oppose in its present form. The proposed amendment appears in **SEC. 6. PROCEDURES AND PRACTICES TO IMPLEMENT AND RECOMMENDATIONS TO THE JUDICIAL CONFERENCE** and provides as follows:

> (d) PROTECTION OF INTELLECTUAL-PROPERTY LICENSES IN BANKRUPTCY.—
> (1) IN GENERAL.—Section 1520(a) of title 11, United States Code, is amended—
> (A) in paragraph (3), by striking ''; and'' and inserting a semicolon;
> (B) in paragraph (4), by striking the period at the end and inserting ''; and''; and
> (C) by inserting at the end the following new paragraph:
> '(5) section 365(n) applies to intellectual property of which the debtor is a licensor or which the debtor has transferred.''.
> (2) EFFECTIVE DATE.—The amendments made by this subsection shall take effect on the date of the enactment of this Act and shall apply to any action for which a complaint is pending on, or filed on or after, such date of enactment.

Chapter 15 of the Bankruptcy Code, included in the 2005 amendments to the Code with large bipartisan majorities, is designed to achieve worldwide cooperation in the liquidation or reorganization of a multinational company in order to preserve value for creditors and other stakeholders, especially employees. Its fundamental structure is "universalist" in that it requires that each country recognize a foreign *main* proceeding in the debtor's home country as the leader in the worldwide effort and that it cooperate with that jurisdiction to achieve the best results for all concerned. Among other advantages, this approach permits the sale of whole divisions with assets and operations in several nations as a single piece, which almost always will yield a higher price. It is also essential to reorganization of a global business.

Chapter 15 incorporated the UNCITRAL Model Law on Cross-Border Insolvency "to encourage cooperation between the United States and foreign countries with respect to transnational insolvency cases."[1] While the Model Law required modifications to fit into the existing judicial and legislative scheme, chapter 15 followed the exhortation of UNCITRAL: "Therefore, in order to achieve a satisfactory degree of harmonization and certainty, it is recommended that States [countries] make as few changes as possible in incorporating the model law into their legal systems."[2] The proposed amendment to section 1520 violates the purpose of chapter 15 to further international cooperation and, to that end, the guidance of UNCITRAL to minimize modifications to the Model Law.

Adding a provision to chapter 15 that deals with a special situation violates the principle of uniformity that makes the Model Law a valuable mechanism for greater legal certainty for

[1] H.R.Rep. No. 109–31, pt. 1, 109th Cong., 1st Sess. 105 (2005) ("House Report" or "H.R. Rep.").

[2] *UNCITRAL Model Law on Cross-Border Insolvency with Guide to Enactment adopted on May 30, 1997 (the "Model Law," the "Guide.").* The Guide repeats this admonition in ¶ 50: "In enacting the Model Law, it is advisable to adhere as much as possible to the uniform text in order to make the national law as transparent as possible for foreign users of the national law (see also paragraphs 11-12 and 21 above)."

trade and investment. This is true even if one believes that, as a matter of public policy, the special situation should always be decided applying U.S. law. By such a unilateral, non-uniform amendment, the United States invites other countries to modify their versions of the Model Law in ways that may be detrimental to United States parties in foreign proceedings. The situation addressed by the proposed amendment is already before the courts and the tools to address the situation are already within chapter 15. The courts can deal with the issue appropriately and predictably without opening the door to other countries to reciprocate with their own deviations from the Model Law.

Section 1520, *Effects of recognition of a foreign main proceeding*, provides automatic relief on recognition of a foreign main proceeding.[3] It implements Article 20 of the Model Law by incorporating sections of the Bankruptcy Code that are consistent with the purpose of Article 20.[4] Both Article 20 and section 1520 operate automatically upon recognition of a foreign main proceeding and impose "effects" that "are necessary to allow steps to be taken to organize an orderly and fair cross-border insolvency proceeding…."[5] The fundamental effects necessary for an orderly and fair cross-border insolvency are (a) a stay of actions against or concerning the debtor or its assets, rights, obligations or liabilities, including a stay of execution against the

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[3] Section 1520 provides, in pertinent part, as follows:

(a)Upon recognition of a foreign proceeding that is a foreign main proceeding—
(1)sections 361 and 362 apply with respect to the debtor and the property of the debtor that is within the territorial jurisdiction of the United States;
(2)sections 363, 549, and 552 apply to a transfer of an interest of the debtor in property that is within the territorial jurisdiction of the United States to the same extent that the sections would apply to property of an estate;
(3)unless the court orders otherwise, the foreign representative may operate the debtor's business and may exercise the rights and powers of a trustee under and to the extent provided by sections 363 and 552; and
(4)section 552 applies to property of the debtor that is within the territorial jurisdiction of the United States.

[4] H.R.Rep. 114-115 (2005).
[5] Guide at ¶ 143. Reference to the Model Law and the Guide for interpretation of chapter 15 are encouraged by section 1508. See, also, H.R. Rep. 109-110.

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debtor's assets and (b) a stay of the debtor's transfer, encumbrance or disposition of assets.[6] Section 1520 imposes the stay by incorporating the automatic stay of section 362 (but limited to the debtor and its assets within the territorial jurisdiction of the United States) and the transfer restrictions of sections 549, 363 and 552.[7]

The Innovation Act would introduce into section 1520 a section of the Bankruptcy Code, section 365(n), that has nothing to do with allowing "steps to be taken to organize an orderly and fair cross-border insolvency proceeding". This would be a blow to the goals of uniformity and harmonization embodied in the Model law and chapter 15. Instead of a provision that affects all parties with an interest in a foreign proceeding, that effectively preserves the status quo and (potentially) going concern value and that does not intrude on the foreign proceeding, section 365(n) is not concerned with preservation of the status quo and affects the rights of a subset of licensees of intellectual property in the event that their license agreement is rejected or otherwise subjected to nonperformance in a foreign main bankruptcy case of a debtor who is their licensor. It effectively imposes U.S. law on the foreign proceeding whether or not U.S. law should apply to a particular license. If the legislation is adopted, it should, at the very least, be limited to licenses that are within the territorial jurisdiction of the United States.[8]

Automatically applying this section upon recognition of a foreign main proceeding would ignore the territorial limits of chapter 15 to property within the

[6] Model Law § 20(1)(a).
[7] H.R. Rep. 114-115.
[8] Section 15102(8) provides that "within the territorial jurisdiction of the United States", when used with reference to property of a debtor, refers to tangible property located within the territory of the United States and intangible property deemed under applicable nonbankruptcy law to be located within that territory, including any property subject to attachment or garnishment that may properly be seized or garnished by an action in a Federal or State court in the United States."

territorial jurisdiction of the United States, since license grants by the foreign debtor may not be governed by U.S. law or may not even involve U.S. intellectual property. There should be a choice of law analysis performed before section 365(n) is applied in a chapter 15 case.[9] Section 365(n) could be applied in an appropriate situation on an appropriate showing under section 1522(a) and (b)).[10] Applying it automatically, without considering whether U.S. law should apply to the license in question and without the safeguards of sections 1521 and 1522 would be detrimental to the goals of the Model Law and chapter 15.[11] Rather than enhancing a cross-border insolvency proceeding, automatic application of section 365(n) would likely deter foreign representatives from seeking recognition to obtain necessary assistance for the foreign proceeding if a condition to recognition were entanglement in the possible briar patch of licensee rights under U.S. bankruptcy law.

