

April 16, 2015

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

The Honorable John Conyers, Jr.
Ranking Member
Committee on the Judiciary
United States House of Representatives
2142 Rayburn House Office Building
Washington, DC 20515

Re: AIPLA's Views on H.R. 9, the Innovation Act of 2015

Dear Chairman Goodlatte and Ranking Member Conyers:

I am writing on behalf of the American Intellectual Property Law Association (AIPLA) to present our views on H.R. 9, the Innovation Act of 2015, which aims to deter certain abusive practices through reforms to the patent litigation system and proceedings before the U.S. Patent and Trademark Office (USPTO).

Founded in 1897, AIPLA is a national bar association with approximately 15,000 members who are primarily lawyers in both private and corporate practice and in government service, judges, patent and trademark office professionals and academicians. AIPLA's members represent a wide and diverse spectrum of individuals, companies, and institutions, and are involved directly or indirectly in the practice of patent, trademark, copyright, and unfair competition law. Our members represent owners and users of intellectual property, as well as those who represent patent owners and accused infringers in the courts, who prosecute patent applications and litigate before patent and trademark offices, and who are involved in licensing and other technology-related transactions. This scope of activity gives AIPLA a unique and varied perspective on patent procurement, licensing and litigation.

AIPLA recognizes the concerns that certain patent holders have been taking advantage of the current litigation system by sending abusive or bad faith demand letters to businesses. These letters ask for nuisance value settlements for alleged infringements or seek licensing fees for technologies allegedly being used by businesses where no infringement arguably exists. Many of the targeted businesses are small enterprises having little or no experience with the complexities of patent litigation. As such, they feel compelled to pay a settlement, regardless of the merits of the allegations, in order to avoid the costs of patent litigation. Such abusive and bad faith behavior hurts innovators and the patent system as a whole, and AIPLA appreciates this Committee's ongoing attention to this matter.

With that in mind, it is equally important to recognize that not every patent owner seeking to enforce his rights is a bad actor, and not every demand letter or infringement suit is improper or abusive. The ultimate goal of any patent reform should be a strong and well-balanced intellectual property system that benefits both owners of patented technology and the public. Such a balanced system would, in turn, benefit the U.S. economy. AIPLA is committed to ensuring that any proposed changes to the patent system are balanced and do not overburden patent owners or unintentionally harm innovation. While analyzing the proposals for reform over the past several years, AIPLA has identified the following guiding principles for achieving such a balance:

- 1) Preserve the traditional rights of patent owners to protect and secure reasonable returns on their innovations;
- 2) Carefully target specific abusive actions rather than a particular category of actors;
- 3) Safeguard the interests of users before the USPTO and the courts;
- 4) Maintain judicial discretion to appropriately manage litigation; and
- 5) Avoid singling out patent litigation or a particular category of litigant with inflexible statutory changes to the judicial process.¹

AIPLA stands by these principles as we analyze proposals for reform through legislation, administrative rulemakings by the USPTO, amendments to the Federal Rules of Civil Procedure by the Judicial Conference, and case law developments in the courts.

AIPLA currently supports, in whole or in concept, several provisions of H.R. 9, including:

- Section 5, which aims to give courts clearer instruction to stay customer suits in favor of a suit against a manufacturer where the parties consent. While some clarification of the language may be needed, AIPLA believes this provision, if properly drafted, would help ease the burden on unsuspecting end-users.
- Section 4, which would require disclosure of ownership information in patent litigation. AIPLA agrees that the disclosure of this information will allow accused infringers to have more complete information while they evaluate whether to settle or defend a patent infringement action. Certain adjustments can be made to the language of the provisions to ensure that compliance is not unduly burdensome on patent owners.
- Section 9(a), which strikes “or reasonably could have raised” from the estoppel provisions of 35 U.S.C. §325, and Section 9(b), which aligns the claim construction standard in inter partes review and post-grant review with the standard used by district courts. These adjustments will ensure that the post grant proceedings enacted by Congress in the Leahy-Smith America Invents Act (AIA) are being used as an effective, lower-cost alternative to challenging the validity of a patent in litigation.

¹ See *Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse*, hearing before the S. Comm. on the Judiciary, 113th Cong. (2013)(Statement of Q. Todd Dickinson, Executive Director, AIPLA).

AIPLA at this time does not support other provisions of H.R. 9 as currently drafted. We urge the Committee to give further consideration to those provisions to ensure that they do not unintentionally impair the ability of patent owners to enforce their rights in good faith, or that they do not otherwise discourage innovators who rely on the patent system for protection of their efforts. The provisions AIPLA is concerned about include:

- Section 3(b), Fees and other expenses. AIPLA opposes mandating the presumption of the imposition of attorneys' fees in all cases. AIPLA supports encouraging greater case management by the courts while maintaining the courts' discretion and encouraging courts to assess attorneys' fees in appropriate cases. This presumptive fee shifting provision, which moves away from the traditional American Rule, may have the unintended consequence of limiting access to the courts for small business owners or independent inventors. In addition, requiring courts to make an attorneys' fees award determination in every case could unnecessarily prolong litigation and increase costs. Such a requirement could also invade the attorney-client privilege and disincentivize patent procurement and innovation. AIPLA could conditionally support the provision if the language used was permissive (may) rather than compulsory (shall), if reimbursement was limited to award of reasonable attorneys' fees, and if the burden of proof was placed on the prevailing party to establish that the non-prevailing party's position was not substantially justified.
- Section 3(a), Pleading requirements. While we support some increased information in complaints, and we support the elimination of Form 18, statutorily imposing detailed pleading requirements, as in the current draft, may deter legitimate infringement actions. These requirements could raise enforcement costs and prolong litigation by increasing preliminary motion practice, among other things.
- Section 3(d), Discovery limits. The provision that limits discovery occurring prior to a claim construction determination, as currently drafted, may have unintended effects on legitimate patent enforcement activities. AIPLA supports encouraging greater case management by the courts while maintaining the courts' discretion to handle individual cases as appropriate.

In addition, AIPLA believes that consideration should be given to the following additional areas for reform:

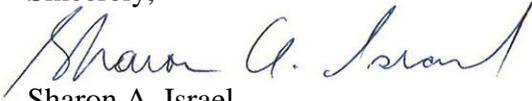
- AIPLA supports proposals that directly address abusive patent demand letters, such as the Targeting Rogue and Opaque Letters (TROL) Act. It is essential that such reforms include a federal preemption provision to ensure consistent application of the law given the patchwork of state laws that has proliferated over the past two years.
- AIPLA supports proposals to ensure that the USPTO is provided access to the fees it collects in order to adequately fund the operations of the USPTO. There is no reform more important to the success of the U.S. patent system and to questions of quality than ensuring stable and sufficient funding for the USPTO.

- Concerns have been raised regarding the implementation of the AIA trial proceedings at the USPTO, and we have raised our own concerns in a 2014 letter to the USPTO. While the USPTO has recently acknowledged that changes are warranted, AIPLA urges the Committee to consider whether additional Congressional action may be needed beyond the USPTO's own rulemaking.

We must work to find an appropriate balance that addresses the behavior of bad actors without discouraging patent owners (particularly small businesses and independent inventors) from fully participating in our patent system. AIPLA stands ready to work with the Members of the Committee and staff to ensure that abusive patent litigation practices are addressed in a way that doesn't harm the interests of legitimate patent holders seeking to enforce their rights.

Thank you in advance for considering our views on these important issues.

Sincerely,



Sharon A. Israel

President

American Intellectual Property Law Association