

March 12, 2014

The Honorable Mary L. Landrieu
United States Senate
703 Hart Senate Office Building
Washington, D.C. 20510

Dear Senator Landrieu:

I am writing in response to your recent written request for comments and recommendations regarding current patent reform legislation pending in the United States Congress. As the independent voice of small business in government, the U.S. Small Business Administration Office of Advocacy is responsible for ensuring that policy makers thoroughly consider the concerns of small businesses in their decisions. To accomplish this, Advocacy conducts extensive outreach with small businesses and forwards their concerns to decision-makers in Congress and the Executive Branch. Patent policy is a particularly high priority for small businesses, and we appreciate your request to share their concerns with you.

There are important considerations from small businesses on both sides of the patent litigation debate. Advocacy has heard persistent concerns from small businesses that have been targeted by abusive patent litigants seeking to leverage their financial resources against small businesses to extort settlements in cases where they do not have legitimate claims. Advocacy has also heard very strong opposition to current reform proposals from independent inventors and start-up companies, as well as the individuals and organizations that work with them to foster and commercialize their important work. These stakeholders believe that the proposed legislative reforms will weaken intellectual property rights and deter investment in IP intensive ventures.

It is indisputable that patent lawsuits are costly for both defendants and plaintiffs—a fact that bad actors can and will exploit. Despite this situation, Advocacy believes that the U.S.

cannot afford to weaken small innovators' ability to secure and commercialize their intellectual property if the benefits of doing so do not outweigh the costs. Advocacy is concerned that some legislative proposals to reform the patent system will tip the scales too far against small innovators, while not adequately discouraging bad actors from exploiting the patent system. That would be the worst of both worlds for small businesses. We have identified several key proposals, below, which deserve particular consideration from a small business perspective.

End-User/Customer Stays

Advocacy appreciates the difficulty of small businesses on the receiving end of demand letters alleging patent infringement, particularly small businesses that are simply using off-the-shelf technology that they have purchased for use. These small businesses are often wholly unfamiliar with patent laws and must retain expert and expensive legal advice before they can even decide how to begin responding to such letters. Advocacy believes that there may be some very narrowly tailored legislative options that could provide a small business safe harbor; however, small innovators have indicated to Advocacy that current proposals for customer stays are too broad and present a number of enforcement challenges to small patent owners.

Specifically, under the broad customer stay proposals currently being considered by Congress, an infringer would be able to avoid liability by simply purchasing components and assembling an infringing product to sell or use. One alternative to this proposal suggested to Advocacy by stakeholders would be to limit the customer stay provisions to small businesses and retailers who use and sell unaltered goods, and whose use of the patented technology has a *de minimis* impact on the patent owners' rights relative to others in the stream of commerce.

Mandatory Fee-Shifting

Several of the fee-shifting proposals currently being contemplated by lawmakers may be problematic for small business plaintiffs and defendants alike. Litigation is by nature an uncertain endeavor. It is also typified by asymmetrical risks for parties, like small businesses, with relatively fewer resources than their opponents. Because of this asymmetry, most small businesses simply cannot afford the risk of litigation, period. Legislation that would inject even further uncertainty into a small business's risk calculation deserves close scrutiny.

Advocacy is concerned that any mandatory fee shifting could limit small business access to the judiciary, without adequately deterring well-financed patent bullies. Increasing the risk of losing a patent dispute might actually encourage small business defendants to settle with patent bullies early, and discourage small innovators from pursuing legitimate claims against large infringers. Additionally, fee-shifting proposals that would require only non-prevailing *plaintiffs* to pay legal fees could unfairly tip the scales against small innovators seeking to defend their patents against infringement.

There may be alternatives to current fee-shifting proposals that would give small businesses additional tools to defend against abusive litigants without unfairly penalizing legitimate small business plaintiffs. For instance, under the Federal Rules of Civil Procedure, judges already have the ability to award deterrent fees in certain circumstances—legislation giving judges greater discretion to award such fees in patent cases could potentially benefit small business defendants and plaintiffs. Congress should investigate this as a possible alternative to any mandatory fee-shifting proposals. Mandatory fee-shifting, even with some exceptions, limits the discretion of judges who are intimately familiar with the facts of each particular case and are in the best situation to judge the behavior of the parties in question. Advocacy encourages lawmakers to further consider whether broadening judicial discretion would be more beneficial than limiting it, particularly given the complex nature of patent litigation.

Joinder of all Interested Parties

Current legislative proposals would allow a prevailing defendant to seek legal fees from any person or entity with an interest in the disputed patent. While mandatory fee-shifting proposals may be problematic for small businesses in general, legislative proposals allowing for broad joinder of all interested parties in a patent dispute could be particularly problematic for small innovative companies.