The genesis of section 6(d) of the Innovation Act is likely the case of In re Qimonda AG, 462 B.R. 165 (Bankr. E.D. Va. 2011) which considered, on remand, the request of the foreign representative of a German liquidation proceeding, recognized as a foreign main proceeding, to modify a prior order that applied § 365 (and a laundry list of other sections of the Bankruptcy Code) in the chapter 15 case. On the petition of the administrator appointed in Qimonda's

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[9] *In re Maxwell Comm. Corp. plc* 93 F.3d 1036 (2d Cir. 1996) (dealing with choice of law in an avoidance action brought in connection with a proceeding under former section 304, the predecessor to chapter 15).

[10] Section 1522(a) and (b) provide: "(a)The court may grant relief under section 1519 or 1521, or may modify or terminate relief under subsection (c), only if the interests of the creditors and other interested entities, including the debtor, are sufficiently protected. (b)The court may subject relief granted under section 1519 or 1521, or the operation of the debtor's business under section 1520(a)(3), to conditions it considers appropriate, including the giving of security or the filing of a bond."

[11] Relief under § 1521 must be "necessary to effectuate the purpose of this chapter and to protect the assets of the debtor or the interests of the creditors..."

German main proceeding, the bankruptcy court entered an order recognizing the foreign main proceeding and, on the same date, entered a Supplemental Order under section 1521 that applied several sections of the Bankruptcy Code, including section 365 to the chapter 15 case. Upon realizing that section 365(n) interfered with his rights under the German insolvency code to "elect non-performance" of contracts, the administrator sought modification of the Supplemental Order. Licensees of U.S. patents, who would lose the protection of § 365(n) if § 365 no longer applied, objected. The Bankruptcy Court, on remand from the district court, found that there was a fundamental U.S. policy favoring innovation and that eliminating § 365(n) protection would be manifestly contrary to that policy. The court also ruled that the requested relief should be denied on the alternative section 1522 ground that the interests of the licensees would not be "sufficiently protected" if the requested relief were granted. The *Qimonda* decision was certified for direct appeal to the Fourth Circuit.[12] The Fourth Circuit heard argument on September 17, 2013 but has not ruled.[13]

Rather than passing legislation that would pre-empt the ruling of the Fourth Circuit and conflict with the purpose of the Model Law and chapter 15, Congress should reject this amendment. As noted, relief is already available to licensees in appropriate circumstances under section 1522 if a foreign representative seeks to deprive them of their rights under U.S. law. Applying section 365(n) to all foreign main proceedings would implicate licenses that are not within the territorial jurisdiction of the United States and would be

[12] In re Qimonda AG, 470 B.R. 374 (E.D. Vir. 2012).
[13] Case No. 12-1802.

inconsistent with the ancillary nature of a chapter 15 case, to provide assistance to the main case in another country where the debtor has the center of its main interests.

If the debtor's property is sliced into national bits, the cooperative approach of chapter 15 and the Model Law is seriously handicapped. The proposed amendment does just that as to intellectual property. IP is itself subject to a worldwide system of recognition and enforcement, which will be shattered for companies emerging from reorganization, creating a host of difficult questions and serious uncertainty about these crucial property rights. The United States makes a serious error by going it alone and by failing to let the courts develop the key issues under the existing statute. In short, those pushing this amendment might regret getting what they wished for.

INDEPENDENT COMMUNITY BANKERS of AMERICA®

December 17, 2013

Abusive patent infringement claims threaten community banks

On behalf of the Independent Community Bankers of America (ICBA) and the nearly 7,000 community banks we represent, thank you for convening this important hearing entitled "Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse." We appreciate the opportunity to put forth our views on the issue of abusive patent litigation brought by patent assertion entities (PAEs), popularly referred to as "patent trolls," which assert infringement of dubious-quality patents against legitimate businesses, including many community banks.

According to a recent study, direct costs associated with litigation brought by PAEs are substantial, totaling an estimated $29 billion in accrued litigation and non-litigation cost in 2011.[1] Managing these aggressive and frivolous patent lawsuits has become an expensive distraction for an increasing number of community banks that often lack the financial and legal resources to properly dispute these claims and are forced to settle out of court. These claims and settlements sap valuable monetary, management and legal resources from community banks that would otherwise be directed toward serving the financial needs of their customers. What's more, PAEs use settlements to build war chests to target other legitimate small businesses. We need tools to stop this vicious cycle.

ICBA appreciates the efforts of Congress in 2011 to pass the Leahy-Smith America Invents Act, which established a transitional proceeding at the Patent and Trademark Office (PTO), known as a Covered Business Method (CBM) review, to re-examine the validity of dubious business method patents. We are encouraged by the initial efforts of the PTO to "stand-up" the CBM program. If made permanent and more accessible to smaller community banks that may lack financial resources to cover the initial filing fees, the CBM review will mature into a valuable tool to combat these frivolous claims.

However, further steps are needed. Below, we suggest additional measures to protect community banks from the abuses perpetrated by PAEs.

Demand Letters

Community bankers across the country have seen a dramatic increase in the number of demand letters received from law firms representing PAEs. The typical letter states that the community bank is in violation of a patent or a suite of patents held by the PAE. Typically, the PAE is willing to settle or sell a sub-license, often a "limited or one-time offer," to the community bank for using the technology in question. These letters are often accompanied by a list of patent numbers from the PTO but contain no description of what the actual patents are or how the community bank is in violation. The community banker is then forced to choose between costly and time-consuming litigation to challenge the patent or compliance with the letter's demands, regardless of how dubious the infringement claims are. Compliance with the demand letter strengthens the PAE's incentive to target additional community banks to extract exorbitant and fraudulent fees. Furthermore, if a demand letter is ignored, a second more threatening letter is often issued along a dramatic increase in the settlement or sub-licensing fee further illustrating the extortive nature of this act.

[1] The Direct Costs from NPE Disputes by James Bessen and Michael J. Meurer (Boston University School of Law) 6/22/12

1615 L Street NW, Suite 900, Washington, DC 20036 ■ 202-659-8111 ■ Fax 202-659-9216 ■ www.icba.org

To address this issue, ICBA urges Congress to pursue legislation that would strengthen demand letter transparency. Each demand letter send by a PAE should be detailed and personalized to each recipient and not sent "scatter-shot" to dozens of community banks in a given state. Each demand letter should provide a detailed description of the patent, including each claim of each patent that is allegedly infringed, as well as a detailed description of the alleged infringement. The letter should also disclose the actual owner of the patent and all relevant case history involving the patent.

