

## H.R. 3309, THE “INNOVATION ACT”

Prepared by House Judiciary Democratic Staff

Ranking Member Conyers and Subcommittee Ranking Member Watt oppose H.R. 3309. Although they believe certain legislative changes are needed to respond to litigation asymmetries when so-called patent trolls, – also referred to as non-practicing entities (NPE’s) or patent assertion entities (PAE’s) -- unfairly target small businesses and end users.

H.R. 3309 includes several common sense proposals that will improve the patent system and respond to abuses and asymmetries in the patent system. These include:

- (i) Transparency of patent ownership (Sec. 4) – requiring patent litigants to disclose the real parties in interest in the asserted patent.
- (ii) Customer Stay (Sec. 5) – limiting the practice of suing downstream users of a patented product or technology, such as retailers, restaurants, or supermarkets, for infringement by allowing the manufacturer to step in to defend against an infringement claim.
- (iii) Small Business Assistance (Sec. 7) – facilitating coordination between the USPTO patent ombudsman, the Small Business Administration, and the Minority Business Development Agency to provide educational resources and outreach programs for small business concerns arising from patent infringement and abusive patent litigation practices.

However, the rushed, insular process, the failure to end USPTO fee diversion, the limitations on the patent civil justice system that will harm all patent holders, not just “trolls,” and the general disregard for our system of mutual respect for the prerogatives of a coequal branch of government by imposing unnecessary and overly prescriptive mandates on the federal courts all weigh against supporting H.R. 3309. The following is a more detailed description of these concerns.

### **I. Rushed and Unfair Legislative Process**

Legislation involving a subject matter as critical and sensitive as patent law should be reviewed and considered only under the most careful and deliberative process. The America Invents Act (AIA), signed into law by President Barack Obama a little over two years ago, was the most comprehensive overhaul of the U.S. patent system since 1952. That legislation was the subject of numerous hearings over more than three Congresses. Yet now, at a time when many important aspects of the new law are largely untested, H.R. 3309 proposes a significant patent overhaul.

### **II. Failure to End PTO Fee Diversion**

A critical threshold failing of H.R. 3309 is its failure to respond to the single most important problem facing our patent system today – the continuing diversion of patent fees. When the AIA was passed two years ago, there was consensus on both sides of the aisle that continuing fee diversion constituted a tax on innovation and undermined efforts of the USPTO to reduce its backlog. Unfortunately, loopholes in the final agreement and the onset of sequester have again resulted in user fees being diverted away from the USPTO. The result is that nearly \$150 million in badly needed user fees have been diverted in Fiscal Year 2013. This loss is on top of the estimated \$1 billion in fees diverted over the last two decades. By failing to provide patent examiners the resources they need to review and analyze effectively the hundreds of thousands of complex and interrelated patent applications they receive every year, ongoing efforts at the USPTO to keep pace with innovation and to continue to enhance patent quality will be stymied.

### **III. The Legislation Limits the Rights of All Patent Holders, not Just Patent “Trolls”**

A. *The Bill’s Heightened Pleading Requirements Will Deny Legitimate Inventors Access to the Courts*

The heightened pleading requirements will work an unfairness against patent holders across the board; are drafted in a one-sided manner; will prolong litigation; and are unnecessary because the courts are already addressing pleading standards for all cases in the aftermath of the Supreme Court's decisions in *Bell Atlantic v. Twombly* and *Ashcroft v. Iqbal*. Moreover, under this provision, a small inventor will be required to provide detailed information in their complaint, however, an alleged infringer does not bear the same burden to explain with specificity to that inventor why they believe they have not infringed the patent or why they believe the patent is invalid. Also, although the stated goal of the legislation is to reduce and shorten litigation, the heightened pleading requirement may well have the opposite effect by fostering litigation over whether the patent owner has met the heightened pleading standard or had reasonable access to the required information if they admittedly did not comply.

*B. The Bill's Fee Shifting Standard Will Favor Wealthy Parties and will Chill Potential Meritorious Claims*

The fee shifting requirement in H.R. 3309 will favor wealthy corporate parties over individual inventors; is drafted in an over-broad manner to apply beyond patent infringement actions; deprives courts of discretion; and is unnecessary because both the Supreme Court and the Federal Circuit are preparing to rule on litigation concerning the phrase "exceptional cases." Fee-shifting provisions always favor the party with greater financial resources, and thus could chill potential meritorious claims. Enacting a mandatory regime into our patent law would not only work an unfairness to independent inventors, it will strip the courts of discretion to assess all parties' behavior in determining whether to depart from the American rule. The Majority's assertion that this section is fairly based on the Equal Access to Justice Act is plain wrong. EAJA was developed as a means to allow private citizens to obtain legal fees when they prevail in litigation against the U.S. government, and permits a court to reduce or deny awards to a prevailing party who engaged in dilatory tactics that prolonged the litigation. No such balance or flexibility for the court is provided in this bill. The fee shifting provision is again wholly unnecessary.

*C. The Bill's Discovery Limitations Will Prolong Litigation and Increase Costs*

The legislation's limitations on discovery prior to holding hearings to construe patent claims and determine their scope will delay litigation and lead to greater expenses for the parties and should be more properly dealt with by the courts.

**IV. The Mandate on the Courts Will Undermine the Federal Judiciary**

Section 6 of H.R. 3309, dictates that the federal judiciary adopt a series of new rules and judicial changes. This section will override the Rules Enabling Act. The Administration's objections to H.R. 2655, the Lawsuit Abuse Reduction Act apply as well to the Innovation Act, which "would circumvent the usual procedure for amending the Federal Rules of Civil Procedure. . . raise the amount and cost of civil litigation and provide more opportunity for unnecessary delay and harassment. . . could chill meritorious claims by deterring worthy plaintiffs from challenging existing laws or seeking novel interpretations of them. . . [and] is an attempt to amend the rules directly, over the objections of the Judicial Conference."

A wide and deep range of participants and stakeholders in the patent system who have issued letters opposing or expressing numerous serious concerns with the legislation, including the Federal Judicial Conference, the American Bar Association (ABA), the American Intellectual Property Law Association (AIPLA), the Patent Officers Professional Association (POPA), the American Association of Universities (AAU), the Biotechnology Industry Association (BIO), the Coalition for Twenty-First Century Patent Reform (21C), the Innovation Alliance, the American Association for Justice (AAJ), the Pharmaceutical Research and Manufacturers Association (PhRMA), the Eagle Forum, the Institute of Electrical and Electronics Engineers, the National Association of Patent Practitioners (NAPP), the National Venture Capital Association, and the National Bankruptcy Conference.