Universities, non-profit and government-sponsored research institutions, as well as venture companies and angel investors, all invest heavily in small patenting firms and would be defined as parties of interest under current proposals. Based on our outreach with the innovation community, Advocacy is concerned that these proposals might limit access to capital for small

innovative firms and slow the pace of innovation taking place in our nation's finest research institutions, without having a similarly deterrent effect on abusive litigants.

To the small business, defending a patent is already a sometimes impossible task—which is why many small businesses partner with universities and other non-practicing entities to license and defend their patents for them. Independent inventors and start-ups also require capital investment from outside sources to fund their research and development. These partnerships benefit not only individual inventors and small businesses, but also the public, by creating a web of commerce that supports further research and innovation. Despite this mutually beneficial relationship, these small business partners have indicated that they are unlikely to accept the risk that they will be held liable in the event a company they have supported loses a patent dispute. The cost to the economy of a decline in this type of investment could be very significant. For these reasons, Congress should conduct further inquiry into relative costs and benefits of proposals allowing for broad joinder of interested parties.

Discretionary Bonding/Pay-to-Play

Independent inventors and start-ups have expressed strong concerns to Advocacy regarding legislative proposals that could require a party alleging infringement to post a bond sufficient to ensure payment of an alleged infringer's fees. These proposals are commonly referred to as 'pay-to-play'. Like fee-shifting and other heightened pleading and joinder provisions, pay-to-play provisions increase the cost of pursuing legitimate patent claims, and could further disadvantage independent inventors and small patenting firms. Advocacy believes the relative costs and benefits of such proposals deserve further scrutiny. We urge you and your fellow Senators to examine whether abusive litigants with financial means will truly be deterred by a requirement to post a bond, and weigh that against the impact such proposals could have on small businesses and independent inventors.

Enhanced Pleading Requirements and Discovery Limitations

While heightened pleading requirements may provide a disincentive to bad actors intent on extorting unjustified settlements from small entities, independent inventors and start-ups have expressed concerns to Advocacy that proposals requiring increased specificity in pleadings would disproportionately deter small businesses with legitimate claims from pursuing litigation.

These small business stakeholders are also concerned that limiting pre-claim discovery in patent cases will have the effect of limiting the ability of small businesses to identify the full scope of their claims against an infringer before proceeding with a lawsuit, and thus limit the damages they are ultimately able to recover from an infringer. Small businesses on both sides have made a clear case for how disproportionately they are affected by the cost of patent litigation— Advocacy encourages lawmakers to consider carefully any proposals that would increase those costs and restrict their access to the courts further.

Eliminating Post Grant Review Estoppel

The America Invents Act (AIA) created a new mechanism under which a defendant can seek review of a patent’s validity through Post Grant Review (PGR). Independent inventors and start-ups have expressed strong opposition to these proposals. While Advocacy heard persistent concerns regarding PGR from small innovators at the time of the AIA’s passage, these stakeholders agree the AIA rightly limited the impact of such review by prohibiting the review’s proponent from later arguing any ground that they “raised or reasonably could have raised” during that post-grant review. Proposals narrowing the AIA’s PGR estoppel provisions by removing the “or reasonably could have raised” language would allow proponents to mount multiple sequential Post Grant Reviews against a patent, at significant cost to a patent holder.

Eliminating post-grant review estoppel would undoubtedly increase risks for legitimate patent holders, but it is unclear whether it would deter an abusive plaintiff from targeting a small business defendant. Congress should consider how likely it is that Main Street small businesses would have the resources to use PGR to attack the patents of a well-capitalized plaintiff and weigh that against the likelihood that a well-capitalized infringer would use PGR to repeatedly attack a small inventor’s patents. Given that the impact of the AIA’s post-grant review program on independent inventors has yet to be seen, Advocacy recommends that Congress continue to examine the impact of the AIA’s PGR program before passing legislation broadening its scope.

Facilitating Small Business Outreach and Identifying Solutions

Advocacy is pleased to forward the above concerns regarding proposed patent litigation reform legislation. Advocacy is available to facilitate further dialogue and consideration of small

business interests, so that any legislation adopted will strike the appropriate balance. Please do not hesitate to contact me or my staff should you require our assistance.

Best regards,

A handwritten signature in black ink, appearing to read "Winslow Sargeant". The signature is fluid and cursive, with a long horizontal stroke at the end.

Winslow L. Sargeant, Ph.D.

Chief Counsel for Advocacy

A handwritten signature in black ink, appearing to read "Jamie Belcore Saloom". The signature is cursive and somewhat stylized.

Jamie Belcore Saloom

Assistant Chief Counsel