

June 2, 2015

The Honorable Charles E. Grassley
Chairman
Committee on the Judiciary
United States Senate
224 Dirksen Senate Office Building
Washington, DC 20510

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

Re: AIPLA's Views on S. 1137, the PATENT Act

Dear Chairman Grassley and Ranking Member Leahy:

I am writing on behalf of the American Intellectual Property Law Association (AIPLA) to present our views on S. 1137, the Protecting American Talent and Entrepreneurship (PATENT) Act which aims to deter certain abusive practices in the U.S. patent system. AIPLA appreciates the efforts of Members and staff over the past several months to listen to stakeholders on all sides of these complex issues and to carefully craft a bill that attempts to balance the interests of both patent owners and users of the U.S. patent system. S. 1137 addresses many concerns that AIPLA raised about prior proposals for deterring abusive patent litigation practices and as a whole appears to have moved significantly in the right direction.

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, trade secret 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.

In addition to perceived or actual abuses in patent enforcement in litigation, AIPLA recognizes 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.

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. 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.

As noted earlier, AIPLA thanks the Committee for working hard in an effort to develop balanced reforms that address abusive behavior without undermining the rights of patent holders and we currently support, in whole or in concept, several provisions of S. 1137, including:

- **Section 4**, which gives 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, the language is moving in the right direction, and a number of AIPLA's initial concerns regarding the definitions have been addressed.
- **Section 7**, which addresses the standard for awarding fees and creates a more targeted mechanism for the recovery of fees. A number of AIPLA's concerns have been addressed by making the award of fees discretionary, limiting reimbursement to attorneys' fees, and placing the burden of proof on the prevailing party to show that the position and conduct of the non-prevailing party was not objectively reasonable. AIPLA also conceptually supports the fee recovery provision, subject to further clarification of the language.
- **Section 9**, which targets bad faith demand letters. AIPLA conditionally supports clarifying the Federal Trade Commission's authority to police the widespread sending of bad faith demand letters. However, the inclusion of a bad faith definition is necessary to ensure that First Amendment rights and legitimate licensing activity are not stifled. AIPLA notes that it is also increasingly important to include a uniform national standard with regard to patent demand letters to better guide patent owners trying to enforce their rights in lieu of the developing patchwork of state abusive demand letter legislation.
- **Section 10**, which would require patent owners to record the identity of any assignees and the ultimate parent entity when a patent issues and to update within a set time of any reassignment. While certain adjustments can be made to the language of the provisions to ensure that compliance is not unduly burdensome on patent owners, AIPLA conceptually supports this provision.
- **Section 14(a)**, which corrects a so-called "scrivener's error" made during the legislative process of the America Invents Act (AIA) by striking "or reasonably could have raised" from the estoppel provisions of 35 U.S.C. §325. This change is supported by AIPLA and is essential to improving patent quality by encouraging parties to use this new review proceeding to address questionable patents in the early stages of patent term when reliance, commercialization and related investment are likely at their minimum. However, AIPLA believes that bringing the claim construction standard in AIA trial proceedings in line with the standard used by district courts is also necessary to ensure that these proceedings are an effective and balanced alternative to challenging the validity of a patent in litigation.

AIPLA at this time does not support some of the other provisions of S. 1137 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.

AIPLA is concerned that certain provisions may overly restrict the traditional discretion of district court judges to manage their cases. Patent litigation cases vary in complexity, including technology, number of patents and products involved, type and amount of prior art, and number of defenses. Rules for managing one case may not be appropriate for other cases, i.e., one size does not fit all. Congressionally created case management rules may have unintended consequences including impeding access to the courts. AIPLA believes 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.

The provisions AIPLA is concerned about include:

- **Section 3**, Pleading requirements. While this provision has significantly improved over prior proposals, AIPLA remains concerned about mandating such detailed pleading requirements, which may deter legitimate infringement actions, particularly by individual inventors or small businesses. The requirements also may raise enforcement costs and prolong litigation by increasing preliminary motion practice.
- **Section 5**, Discovery limits. This provision would require courts to stay discovery during pendency of a motion to dismiss, a motion to transfer venue, or a motion to sever accused infringers if filed prior to first responsive pleading. AIPLA believes this proposal is also a significant improvement; however it may create new opportunities for gamesmanship and abuse. For example, a stay based on a partial motion to dismiss for failure to plead all the details required in the proposed pleadings in Section 3 could be subject to serious abuse. Amending the language to read “a motion to dismiss the action in its entirety” could ameliorate some of these concerns.

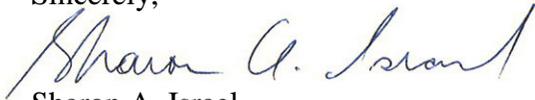
In addition, AIPLA believes that consideration should be given to the following additional areas for reform:

- **USPTO Funding.** 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.
- **AIA Trial Proceedings.** Concerns have been raised, particularly at the recent Senate Judiciary Committee hearing, 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 additional Congressional action which may be appropriate.

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. If you have any questions, please feel free to contact AIPLA Executive Director Lisa Jorgenson at ljorgenson@aipla.org or 703-415-0780.

Sincerely,

A handwritten signature in cursive script that reads "Sharon A. Israel".

Sharon A. Israel

President

American Intellectual Property Law Association