Additionally, a PAE that sends more than 10 demand letters in a calendar year should be required to enter these letters and other detailed information regarding their patents and their assertions of infringement in a Federal database housed at the PTO or the Federal Trade Commission (FTC). This would increase transparency in an extremely murky area and allow those accused of infringement to identify other similarly situated businesses to enter into joint defense funds and pool valuable legal resources. This would also decrease the tool of intimidation used by PAEs by letting those that receive demand letters know that they are not alone in this process.

Demand letters are a considerable drain on a community bank's finite resources, even though community banks often opt to settle on receipt of a demand letter. Legislation that increases demand letter transparency would go a long way to helping community banks make informed decisions on whether to settle ("feed the troll") or to fight the claim through litigation.

End User Indemnification/Warrantees

Community banks often white-label products that are purchased from vendors to serve their customers. Community banks are "end-users," not creators of these products and services and should not be on the hook for the infringement claims of PAEs. Community banks are especially vulnerable to being sued because they lack the resources and market power to fairly negotiate the protections they need when contracting with large sophisticated vendors. Additionally, the vendors that provide these products and services to community banks often do not stand behind them with regard to patent issues. As a result, when a community bank is accused of infringement, the vendor, often better situated to refute the claim, sits on the sidelines and refuses to defend its customers.

To address this problem, Congress should amend current law to ensure that vendors that sell products or services to community banks provide the appropriate warranties and indemnification to protect the end users from patent infringement claims.

Thank you again for convening this very important hearing. We look forward to working with this committee to curb abusive patent infringement claims that threaten community banks and the customers and communities they serve.

National Retail Federation®
The Voice of Retail Worldwide

Statement of the

National Retail Federation

National Council of Chain Restaurants

and

Shop.org

submitted to the

United States Senate
Committee on Judiciary

for its hearing on

"Protecting Small Businesses and Promoting Innovation
by Limiting Patent Troll Abuse"

held on

Tuesday, December 17, 2013

David French
Senior Vice President,
Government Relations

On behalf of:

National Retail Federation
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Chairman Leahy, Ranking Member Grassley and members of the Senate Judiciary Committee, on behalf of the National Retail Federation (NRF) and its divisions the National Council of Chain Restaurants and Shop.org, I appreciate the opportunity to submit this written statement to the Committee in connection with its hearing entitled "Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse" held on December 17, 2013.

NRF is the world's largest retail trade association, representing discount and department stores, home goods and specialty stores, Main Street merchants, grocers, wholesalers, chain restaurants and Internet retailers from the United States and more than 45 countries. Retail is the nation's largest private sector employer, supporting one in four U.S. jobs – 42 million working Americans. Contributing $2.5 trillion to annual GDP, retail is a daily barometer for the nation's economy. Retailers create opportunities for life-long careers, strengthen communities, and play a critical role in driving innovation.

Retailers and Main Street Businesses are Significantly Impacted by Patent Troll Lawsuits

Members of the National Retail Federation appreciate the attention the Committee is paying to the issue of abusive patent litigation and its harmful effect on competitiveness and innovation. Many retailers are using capital resources to settle with or fight patent trolls' infringement claims that they would otherwise use to invest in their businesses, engage in their communities, and create jobs.

Retail, at its core, is a highly competitive industry, and many retailers are using innovative technology creatively to expand and grow their businesses. Patent trolls, who are not investing in technological innovation, providing jobs or giving back to their communities, employ tactics that cut at the heart of this growth and ingenuity.

In recent years, hundreds of retailers have contacted NRF about this issue because they have been, or are currently, the target of patent trolls' abusive litigation practices. The threat typically comes from firms whose business model is buying obscure patents which are about to expire and then either licensing the patents to retailers through the threat of litigation or filing lawsuits in an effort to force a settlement. Often retailers will choose to pay the licensing fee because patent litigation is prohibitively expensive.

Patent trolls sued more non-tech Main Street companies than tech companies in 2012.[1] Patent trolls employ a strategy that focuses on businesses such as retailers and restaurants because the businesses that "use" technology, but don't manufacture it, are more numerous. One manufacturer or vendor may supply a product or service to thousands of retail end-users. Thus, there are many more entities from which to demand a royalty. The end-user retailers are also easy prey because they lack the legal resources and in-house expertise to fight complex patent infringement claims. Compared to high tech companies, retailers typically operate on thin profit margins. Patent trolls, knowing that retailers lack technical expertise, retail stores operate on thin margins, and patent litigation is exorbitantly expensive, will often price a settlement demand

[1] Colleen Chien, "Patent Trolls by the Numbers," Patently-O, March 14, 2013. http://www.patentlyo.com/patent/2013/03/chien-patent-trolls.html

(which may still be in the millions) below the cost of litigating, effectively blackmailing a retailer into settlement. This is an abuse of the system.

Patent trolls assert infringement claims covering the use of technology in all areas of e-commerce and mobile retailing because their claims are based on broad concepts and general business methods (such as operating a retail business "online") rather than specific software innovations. This approach is especially damaging to retailers, who are embracing new technology and groundbreaking innovation to better serve their customers.

For example, MacroSolve Inc. has filed numerous suits related to violating U.S. Patent No. 7,822,816, which is a method patent covering the process that many businesses have used to develop their mobile apps. They have sued technology companies, service providers and end-users, including retailers. Over half of the defendants have settled, and the details have not been released. MacroSolve claims their patent covers thousands of apps as well as those yet to be developed.[2] This is of great concern to retail businesses, which increasingly rely on mobile apps as part of their omnichannel presence in the marketplace.

Trolls' claims not only affect e-commerce applications but also affect the operations of traditional "brick and mortar" retail stores. Some examples of the latter are claims that purport to cover the printing of receipts at cash registers, the sale of gift cards, and the connection of any device (such as a computer or printer) to an Ethernet network.

These cases rarely go to trial because the damages claims are so exorbitant, and the prospect of relief through litigation so time-consuming, that retailers make a business decision to settle, rather than litigate. It has been reported that trolls lose 92 percent of cases that proceed to merits judgments, but, as noted, it is infrequent that a defendant has the fortitude to litigate.[3] Smaller retailers may find themselves particularly ill-equipped legally or financially to defend themselves from abusive claims, and dealing with these claims certainly inhibits their ability to innovate and grow.

The exorbitant costs associated with seeing a court case through to final adjudication are startling for retailers, especially small businesses. We have heard from our members that they spend as much as one million dollars or more annually on patent troll-related expenses and settlement agreements. These expenditures and the employee hours diverted to fighting patent trolls are precious capital resources that retailers would rather reinvest in their businesses.

