

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.

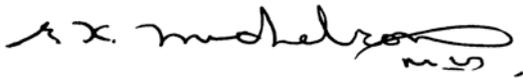
Our Constitution grants Congress the power to promote the useful arts by securing for inventors the exclusive right to their discoveries for limited times. As those inventors, we ask that our rights continue to be secured, not de-secured by passing new laws that increase complexity and uncertainty of 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

INVENTORS' ISSUES AND RECOMMENDATIONS

Specifically, we have concerns and suggestions regarding the following proposals, which for convenience we will address as they are set forth in H.R. 3309:

Stays of Litigation. Perhaps the most overbroad proposal, and the one that therefore has the potential to do the most damage to inventors and the innovation economy, directs courts to increasingly impose stays in patent litigation.

The glaring shortcomings of the litigation stay provisions of H.R. 3309 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 all 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 de minimis nuisance litigation would be excluded from the courts. Alternatively, 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. The point here is that 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.

Expansion of the Transitional Program for CBM Patents. We applaud the removal via the recent manager’s amendment of H.R. 3309 of the radical and highly damaging rewriting of the

CBM provisions of the AIA, and we ask that these proposals not be re-instated for further consideration.

Fee Shifting. The proposed changes that encourage fee shifting will create a new source of leverage for giant companies accused of infringement, and are foreign to well established American judicial practices.

Section 285 of the current Patent Act, which provides that courts “in exceptional cases may award reasonable attorney fees to the prevailing party,” is consistent with the longstanding American Rule – that each party should bear its own costs in litigation. H.R. 3309 would reverse the American Rule in patent cases, making the imposition of fees mandatory, unless the position of the nonprevailing party or parties was “substantially justified.”

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 amendment 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, H.R. 3309 is 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. Again, the proposed legislation is hardly neutral – it would unfairly create new advantages for larger, market-dominant incumbent companies while burdening inventors.

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.

Transparency of Ownership. We support and encourage the disclosure of the ultimate owner of any patent offered in licensing discussions or asserted in litigation. As currently drafted, H.R. 3309 would require far more, however, and as such is 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.

Today, to the extent any such information is relevant to the issues in the lawsuit, it is 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 proposal has a laudable goal of preventing shell games but is drafted in such an overbroad manner that it 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.

Core Document Discovery. H.R. 3309 requires changes to the rules and procedures on core document discovery in litigation. The proposal triggered a diplomatic suggestion from the Rules Committees of the Judicial Conference of the United States, which wrote 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. 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. (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.

“Reasonably Could Have Raised” Estoppel. 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 alternative to – not a serial, second-bite-at-the-apple supplement to – 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 possibly have raised, and a narrow estoppel applying only to issues actually raised.

H.R. 3309’s proposed deletion of “or 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.