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Charles R. Hoffmann
6900 Jericho Turnpike
Syosset, NY 11791
1.516.822.3550
choffmann@hbiplaw.com

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90 Park Avenue
New York, NY 10016
1.212.336.8110
alocicero@arelaw.com

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One World Financial Center
New York, NY 10281
1.212.504.6018
dorothy.auth@cwv.com

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One Broadway
New York, NY 10004
1.212.908.6263
whanley@kenyon.com

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Denise L. Loring
1211 Avenue of the Americas
New York, NY 10036
1.212.596.9069
denise.loring@ropesgray.com

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620 Eighth Avenue
New York, NY 10018
1.212.459.7466
ahassett@goodwinprocter.com

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IMMEDIATE PAST PRESIDENT

Thomas J. Meloro
787 Seventh Avenue
New York, NY 10019
1.212.728.8248
tmeloro@willkie.com

NYIPLA EXECUTIVE OFFICE

2125 Center Avenue, Suite 406
Fort Lee, NJ 07024-5874
Tel: 1.201.461.6603
Fax: 1.201.461.6635
E-Mail: admin@nyipla.org
Website: www.nyipla.org

December 13, 2013

The Honorable Patrick J Leahy
Chairman, Senate Judiciary Committee
437 Russell Senate Building
Washington, DC 20510

RE: H.R. 3309, the Innovation Act

Dear Senator Leahy:

I write on behalf of the New York Intellectual Property Association (“NYIPLA”) concerning the patent reform legislation currently under consideration by the Senate, i.e., H.R. 3309, (“The Innovation Act”); Senator Cornyn’s Bill S. 1013 (“Patent Abuse Reduction Act”); Senator Hatch’s Bill S. 1612 (“Patent Litigation Integrity Act of 2013”); Senator Leahy’s Bill S. 1720 (“Patent Transparency and Improvements Act of 2013”); and Senator Schumer’s Bill S. 866 (“Patent Quality Improvement Act”). We understand that one or more of these bills will be the subject of a hearing before the Senate Judiciary Committee on December 17, 2013.

The NYIPLA respectfully submits that, before passing patent reform legislation meant to curb perceived abuses in patent infringement litigation, Congress should engage in a more extended public comment period in order to obtain a full airing of the potential impact of the legislation on the stakeholders in the patent system. It is the NYIPLA’s view that there is a substantial risk that such legislation, if passed without greater opportunity for full consideration and comment by the broad spectrum of stakeholders in the U.S. patent system, will have consequences not currently envisioned by Congress. These consequences may adversely impact a number of stakeholders, in particular start-up companies, small businesses, university research and development entities, and independent inventors.

WHO WE ARE

The NYIPLA is a professional association of approximately 1,300 attorneys whose interests and practices lie in the area of patent, trademark, copyright, trade secret, and other intellectual property law. The Association’s members include a diverse array of attorneys specializing in patent law, from in-house counsel for businesses that own, enforce and challenge patents, to attorneys in private practice who represent inventors in various proceedings before the United States Patent and Trademark Office (“PTO”) and the U.S. courts. A substantial percentage of the NYIPLA’s member attorneys participate actively in patent litigation, representing both patent owners and accused infringers. The entities served by the NYIPLA’s members include inventors, entrepreneurs, venture capitalists, businesses, universities, and industry and trade associations, a diverse group that includes some of the very stakeholders who would be most affected by the legislation under consideration.

The NYIPLA has demonstrated interest in the issues that these bills are meant to address. On October 9, 2013, NYIPLA gathered more than 45 leaders from private practice, industry, government, and academia to participate in an invitation-only discussion on the impact of non-practicing entities (“NPEs”) on innovation and patent litigation. The question for discussion at this Presidents’ Forum was “What to do about NPEs: Do We Risk Throwing the Baby out with the Bath Water?” Five featured speakers at the Forum presented their perspectives on the issue: Alex Poltorak, Founder, Chairman, and CEO of General Patent

Corporation; Vermont Attorney General William Sorrell; Professor Hugh Hansen from Fordham Law School; Marian Underweiser, Intellectual Property Counsel at IBM; and the Honorable Paul R. Michel, former Chief Justice of the Court of Appeals for the Federal Circuit. The Forum audience and speakers engaged in a two-hour open conversation about NPEs and paths forward from the current state of affairs.

WHY WE CARE

The NYIPLA's interest in this patent reform legislation stems from the potential that it holds to have a negative impact on the patent enforcement activities of a broad spectrum of patent rights holders and owners, including but not limited to patent assertion entities (PAEs) who are not engaged in the abuses these bills are meant to curb. In our view, these bills, if enacted, may inadvertently discourage various stakeholders from legitimate assertions of their patent rights, whether the patent rights holders or owners are PAEs or practicing entities.

