

November 8, 2013

**Statement from the Higher Education Community on H.R. 3309, The Innovation Act**

We write to communicate the views of the higher education community on H.R. 3309, The Innovation Act. We commend the Chairman for the open, thoughtful process undertaken in the development of H.R. 3309, and we strongly support the goal of H.R. 3309 to reduce abusive patent litigation and the corrosive impact it has on the U.S. patent system and the capacity of that system to foster innovation and economic competitiveness. The bill includes several provisions intended to reduce abusive practices, including fee shifting, heightened pleading standards, increased transparency of patent ownership, and limitations on discovery. Although each of these provisions, if appropriately balanced and circumscribed, could help achieve the goal of reducing abusive litigation practices, their overbroad scope as written raises the specter of unintended problems and thereby raises particular concerns for universities.

- The fee-shifting provisions of amended Sec. 285 are extremely broad, applying to any civil action in which any party asserts a claim for relief arising under any Act of Congress relating to patents. That scope sweeps in over 25 statutes containing patent law clauses, including the Space Act, the Atomic Energy Act, the Non-Nuclear R&D Act as well as all titles of the omnibus bills in which the Bayh-Dole Act and amendments became law. The breadth of the proposed amendment will impair parties' ordinary enforcement procedures and litigation activities outside the scope of abusive patent litigation. Moreover, the burden of proof and substantive standards for the nonprevailing party to avoid fee shifting weight these provisions heavily in favor of fee-shifting as the default outcome. The amplitude of these impacts will interfere with ordinary enforcement of patent exclusive rights and defenses available in patent proceedings, including proceedings wherein the central issue is not patent infringement at all but may entail contract disputes. The chilling effect of the uncertainty about whether such an expense would be due and who ultimately would pay it is disproportionately adverse for parties of limited means such as universities, their nonprofit technology transfer organizations, and their small business licensees. Most of these problems can be averted while targeting patent abusers if the fee shifting is limited to the prevailing defendant in a claim of patent infringement in which the plaintiff is not the named inventor of or an original assignee to an asserted patent and does not make or sell a product related to the subject matter described in the asserted patent.

- The new Sec. 299(d) joinder provisions would mandate that a court under certain circumstances grant a motion by a defendant in an infringement suit to join an interested party of the plaintiff who has no substantial interest in the patent(s) at issue other than asserting the infringement claim in litigation. The definition of “interested party” in Sec. 299(d)(3) is extremely broad. Taken together, the all-encompassing fee-shifting and joinder language would bring higher education institutions and their inventors, non-profit technology transfer organizations associated with those institutions, federal laboratories, and federal agencies within the fee-shifting purview. The combination of fee-shifting provisions and mandatory joinder would likely constitute an unfunded mandate on universities, both public and private. These effects constitute a substantial disincentive for universities and startups to enforce patents on new technologies and innovations, which undermines the goal of the patent system.
- The pleading requirements of new Sec. 281A call for information that may not be known until after discovery (which itself is limited; see below), and it is not clear whether a patentee can amend a complaint to include new patent claims or infringing products based on what is learned in discovery.
- The increased transparency of patent ownership called for in Sec. 4 requires a plaintiff to provide the Court and USPTO the identity of (1) assignee of the patent, (2) entity with right to sublicense or enforce the patent, (3) entity with any financial interest in the patent or in the plaintiff, and (4) ultimate parent entity of assignee. The patentee must keep that information updated for the life of the patent, and must to submit to the USPTO any changes in this information within 90 days. The breadth of the information required may well exceed the capacity of even the best-intentioned plaintiff to acquire and provide.
- The discovery limitations of new Sec. 299A, notwithstanding the discretion to expand the scope of discovery provided in Sec. 299A(b), could make it more difficult to provide information called for in other sections of the bill and could militate against cases where allowing broader discovery would be more efficient. Judges already have discretion to limit discovery, and the federal judicial branch is taking steps to address the issue of unreasonable and abusive discovery demands. It would seem best, therefore, to leave limitations on discovery to the discretion of courts.

In addition to the litigation reform provisions of H.R. 3309, the bill includes a number of provisions in Sec. 9 intended as improvements or technical corrections to the Leahy–Smith America Invents Act (AIA).

- We believe that the expansion in new Sec. 9(e) of the kinds of patents that can be challenged under that AIA’s post-grant review procedures for covered business method (CBM) patents is extremely problematic. Changes in the definition or interpretation of the definition of covered business method patents and the authority for the USPTO to waive the \$12,000 filing fee for a CBM petition threaten to expand the scope of patents that can be challenged under what was intended as a transitional program that just recently went into effect. Similar to the over-breadth of the fee-shifting and joinder provisions, the increase in the breadth of the definition of business method patent threatens to sweep into the current definition patentable subject matter that was neither intended to be covered under the rubric of business method patent nor is asserted by abusive patent acquisition entities. Again, the amplitude of the expansion will negatively impact patent owners

including, among others, institutions of higher education and their non-profit technology transfer organizations, which do not engage in abusive patent enforcement behavior.

- The narrowing in Sec. 9(b) of the AIA's new post-grant review's estoppel provision by eliminating "or reasonably could have raised" has been justified procedurally as eliminating an AIA drafting error and justified substantively as assuring the new post-grant procedure functions effectively. But the assertion of a drafting error is very much in dispute, and more fundamentally, as a matter of substantive policy, the elimination of "reasonably could have raised" promises to have an impact precisely opposite to one of the principal goals of the AIA by extending, rather than limiting, patent litigation.

H.R. 3349, the Innovation Protection Act: Among the many achievements of the landmark Leahy-Smith America Invents Acts, one of the greatest disappointments was the inability to include reliable full funding of USPTO. The bipartisan H.R. 3349 accomplishes this critical objective by providing USPTO with autonomy over the fees that it collects. As former USPTO Director David Kappos testified before your committee, providing the USPTO with full fee access is essential for the USPTO to fulfill the potential of the AIA to strengthen the U.S. patent system and its capacity to support invention, innovation, and economic development.

We thank the Chairman for the work of you and your staff to address the costly problem of abusive patent litigation. We believe that H.R. 3309 has the potential, if properly crafted, to address this problem in significant ways, and we look forward to working with you to achieve such an outcome.