

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.

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

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.

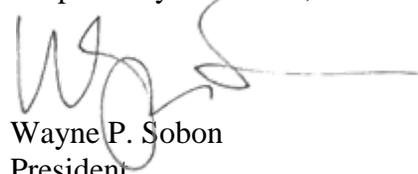
- Section 9(a), which eliminates Section 145. While we understand the concern that these actions may constitute a burden on the resources of the USPTO, even though infrequently used, we believe that this provision maintains an historic alternative means of providing for review of examiner decisions and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