The recent case of *Soverain v. Newegg* demonstrates the many costly steps involved in litigating a patent case and the enormous economic impact that just one patent troll can wreak on an industry. Beginning in 2004 and continuing up through 2012, Soverain has filed numerous suits against dozens of retailers alleging that the basic check-out technology used by nearly all

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[2] Robert Evatt, "MacroSolve adds Wal-mart to list of patent lawsuits," Tulsa World, February 8, 2012. http://www.tulsaworld.com/site/printerfriendlystory.aspx?articleid=20120208_52_E1_Jsasat255194&PrintComments=1

[3] John R. Allison, Mark A. Lemley, and Joshua Walker, *Patent Quality and Settlement Among Repeat Patent Litigants*, 99 GEO. L.J. 677, 694 (2011).

websites infringe its patents[4]. One large retailer is reported to have settled the first suit for $40 million because of the fear of jury verdicts in that era in the Eastern District of Texas. Numerous other settlement amounts are unreported, but in a subsequent suit, an Eastern District of Texas jury awarded damages of almost $18 million against two other national brands.

In 2007 Soverain sued Newegg, which decided to fight back. The case went to trial three years later in April of 2010 and resulted in a judgment of $2.5 million against Newegg. But Newegg decided to appeal to the Federal Circuit, and on January 14, 2013, more than five years after the suit against it was first instituted, it obtained a judgment in its favor, reversing the lower court judgment and declaring the patents invalid due to obviousness. Although Newegg has won, it took more than five years and millions of dollars in attorneys' fees.

The Newegg case is just one example of the broad infringement claims trolls are asserting against retailers. There are over one million software patents in the United States. Many software patents contain broad concepts dealing with Internet functionality and have extraordinarily vague claims.

Troll cases in federal district court have resulted in the waste of extensive judicial and party resources. NRF is concerned that, fueled by the *eBay* decision and certain portions of the America Invents Act (AIA) of 2011, these abuses will simply be replicated in short order at the ITC.[5] Accordingly, NRF believes that preventative steps should be taken so that this does not occur.

NRF Support for Patent Legislation

NRF is engaged in discussions with Members of the Committee and Congress to address the abusive litigation practices patent trolls utilize. Retailers support the Patent Abuse Reduction Act, Patent Quality Improvement Act and Patent Litigation Integrity Act. These bills would help deter frivolous litigation.

The AIA, which the President signed into law in September 2011, established a Patent and Trademark Reserve Fund. The United States Patent and Trademark Office (USPTO) is required to deposit all patent and trademark fees collected in excess of the annual appropriation amount into the fund. The provision also provides for authorization to spend all fees deposited in this fund in the USPTO's annual appropriations. The AIA also establishes a provision requiring patent fees to be used only for patent operations, including a share of administrative expenses.[6]

Despite these significant changes to the funding structure of USPTO to alleviate the backlog it faced, we feel USPTO needs more funding so they are able to review patents more

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[4] Joe Mullin, "How Newegg Crushed the "Shopping Cart" Patent Troll and Saved Online Retail" ArtsTechnica.com, January 27, 2013.
http://arstechnica.com/tech-policy/2013/01/how-newegg-crushed-the-shopping-cart-patent-and-saved-online-retail/

[5] *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006).
[6] USPTO.gov

thoroughly and expeditiously. Providing the USPTO more resources will reduce the backlog of examinations, produce better quality patents, and help retailers, technology firms and other defendants fight back against patent trolls' broad and baseless claims.

While the proposals are laudable, the top priorities for retailers in patent litigation reform are demand letter transparency and customer stay provisions. We appreciate the interest in addressing demand letter transparency and are encouraged to see a provision focused on bringing greater disclosure in demand letters included in S. 1720. We do, however, have serious reservations about the effect of the language in the customer stay provision included in S. 1720.

The Necessity of Customer Stays in Patent Troll Litigation

An important goal of patent litigation reform is to protect Main Street businesses who are customers of products, systems and business methods from the abusive litigation practices of patent trolls. When Main Street businesses do muster resources to fight back against frivolous patent troll lawsuits that threaten their operations, trolls should not be permitted to extend their customer cases out longer than necessary while a separate case is brought by the manufacturer to contest the troll's baseless allegations. For these reasons, obtaining an effective customer stay provision in patent reform legislation has been among the retail industry's highest priorities.

The granting of a stay in patent litigation, under common law, evolved from courts' recognition that the manufacturer had superior access to the evidence and witnesses needed to litigate the disputed claims, and that the customer had virtually no access to that evidence. Because the company with the best information and ability to litigate a patent suit is the manufacturer, the common law stay permits the cases against the customer to be put on hold while manufacturers litigate the key issues in a case about one of their products, processes, or systems. The common law stay does not later disadvantage the customers if they do eventually have to continue litigation with the troll at the conclusion of the manufacturer suit.

While many Federal district courts have granted common law stays to customers in the circumstances where a manufacturer brings a separate lawsuit against a patent troll, the courts are inconsistent in their application of the law. In particular, some Federal districts rarely grant stays of customer suits, even where the manufacturer is in litigation with the patent troll over the validity or non-infringement of the very same patent or patents on which the troll is basing its claims against customers of the manufacturer for using the allegedly infringing technology. This is the case with many patent troll suits directed at retail customers, who have been denied motions to stay patent trolls' cases pending the outcome of the separate suits between the manufacturers and the patent trolls. Denying stays for customers in these cases only benefits the troll, and in many cases, forces the customer to settle given the prospect and cost of lengthy patent litigation. Those customer settlements, in turn, provide the patent troll with the financial resources to continue to harass and sue other unsuspecting customers.

On these grounds alone, we believe the Committee is justified in crafting patent litigation reform legislation that brings consistent application of stays in cases where they are needed the most – when the manufacturer has already filed their own lawsuit against the patent troll and is in the best position to defend against the allegations of validity or infringement over their technology that the customer is using. While the *stated* beneficial purpose of the customer stay provision in S. 1720 is to restore balance to the patent system by providing stays of patent troll suits against customers in these cases, the bill's customer stay language falls short of this goal unfortunately; and the provision, *as drafted*, will actually make it harder for retailers and other Main Street businesses to defend themselves from abusive patent troll litigation.

Specific Concerns with Customer Stay Provision in Section 4 of S. 1720

Our members have advised us that they will likely never seek a stay under the language of the customer stay provision in Section 4 of S. 1720, as drafted, because it introduces new and incalculable risks into patent litigation for Main Street businesses in exchange for the *opportunity* to obtain a stay under this provision. A provision that intends to bind a manufacturer's customers to any decisions in the manufacturer's separate lawsuit against the troll (in which the customer had no opportunity to protect its own interests) is completely contrary to the large body of current law known as the doctrine of collateral estoppel (CE).

The application of nonmutual CE after the entering of a stay in a customer suit already balances the interests of all parties today, as it permits the plaintiff to preclude issues from relitigation in the customer suit so long as the plaintiff satisfies the elements of nonmutual CE. Section 4 of S. 1720, however, would provide an automatic stay of customer suits when a manufacturer has a separate suit with the patent troll on the same patent, provided certain requirements for its use are met that are not requirements under common law stays. Furthermore, under Section 4, a plaintiff would not have to satisfy all of the elements of nonmutual CE in order to bind the customer to certain decisions in the manufacturer suit. In essence, section 4 would create a prospective, offensive pseudo-CE "effect" against the customer who seeks the stay, as indicated in staff's section-by-section analysis which was released when S. 1720 was introduced.

