

December 12, 2012

Chairman Lamar Smith  
House Judiciary Committee  
2138 Rayburn House Office Building  
Washington, DC 20515

Ranking Member John Conyers  
House Judiciary Committee  
B351 Rayburn House Office Building  
Washington, DC 20515

Chairman Bob Goodlatte  
House Subcommittee on Intellectual Property,  
Competition, and the Internet  
2138 Rayburn House Office Building  
Washington, DC 20515

Ranking Member Mel Watt  
House Subcommittee on Intellectual  
Property, Competition and the Internet  
B351 Rayburn House Office Building  
Washington, DC 20515

Chairman Patrick Leahy  
Senate Judiciary Committee  
224 Dirksen Senate Office Building  
Washington, DC 20510

Ranking Member Charles Grassley  
Senate Judiciary Committee  
152 Dirksen Senate Office Building  
Washington, DC 20510

Re: Need for Patent Litigation Reform

Dear Chairmen Smith, Goodlatte, and Leahy, and Ranking Members Conyers, Watt, and Grassley:

We, the undersigned organizations, are grateful for your efforts and those of your respective committees and subcommittees to pass the America Invents Act ("AIA") in 2011. It was an important step to improve the U.S patent system. However, there are still a number of significant challenges that many of our member companies continue to confront relating to abusive patent litigation.

As you well know, one of the problems that was discussed, but not directly addressed in the AIA, relates to the growing amount of litigation being brought by companies that do not innovate, make, or sell anything, but exist simply to buy patents from others for the sole purpose of suing legitimate companies for patent infringement. These companies, which are variously called "non-practicing entities (NPEs)," "patent assertion firms," or "patent trolls," are distinguished from legitimate entities that own patents but do not make or sell the underlying patented technologies, such as universities. Patent trolls earn all or the majority of their revenues from patent litigation.

In recent years, the patent troll problem has exploded because the business model is so profitable. Patent trolls have no cost of R&D, no costs relating to marketing or sales, no employees and no facilities. They add nothing to the economy. They simply exist to sue. When

they sue legitimate companies that actually employ people, sell products, and provide services, there is a significant imbalance in the cost of that litigation. And, they are innovative in their tactics, finding novel new avenues by which to exploit and harass, including by contorting the function and role of the International Trade Commission.

The patent troll business model is to make the litigation as expensive and disruptive as possible to force operating companies to settle. The trolls request millions of documents, electronic and otherwise, and schedule multiple depositions. They can do this with impunity as patent trolls have few, if any, documents to produce or witnesses to be deposed. This asymmetry in the cost of litigating the case is a major factor in forcing legitimate companies to settle the lawsuits. Even if the legitimate company will ultimately win the case, it often settles as it is the lower cost option. This simply “feeds the beast” and encourages more patent trolls to go into business and more patent lawsuits to be filed.

This problem of burdensome discovery requests was recognized by Chief Judge Rader of the Federal Circuit Court of Appeals when he wrote:

*Routine requests seeking all categories of Electronically Stored Information often result in mass productions of marginally relevant and cumulative documents. Generally, the production burden of these expansive requests outweighs the minimal benefits of such broad disclosure.*

Faced with such burdensome requests, patent defendants confront a real conundrum: either acquiesce to the settlement demand, or incur millions of dollars in cost to collect, evaluate and ultimately produce documents that are essentially irrelevant to determining whether a patent existed and whether it was infringed—dollars that could and should have been more productively used for research, development, innovation and employment. Judge Rader put the situation eloquently when he commented,

*...disproportionate expense should not be permitted to force those accused of infringement to acquiesce to non-meritorious claims. This only serves as an unhealthy tax on legitimate commerce.<sup>1</sup>*

While there are certainly other solutions to eliminating abusive patent troll litigation, the economic imbalance of abusive discovery needs to be corrected so that patent disputes can be resolved based on the merits of the case, not on the cost of the litigation. Since patent trolls

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<sup>1</sup> Federal Circuit Advisory Council, An E-Discovery Model Order, Introduction.

lose the vast majority of all lawsuits actually brought to trial<sup>2</sup>, removing the cost imbalance will level the playing field between legitimate companies and trolls and force trolls to carefully consider both the merits and the economics of pursuing litigation.

While there are a number of suggestions as to how to address the patent troll problem, both in the courts and at the ITC, a major stumbling block has been differentiating patent trolls from universities and other legitimate businesses that innovate and transfer the patented technology to companies for implementation. We believe that the proposal outlined below addresses this problem by curbing patent troll abuses while preserving the right of legitimate businesses, universities and small inventors to protect and enforce their inventions.

This proposal applies to all patent litigation and envisions retaining traditional rules of discovery relating to “core documentation” and shifting the cost of any additional discovery.<sup>3</sup> Core documentation is that which is essential to determine the scope of the asserted patent, the validity of the asserted patent, whether it was infringed, who has rights to enforce the patent, and the proper calculation of damages. These documents include, without limitation, the application for a patent, patent prosecution history, technical specifications and manuals relating to the allegedly infringing product, known prior art, evidence establishing real parties in interest, and information relating to the previous licensing of the product (if any). These are the types of documents that Judge Rader recognized are actually needed in a patent lawsuit<sup>4</sup>. This proposal would not limit any party from seeking any other discovery allowed by the Federal Rules of Civil Procedure. However, the party seeking that additional discovery would simply have to bear the costs of that additional discovery. The goal is simply to prevent abuse.

Applying this change in the patent law to all patent cases avoids the need to define who is and is not a “patent troll”. This proposal would have minimal to no effect in cases in which two productive enterprises are challenging each other over patent infringement, as the discovery burdens on each side are relatively equal. Whether you pay for your own cost or that of the other side is no issue if the costs are relatively equal. What it would do, importantly, is prevent discovery from being used as a weapon, as is increasingly occurring in suits involving NPEs.

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<sup>2</sup> See, for example, Allison, Walker & Lemley, “Patent Quality and Settlement Among Repeat Patent Litigants,” Stanford Law and Economics Olin Working Paper No. 398, September 16, 2010.

<sup>3</sup> We note that other efforts are underway relating to resolving the issues involving the ITC, an abuse which also should be addressed, and we note that there may be other proposals to curb patent litigation abuses.

<sup>4</sup> As the Introduction to the Model Order states, “Most discovery in patent litigation centers on what the patent states, how the accused products work, what the prior art discloses, and the proper calculation of damages. These topics are normally the most consequential in patent cases. Thus, far reaching e-discovery, such as mass email searches, is often tangential to adjudicating these issues.” As noted in the Model Order itself, the core documentation includes “basic documentation about the patents, the prior art, the accused instrumentalities, and the relevant finances.”

Although narrowly targeted, this solution will disrupt a damaging, expensive, and illegitimate litigation tactic: the abusive use of discovery to drive up litigation costs for the purpose of forcing settlements. As important, because this solution is narrowly tailored, it preserves the ability of any party to protect their patent rights.

Abusive patent lawsuits from patent trolls are a tremendous blight on our nation's creative and productive endeavors. We ask you to consider legislation that embodies this approach, and would welcome the opportunity to work with you on this and other potential solutions to this growing problem.

Sincerely,

Software and Information Industry Association

TechAmerica

North Carolina Technology Association

Food Marketing Institute

National Association of Manufacturers

Association of Global Automakers