

November 20, 2013

The Honorable Bob Goodlatte Chairman Committee on the Judiciary U.S. House Representatives Washington, DC 20515

Dear Chairman Goodlatte,

On behalf of the National Venture Capital Association (NVCA), I am writing to express our views on H.R. 3309, the Innovation Act of 2013. As illustrated by a recent study¹ conducted by UC Hastings law professor Robin Feldman with participation from NVCA members and portfolio companies, patent assertion is a growing and costly burden for some participants in the innovation ecosystem. This is especially true for many small venture-backed companies whose efforts to commercialize innovation often threaten to disrupt marketplaces and their entrenched interests. The costs for established companies in challenging or infringing upon the patents of innovative upstarts are relatively low, while the benefits can be high. Conversely, the costs and burdens of defending against infringement or assertions for those small venture-backed companies is often disproportionately high. These dynamics have made assertions and infringements popular strategies, and they must be addressed.

NVCA believes H.R. 3309 includes several helpful provisions to help curb abuses in patent litigation. However, it is critical that Congress balance the need for patent litigation reform with the needs of those start-ups that depend on strong patent protection and that believe the system is working. Congress must also take care to avoid any unintended consequences that could weaken strong patent protection.

Within this context, NVCA believes several changes should be made to H.R. 3309 in order to strike this delicate balance including the following:

Fee Shifting:

Although a prevailing-party approach for attorney fees may be acceptable for litigants that are similarly situated economically, this approach puts an unfair burden on early-stage companies which are typically capital constrained. The proposed legislation potentially also impacts incentives / risks of new-company formation, because of contingent fee liability (285(c)) with respect to proposed joinder (see below). We hope to have specific language to suggest on this issue in the near future.

Joinder:

As proposed, joinder of "a person who has a direct financial interest" may inadvertently include equity investors (e.g., venture capital fund entities). Although the proposed legislation provides an exception for entities whose "sole financial interest in the patent or patents at issue is an

¹ Feldman, Robin. UC Hastings; "Patent Demands & Startup Companies: The View from the Venture Capital Community."

equity interest in the party alleging infringement", the proposal also provides a carveout to this exception – for entities that also have the "right or ability to influence, direct or control the civil action". This carveout may preclude venture capital funds from relying on the equity-interest exception, since such funds typically have voting agreements that provide for VC-appointed directors. We believe this concern could be addressed simply with a minimal clarification such as:

Revise Sec. 3(c) of proposed legislation to reflect the following indicated **changes** to proposed Sec. 299(d)(3)(C)(ii):

"(C) has a direct financial interest in the patent or patents at issue, including the right to any part of an award of damages or any part of licensing revenue, except that a person with a direct financial interest does not include—

(i) an attorney or law firm providing legal representation in the civil action described in paragraph (1) if the sole basis for the financial interest of the attorney or law firm in the patent or patents at issue arises from the attorney or law firm's receipt of compensation reasonably related to the provision of the legal representation; or

(ii) a person whose sole financial interest in the patent or patents at issue is ownership of an equity interest in the party alleging infringement, unless such person also has the <u>explicit</u> right or ability to <u>directly and materially</u> influence, direct, or control the civil action."

Estoppel:

During the last round of patent reform legislation and passage of the AIA, NVCA advocated for strong estoppel provisions as the trade-off for supporting a post grant review (PGR) structure. The AIA language provided that invalidity claims that 'reasonably could have been raised' in a PGR cannot subsequently be made in civil action. H.R. 3309 changes the PGR estoppel language so that rather than barring the challenging party from re-asserting invalidity grounds that were "raised or could have been raised" only grounds that were actually raised in a PGR would be barred and therefore small companies would not be able to rely on the validity of their intellectual property to attract capital and build their companies.

Thank you for your leadership. We look forward to working with you and the other members of the Committee on legislation that balances the need to curb patent litigation abuses with the need to maintain strong protection for patent-dependent startups.

Sincerely,

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Bobby Franklin President & CEO

Cc: The Honorable John Conyers, Jr., Ranking Member Members of the Committee on Judiciary