While Section 4 of S. 1720 may be based on *some* "principles" of CE, it is not the *complete* doctrine of CE itself, and thereby creates a lower hurdle in the statute than exists in common law today for patent trolls to affect the desired offensive pseudo-CE "effect" of binding the customers in their cases. The troll would be encouraged to use this section 4 requirement as an "offensive" weapon to bind the customer to any issue determination in the case between a troll and the manufacturer, without ever having to meet the balanced, common law test for nonmutual CE.

Furthermore, one of the proposed requirements to obtain a stay under Section 4 is for the manufacturer and the customer to consent in writing to the stay before it could be granted. This is not required in common law stays that customers seek after the manufacturer has filed a separate suit against the troll. In common law stays, the manufacturer first determines whether to bring an action against a troll. S. 1720's stay provision would not alter this situation for the manufacturer, as the customer could not force the manufacturer under this provision to bring an action against the troll. It is therefore not necessary for the protection of the manufacturer to require that the manufacturer and customer consent in writing to a stay. Rather, that language benefits the patent troll by providing it with a legal argument that the customer is "in privity" with the manufacturer in the manufacturer's suit, which would bolster the troll's claim that the customer should be bound in customer suits to the same extent as the manufacturer would be on issues it litigates with the manufacturer.

It is clear to patent attorneys in the retail industry that the proposed construction of the customer stay provision in Section 4 of S. 1720 is intended to be understood as a legal requirement that is <u>not CE</u>, but something different and that provides less rights for customers than they have under the doctrine of CE today. The existing, unaltered doctrine of CE, however, is the most appropriate mechanism to govern which issues the customer is barred from relitigating, and it already operates to protect a patent holder against duplicative litigation where all of the elements of nonmutual CE are met.

As Section 4 is currently drafted, the requirements of paragraphs (1) and (3) of proposed §299A(b) together pose a substantial risk to customers that trolls will reach settlements/licenses with manufacturers that do not protect the customer, while arming the troll with an automatic and undefined "binding" effect of decisions made in the manufacturer case. Trolls routinely claim that settlement/license agreements with manufacturers do not exhaust their claims, leaving customers on the hook to continue to defend these claims. With the requirements of §299A(b) in place, trolls would be incentivized to enter into low-cost settlements with manufacturers that do not protect customers because the trolls can continue to assert claims of infringement against the customers after the stay is lifted with greater leverage than they would have under existing law to preclude issues from being contested by the customer.

Our frustration with the customer stay provision in S. 1720 is that the stated purpose of the provision – to give retailers and other Main Street businesses relief from patent trolls by automatically staying the trolls' suits against them – is undermined by the additional language of the provision explicitly intended to bind retailers to decisions made in the manufacturers' cases. This language is not necessary to the automatic stay language and would weaken a retailer's position against a troll rather than strengthen it. Despite the stated purpose of helping customers, the language intentionally couples the sought-for automatic stay provision with a severe penalty for customers availing themselves of it.

Additionally, for customers who seek stays of patent troll suits outside of the Section 4 provision of S. 1720 (if it were to be enacted in the form as introduced), courts may interpret the new statutory language as Congressional intent to influence the common law doctrine of CE itself, as applied to patent cases, permitting its offensive use against customers by trolls who would otherwise not meet all of the requirements necessary to apply nonmutual CE. This would create more patent troll litigation against customers, who could be rendered defenseless following a manufacturer's case from protecting their interests in their own case. The amalgamation of contradictory estoppel language included in S. 1720 would likely also generate years of satellite disputes in the courts as to its interpretation and application.

Conclusion

By papering Main Street businesses, including retailers, with broad and vague demand letters and filing an endless series of lawsuits against retail end-users alleging the same patent infringement claims alleged against manufacturers and service providers of a particular device or technology, patent trolls are able to cast a very wide net that hauls in a lucrative catch. They have proven that many of the companies they target will settle given the extraordinarily high demands they make and the costs those companies know it will take to fight even the most frivolous of alleged claims. For those Main Street businesses that do fight back, Congress should not make it harder for them to do so with a customer stay provision that tilts the scales in favor of the patent trolls. Rather, it should ensure that any customer stay provision included in patent reform legislation achieves its intended effect of providing retailers, restaurants and other merchants the relief they seek in the wake of increasing patent troll litigation targeting these and other Main Street businesses.

Addressing this abusive and growing patent litigation problem with common sense reform will help release retailers from the controlling grip on their industry that patent trolls currently enjoy. Because the retail industry contributes $2.5 trillion to our nation's annual GDP, removing or even loosening this grip on retailers will allow innovation and growth to flourish, and undoubtedly benefit the overall U.S. economy.

NRF thanks the Committee for their extensive examination of the impact of abusive patent litigation and is happy to work with Members of the Committee to find effective solutions to curb abusive patent litigation.

Statement for the Record

On Behalf of the

AMERICAN **BANKERS** ASSOCIATION

For the Hearing

"Protecting Small Businesses and Promoting Innovation by
Limiting Patent Troll Abuse"

Before the

Senate Committee on the Judiciary

December 17, 2013

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

On behalf of the members of the American Bankers Association (ABA) we appreciate the opportunity to submit this written statement for the above-entitled hearing. The American Bankers Association represents banks of all sizes and charters and is the voice for the nation's $14 trillion banking industry and its two million employees. ABA's extensive resources enhance the success of the nation's banks and strengthen America's economy and communities. ABA members are often end users of technology and the recipients of abusive and deceptive demand letters.

Abusive patent litigation has been a serious concern for banks and financial institutions of all sizes across the country for many years. That is why we supported the reforms Congress put in place in 2011 through enactment of the America Invents Act (AIA), in particular the process for review of overly broad business methods patents by the Patent and Trademark Office (PTO) put in place by Section 18 of the Act.

Unfortunately, the abuses continue and have in fact increased despite those reforms. Banks continue to be barraged by patent assertion entities (PAEs) who use overly broad patents, threats of litigation, and licensing fee demands in an effort to extort payments from banks across the country. As a result, resources and capital that could go toward lending or otherwise serving bank customers, small businesses, and communities have necessarily been re-allocated to defend against abusive patent claims from PAEs.

Faced with threats of expensive patent litigation, many banks, and especially smaller banks, find that their only option is to settle rather than face paying millions to defend against extortive claims of patent infringement. Well-funded and sophisticated PAEs take advantage of community banks with limited resources and little patent experience, and have amassed significant "licensing" fees from banks literally for the cost of mailing a threatening letter.