H.R. 3309: EXAMPLES OF UNINTENDED CONSEQUENCES

For example, H.R. 3309 contains a number of overbroad provisions, which risks harm to the very entities it is intended to protect. Set forth below are a few examples of the potential unintended consequences of some of these provisions:

1. New § 281A of the patent code (35 U.S.C.) requires a detailed listing of each allegedly infringed patent claim and each accused instrumentality, and a detailed explanation of how and where each claim limitation is met by the accused instrumentality. Although the NYIPLA understands the reasoning behind the detailed pleading requirements of §281A, we are concerned about the impact of these requirements on parties to patent infringement litigation in view of new § 299A, which requires that discovery be limited to claim construction issues until claim terms are construed. The combination of these provisions may unfairly limit a plaintiff to acts of infringement ascertainable only as of the filing of the complaint. Once discovery on infringement is permitted, it may be too late for the plaintiff to amend the complaint to add additional accused instrumentalities or patent claims. Alternatively, if amendment of the complaint is permitted after phased discovery which discloses additional patents and/or products that may be included in the assertions of infringement, this may prejudice the defendant, who may find itself faced with the burden of defending additional claims late in the litigation.
2. Sections 285 and 299 have been amended to require an award under certain circumstances to the prevailing party of its fees and expenses against the non-prevailing party and “interested parties” that have been joined to the litigation. The bill defines “interested party” to encompass, *inter alia*, any entity that has any interest in the patent or patents at issue, including “any part of licensing revenue.” In our view, this definition is so broad that it would have the unintended consequence of exposing mere investors in the non-prevailing party to litigation and potential liability for the prevailing party's fees and expenses, even if those investors took no part in the litigation or the decision to bring suit.
3. Similarly, the bill amends § 290 to require new Initial Disclosures by plaintiffs, including the identification of “[a]ny entity, other than the plaintiff, that the plaintiff knows to have a financial interest in the patent or patents at issue or the plaintiff.” “Financial interest” is defined broadly to include “direct or indirect ownership or control by a person of more than 5 percent of such plaintiff.” Again, this definition is so broad that it would include mere investors in, or even shareholders of, the plaintiff, who have no direct interest in the litigation or its outcome. This has the potential to expose those investors to demands for third party discovery or other involvement in the litigation.
4. Section 285 has also been amended to provide that a party who unilaterally extends a covenant not to sue for infringement with respect to an asserted patent shall be considered a non-prevailing party, potentially liable for the prevailing party's fees and expenses. The delayed discovery on infringement matters provided in new §299A

may prevent a plaintiff from discovering any infirmity in its infringement claims until late in the litigation, and thus may increase the extent of the plaintiff's potential liability for the accused infringer's fees and expenses. These factors may very well discourage the granting of a covenant not to sue as a means to settle litigation. Rather than risk being assessed a large monetary award for the defendant's fees and expenses, the plaintiff may decide to "roll the dice" and continue with the litigation, hoping it will prevail at trial.

5. The staged discovery provided in §299A could also conflict with local District Court patent rules, some of which require a patentee to provide early infringement contentions (see, e.g., D.N.J. Local Patent Rule 3.1 (requires disclosure of asserted claims and infringement contentions within 14 days of initial case scheduling conference)). It would also interfere with the District Court's ability to manage its cases and its docket.
6. New § 299A states that it is the "sense of Congress" that it is an abuse of the patent system to send "purposely evasive demand letters" to end users alleging patent infringement. The section states that demand letters should "include basic information about the patent in question, what is being infringed, and how it is being infringed." However, the section does not provide a comprehensive definition of what would constitute a "purposely evasive" letter. The section goes on to state that "these types of purposely evasive demand letters . . . should be considered a fraudulent or deceptive practice." This section may have the unintended consequence of spurring satellite litigation over whether a demand letter was "purposely evasive", and whether its author should be found liable for fraudulent practices. This provision has the potential to be particularly burdensome and prejudicial to small businesses and individual inventors.

We believe that H.R. 3309, as well as the other patent reform bills currently under consideration by the Senate, will benefit from further study and input from a broader spectrum of the U.S. patent stakeholder community than has been possible to date in view of the speed in which these bills have moved forward. In particular, we recommend that legislators take the time to conduct multiple hearings with the various patent stakeholders before taking any vote on these bills.

The NYIPLA is currently undertaking a comprehensive comparative assessment of the five main patent reform bills currently before the Senate and will provide our results to your Committee soon. In the meantime, we wish to participate in the December 17th Senate Judiciary Committee Hearing to more fully explain our views on the potential unintended consequences of the current legislation on the PAE issue and to address questions regarding our concerns. We believe our testimony at the Hearing will give the Committee a better understanding of the practical implications of these bills and will help the Congress to ultimately enact a law that will strike a reasonable balance between restraining abusive patent enforcement and the fair exercise of patent owners' rights.

Sincerely yours,



Charles R. Hoffmann,
President of the New York Intellectual Property Association

CC: The Honorable Dianne Feinstein
The Honorable Chuck Grassley
The Honorable Chuck Schumer
The Honorable Orrin G. Hatch
The Honorable Dick Durbin
The Honorable Jeff Sessions

The Honorable Sheldon Whitehouse
The Honorable Lindsey Graham
The Honorable Amy Klobuchar
The Honorable John Cornyn
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Senators NY, NJ, CT and VT

House of Representatives NY, NJ, CT and VT