A recent example of this involves a PAE known as Automated Transactions, LLC (ATL), which targeted banks throughout New England, New York, New Jersey, Georgia, Virginia, Pennsylvania, in addition to an ever-growing number of states. ATL claims that transactions facilitated by the use of the banks' ATMs infringe one or more of its patents. What ATL failed to mention, however, is that several of ATL's claims have been invalidated by courts. In particular, the Supreme Court denied certiorari on ATL's appeal of an April 23, 2012, decision by the Federal Circuit to affirm a ruling by the Board of Patent Appeals and Interferences invalidating several of ATL's patent claims.[1] Despite this, the company continues to assert those patents and sue banks across the country, including banks that do not even have ATMs.[2] While ATL is only one of many different

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[1] *See*, *In re Transaction Holdings, Ltd., LLC*, 484 Fed. Appx. 469 (Fed. Cir. Apr. 23, 2012)(Not selected for publication in the Federal Reporter, NO. 2011-1361, 2011-1492), *reh'g and reh'g en banc denied* (July 2, 2012), *cert. denied Transaction Holdings, Ltd. V. Kappos*, 133 S.Ct. 955 (Jan. 14, 2013).

[2] *See, generally Automated Transactions, LLC v. 7-Eleven and Cardtronics USA, Inc.*, No. 1:13-md-02429-SLR (D.DE) (2013); *see also Automated Transactions, LLC v. Mascoma Savings Bank*, No. 1:13-cv-00503-SLR (D.DE) (2013)(banks located in NH and VT); *Automated Transactions, LLC v. Northfield Savings Bank*, No. 1:13-cv-00504-SLR (D.DE.) (2013) (bank located in VT); *Automated Transactions, LLC v. New England Fed. Credit Union*, No. 1:13-cv-00505-SLR (D.DE.) (2013) (credit union located in VT); Automated Transactions, LLC v. Heritage Family Credit Union, No. 1:13-cv-00506-SLR (D.DE) (2013) (credit union

entities that operate as PAEs filing frivolous patent infringement cases against all industries, ATL's tactics and efforts are a prime example of the problem banks and other companies face, primarily with regard to vague and threatening demand letters. An example of ATL's demand letter is attached to this testimony in redacted form.

We are pleased that members in both the House and Senate—including a number of members of this Committee[3]—have sponsored legislation intended to alleviate some of the incentives that drive abusive litigation by patent PAEs and we strongly support legislation to correct these abuses. In particular, S. 1720, introduced by Chairman Leahy and Senator Lee, includes several provisions that could potentially deter patent trolls from sending abusive demand letters, but we hope that these can be strengthened as the process moves forward in the Judiciary Committee and the Senate, in particular by requiring them to be more "transparent" by providing greater details about the alleged patent infringement.

In addition, a demand letter registry available to the public should be created at either the PTO or the Federal Trade Commission. Any entity that sends more than 10 demand letters in a single year should be required to enter them into the registry. This would provide the FTC and other agencies with the information needed to identify and take action against PAE's that are sending abusive demand letters. It would also allow those targeted in the letters to more effectively form joint defense groups by pooling their knowledge about certain trolls, identifying counsel familiar with those trolls and potentially reduce defense costs. It is vitally important that strong language dealing with abusive demand letters is included in final legislation enacted into law.

Legislation seeking to remedy abusive activities by patent trolls must also deal effectively with a pervasive dilemma facing "end users." End users are purchasers of products from vendors that actually use the final product. This includes embedded technology such as software that accompanies a product. Financial institutions, such as banks, are, in almost all circumstances, end users of technology and should not be threatened with infringement simply for buying something in good faith from a vendor. Simply purchasing a product and using it in the way that was intended by the manufacturer, distributor, or producer should not warrant a lawsuit by a third party claiming a patent violation. This theory turns jurisprudence on its head and is a direct threat to businesses across all sectors of the U.S. economy.

There must be meaningful reforms to provide a solution to the problem faced by end users. Specifically, there should be mandatory joinder or at least a "right of contribution" added to patent law to help put in place a more equitable distribution of liability between end users and suppliers.

There are several other provisions that should be included in patent troll legislation. In particular, we share the views of others in the financial services industry that section 18 should be made a permanent rather than a transitional program and it could be improved further by granting the PTO

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located in VT); Automated *Transactions, LLC, v. Automated Transactions, LLC, v. New York Community Bank*, No. 1:13-cv-00591-SLR (D.DE) (2013) (bank located in New York).

[3] *See* The Patent Quality Improvement Act of 2013, S.866, 113th Cong. (2013) (introduced by Senator Schumer); The Patent Abuse Reduction Act of 2013, S.1013, 113th Cong. (2013) (introduced by Senator Cornyn); and The Patent Litigation Integrity Act of 2013, S.1612, 113th Cong. (introduced by Senator Hatch).

discretionary authority to waive the filing fee for these proceedings to encourage its use by smaller institutions. To discourage vaguely worded demand letters, it is also important for the Committee to clarify the intent of Congress in enacting Section 18 as part of the AIA that a demand letter or other pre-litigation communication suggesting that infringement has occurred constitutes an accusation of infringement giving rise to a real and substantial controversy for purposes of a Section 18 review.

To further discourage abusive litigation, S. 1720 should also include provisions to allow the courts the discretion to shift the costs of litigation to the prevailing party and to require bonding to assure that parties are able to meet this obligation. We are concerned that the bill as introduced requires PTO to conduct claims construction proceedings in a manner similar to the federal courts because this shift away from the current "broadest reasonable interpretation" could weaken PTO's ability to invalidate or narrow-low quality patents. We look forward to working with the Committee on these and other issues as legislation is developed.

Abusive patent litigation is a serious problem for the U.S. economy, businesses, and banking institutions of all sizes. We strongly support your efforts to end abusive patent litigation and look forward to working with members of the Committee to address these matters.

STATEMENT
OF
STARWOOD HOTELS & RESORTS WORLDWIDE

SUBMITTED FOR THE RECORD

COMMITTEE ON THE JUDICIARY
UNITED STATES SENATE

HEARING ON

PROTECTING SMALL BUSINESS AND PROMOTING INNOVATION
BY LIMITING PATENT TROLL ABUSE

DECEMBER 23, 2013

I. Introduction

Starwood Hotels & Resorts Worldwide ("Starwood") is grateful to the Committee on the Judiciary for the opportunity to submit this statement for the record for the hearing on protecting small business and promoting innovation by limiting patent troll abuse.

Starwood commends Chairman Leahy and the Members of the Committee for their work on patent troll abuse legislation and for holding this timely hearing. As we discuss below, patent troll abuse has had a negative impact on Starwood specifically and on the travel and hospitality industry, among others, in general.

Starwood is eager to work with the Committee and other industry groups to advance reform legislation in the Senate in order for effective reform measures to promptly become law. We offer the following analysis and recommendation with the hope that they will make a constructive contribution to the enactment of legislation.

II. The Impact of Abusive Patent Troll Lawsuits on Starwood

Starwood, one of the leading hotel and leisure companies in the world, is an owner, operator and franchisor of more than 1169 hotels, resorts, vacation ownership properties and residences in over 100 countries with the following brands: St. Regis®, The Luxury Collection®, W®, Westin®, Le Méridien®, Sheraton®, Four Points® by Sheraton, Aloft®, and Element®. As an industry leader that prides itself on innovation, and a patent holder in its own right, Starwood understands and appreciates the role that patents and legitimate technological advances play in improving the travel and hospitality industry. However, the dramatic rise in opportunistic and abusive patent troll litigation is a significant problem for Starwood and, we submit, for the broader travel and hospitality industry as well as the entire US economy. To be clear, Starwood is not taking issue with the rights of legitimate inventors with valid patents to access the courts to enforce their rights. However, that scenario has not been the problem for Starwood. Rather, it is the fairly recent creation of a type of patent marketplace where individuals and enterprises, without a direct connection to the actual inventors, are buying and asserting patents and using the threat of costly patent litigation to monetize their investments. Starwood believes additional patent reform is most urgently needed to address this type of patent trolling behavior.

The impact of abusive patent troll litigation on Starwood has been significant. Since 2011, Starwood has been sued for patent infringement in nineteen (19) separate cases (before 2011 Starwood had only been sued for patent infringement a total of four (4) times). In all but very few of these cases, those asserting the patents against Starwood are patent monetization enterprises that use the threat of litigation to try to extract settlements. In most cases, Starwood is only one of dozens, or even scores, of companies across various industries targeted by patent trolling entities.

One reason that the targeted companies in these cases are so diverse is that the patent trolls are asserting broad patents that they claim apply to common technology rarely unique to any one company or industry. In the cases against Starwood, the patent trolls have targeted e-commerce, website functionality, mobile applications, and wireless internet, among others:

systems used to benefit consumers. Typically, the technology at issue is not developed by Starwood (or the other defendants), but is purchased or licensed from a software developer or hardware manufacturer. As a result, those with the detailed knowledge of how the accused systems work are usually the third-party suppliers who often are not defendants in the litigation.

Why are patent trolls not suing the suppliers along with the end users? In Starwood's experience, there are at least three reasons. First, patent trolls recognize that end users of technology are at a disadvantage when it comes to analyzing the accused products for non-infringement and identifying prior art that might invalidate the patent in a field where the end users, like Starwood, are not well versed. Second, the patent trolls also recognize that the suppliers of technology are highly motivated to defend their products, which are often central to the suppliers' business. The suppliers' motivation brings resources and resolve that can thwart the patent trolls' plan to obtain settlements from multiple end users. Third, as a function of patent damages law, if a supplier does not prevail and either takes a license or pays a judgment, the ability of the patent troll to obtain additional remedies from the end users of technology can be exhausted. Therefore, patent trolls prefer to target end users like Starwood because resolution or settlement of a claim against the end user typically does not impact the troll's ability to target other end users or eventually the supplier.

All of these issues and obstacles for defendants create an opportunity for patent trolls to take advantage of the significant costs of litigation by targeting end user companies with patents of dubious validity within a judicial system that provides little chance of resolution before trial. This means that patent litigation can be extremely expensive both in terms of legal fees and costs associated with the defense, but also in terms of the companies' internal resources that must be directed toward assisting with the defense. Instead of spending their time growing Starwood's business and improving the customer experience, internal Starwood IT, marketing, and finance professionals are spending countless hours assisting counsel with discovery and other litigation tasks related to defending meritless patent lawsuits. Under the current system where costs are typically borne by the party incurring them, companies like Starwood are often forced to make strategic decisions based not on the merits of the patent claim but rather on the costs associated with defending those dubious claims. Starwood believes that additional patent reform is urgently needed to help put the focus on the merits of the claims and to address the most egregious abuses of the current system by these trolls.

III. Proposed Reforms

Starwood generally supports the reforms identified in the House bill and those identified during the recent Senate hearings. However, there are several proposals that Starwood believes are most urgently needed and would have the most positive impact on the abusive patent trolling behavior Starwood is facing.

- Fee Shifting/Bonding

As noted above, the high cost of defending against patent claims leads to much of the opportunistic patent troll behavior. The current proposal to award prevailing parties their legal fees in patent troll cases strikes an appropriate balance. The fee shifting provision would, in effect, use the cost of patent litigation to curb abuses, rather than foster them. If faced with a scenario where the patent troll will be forced to pay for the defense if it loses, we are confident that patent trolls will not assert as many dubious patents. Moreover, if Starwood will be entitled to its fees should it prevail, we will be even more motivated to test the merits of the patent claims when we believe they lack merit. However, Starwood also is concerned that because the patent trolls are usually a complex web of shell companies who lack any assets beyond the patent itself, some type of bonding is required to make sure the patent troll will be able to pay if the defendant prevails. Starwood strongly supports the adoption of fee shifting and bonding to help address the significant problems caused by the cost of defending against abusive patent claims. At a minimum, the fee shifting and bonding provisions should apply in the egregious cases such as when patent trolls target end user customers.

- End User Customer Stays

The proposals under consideration providing for stays of cases against end user customers in favor of cases against suppliers provide a common sense approach to address a significant problem facing Starwood and others similarly situated. The patent troll tactic of asserting patents against end users is a transparent and abusive attempt to take advantage of the current system. Instead of permitting multiple cases against numerous end users of a particular technology in multiple venues, those end user cases should be stayed while claims against the suppliers are resolved. This will alleviate burdens on the judiciary and will provide those with the most direct knowledge of the relevant technology an opportunity to defend that technology in a single forum. Starwood strongly supports the adoption of legislation that would stay patent cases against end user customers in favor of cases against suppliers.

- Staged Discovery and Cost Shifting

Starwood also strongly supports the proposals under consideration to (1) stage discovery to first focus on *Markman* proceedings and, (2) to apply cost shifting for discovery in excess of core documents. Starwood believes that both of these proposals will have a direct impact on curbing the abusive use of discovery to encourage settlement. Instead, and consistent with the other proposals Starwood strongly supports, staged discovery and discovery cost shifting will help focus these cases on the merits. And, knowing the focus will be on the merits early in the case, Starwood is optimistic that patent troll plaintiffs will choose not to assert a good number of the meritless and harassing lawsuits Starwood has been forced to defend.

IV. Conclusion

We urge the Committee to act quickly and decisively to address the economic damage caused by patent trolls' abusive tactics and hope that this statement will contribute to your understanding of the harm that they cause to our industry and how best to stop them.

Connecticut Bankers Association

MAINE BANKERS Association

MBA Massachusetts Bankers Association

BANKERS New Hampshire ASSOCIATION

RHODE ISLAND BANKERS ASSOCIATION

VBA Vermont Bankers Association

July 25, 2013

RECEIVED JUL 25 2013

The Honorable Patrick J. Leahy
Chairman, United States Senate Committee on the Judiciary
224 Dirksen Senate Office Building
Washington, DC 20510
Via Facsimile: (202) 224-9516

Dear Chairman Leahy:

As state banking trade associations representing more than 350 state and federal savings, commercial, and cooperative banks and savings & loan associations throughout New England, we would urge your support of new legislation to address abusive patent litigation. Such litigation has resulted in the practice of extortive licensing fee demands against innocent business end-users, including banks.

In general, non-practicing entities (NPEs) or "patent trolls," are passive entities that claim ownership to a particular process and threaten lawsuits against third parties claiming infringement of a particular patent. Generally, the targets of these trolls are firms that are end-users of a product using technologies or processes licensed by others, i.e. ATM vendors: not competitors of the NPE nor developers of comparably patentable materials. To avoid litigation the NPE "generously" offers a licensing agreement to the targeted firm for continued use of the alleged patented product/service.

While patent trolls have been around for a while (often funded by various hedge funds), in the last few years community banks have become a particular target. Here in New England, we have witnessed this phenomenon first-hand.

Beginning in 2011 and reaching a crescendo in Q4 2012, more than 150 banks in New England and the Northeast received a claim letter from Automated Transactions LLC (ATL). ATL asserted violations of several patents which connected ATM machines to the Internet to provide retail transactions. The irony is that banks are being asked to pay ATL for rights they assumed had already been paid to their core processors and ATM vendors. Since individual banks cannot risk a protracted legal fight that could cost from $2 – 6 million, most of our affected members agreed to settle with ATL and pay a licensing fee. Collectively we would estimate that this settlement including legal fees may have cost more than $2 million: funds which could have been much better used for small business lending and consumer products and services.

While several of their patents have been invalidated, ATL continues to issue demand letters and sue banks across the country. Other patent trolls have followed ATL's seemingly successful strategy. While not as pervasive in New England, Wolf Run Hollow, Sonic Industry LLC and Gamsta LLC have recently contacted member banks about similar patent violations. These claims respectively deal with alleged violations related to methods/systems for transmitting secure messages across insecure networks, remotely setting withdrawal limits for ATMs, and using scanning equipment to transmit files via the Internet.

In conclusion we would urge you to support legislation to protect end-users of technology products/services from unfounded patent litigation and demand letter campaigns. Without such legislation, a cloud of legal uncertainty will allow banks and other businesses to be held hostage by patent trolls and divert resources to expensive litigation and settlements. We would be pleased to provide additional information and look forward to working with you to mitigate these abusive practices.

Sincerely,

Lindsey R. Pinkham
President
Connecticut Bankers Association

Christopher W. Pinkham
President
Maine Bankers Association

Daniel J. Forte
President
Massachusetts Bankers Association

Christiana L. Thornton
President
New Hampshire Bankers Association

William A. Farrell, Esq.
Administrator & Legal Counsel
Rhode Island Bankers Association

Christopher D'Elia
President
Vermont Bankers Association

The Brattleboro Savings & Loan Association

Springfield Savings & Loan
A division of the Brattleboro Savings & Loan Association

July 29, 2013

The Honorable Patrick J. Leahy
United States Senate
Russell Senate Office Building
Room 437
Washington, DC 20510

Dear Chairman Leahy:

The issue of patent trolls is a serious and growing issue for banks of all sizes in Vermont and across the country. Legislation is needed to curtail the risk of abusive patent litigation and the disingenuous license fee demands by non-practicing entities (NPEs), also referred to as "patent trolls". Your role as Chairman of the Judiciary Committee is a critical one, and we hope that you will agree that this issue is a serious one that needs to be addressed by the Committee and Congress as a whole.

Despite much-needed reforms put in place by the America Invents Act, NPEs continue to manipulate the patent law, threatening litigation accompanied by licensing fee demands designed to extract a "tax" on the very innovation created to support and benefit consumers and the economy. Increasingly consumers use technology to complete daily tasks, and needless to say technology is becoming increasingly important to banks as well.

Since banks of all sizes license innovation and technology to support consumer use and remain competitive in the marketplace, they are frequent NPE targets. In fact, banks are now one of the top ten industries targeted by NPEs and like many industries, when faced with threats of expensive patent litigation (estimated to cost between $500K and $3.5M) many banks—especially smaller institutions—find that their only option is to settle rather than face paying even higher litigation costs to defend themselves against frivolous claims of patent infringement. Repeated NPE attacks could result in not only limiting innovation, but also reduced competition in the marketplace.

Well-funded and sophisticated patent trolls are taking advantage of community banks like mine with limited resources and little patent experience, and they have collected significant "licensing" fees literally for the cost of a stamp to mail a demand or threatening letter. Although the problem has grown for community banks in recent years, mid-size and larger banks have faced this problem since 2004 and have had to devote significant resources that could have been better used to support customers, including small businesses, rather than fight overly broad NPE claims of patent infringement.

One example of the scope of the problem involves a company that has targeted more than 150 community banks along the East Coast and in a couple of Southern states in recent months. It claimed that certain automated teller machine (ATM) transactions infringed on one or more of its patents and continued to make these claims knowing that the U.S. Patent and Trademark Office and the courts had invalidated several of its asserted patents and claims. To this day, the company continues to assert patents and sue community banks, including ones that do not even have ATMs. The patent system was never intended to be used as a hidden time bomb against innovation and businesses that have a hand in building the economy.

With respect to our bank's experience here in Vermont, in June, 2012, we received a letter from a New York law firm "offering" to grant us a sub-license to continue using our ATMs for a fee, and hoping we would "agree" so as to avoid litigation, which they were prepared to initiate within two weeks from the date of their letter if we did not agree. While all of the information I was able to obtain suggested that we should prevail in litigating the matter, the potential cost of doing so far exceeded the probable cost of this shakedown and so, with the help of counsel, we joined a group of community banks in negotiating a settlement.

While the terms of the settlement are confidential, suffice it to say that I must be very careful in decisions I make about the expansion of our ATM network in the future, lest the cost be more than it should be. In this particular matter, for any bank, let alone our little community bank, to have to pay what is in my opinion extortion to expand our ATM network is an egregious affront to how we should be conducting business in this country.

These examples illustrate how critical it is that legislation be enacted to protect end-users in Vermont that purchase or license products or services in good faith from reputable vendors and technology companies to support their business and customers. Legislation must also make it harder and more costly for trolls to launch unfounded demand letter campaigns.

There are also several bills pending in the Senate that could help; in particular, S. 1013 by Senator John Cornyn (R-TX) and S. 866 by Senator Charles Schumer (D-NY). Mr. Chairman, I understand that you are also drafting a bill on this issue and your support for moving forward with legislation to deal with patent trolls is critical. Please let me know if I can do anything to help you and your colleagues in the Senate pass legislation that will end abusive litigation by patent trolls and have it enacted into law as soon as possible.

Sincerely,

Daniel C. Yates
President & CEO