



VIA FACSIMILIE

March 6, 2008

The Honorable Patrick J. Leahy
Chairman
Committee on the Judiciary
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

The Innovation Alliance – a coalition of technology innovators, patent owners and stakeholders from a diverse range of industries who agree on the critical importance of maintaining a strong patent system – believes that improving patent quality, promoting innovation, and protecting and creating jobs should be the central focus in the current patent reform debate. To that end, we welcome and encourage improvements to our nation’s patent system.

Throughout the debate over proposed patent reform legislation, we have continued to play a constructive role in advocating the interests of America’s innovators. We have actively participated in every stakeholder meeting to which we have been invited and submitted alternative proposals and specific text on multiple occasions. Most recently, we offered new damages text in partnership with other concerned business groups. As you know, however, we have taken strong exception to certain provisions contained in S. 1145, the Patent Reform Act. We want to point out to you that despite claims to the contrary, there has been no resolution to the critical issues that concern a vast array of U.S. business, academia and organized labor.

We are particularly concerned about a “compromise” proposed yesterday by the Coalition for Patent Fairness. This proposal is the first attempt by the CPF to offer alternative language to address the chorus of concerns over the Act, and yet it is anything but a compromise. In fact, the proposal would actually make the Patent Reform Act more controversial, more favorable to the technology and financial services companies who already support the bill, and less favorable for the entire rest of the patent stakeholder community. It does so for the following reasons.

First, the CPF’s proposed damages language currently in circulation would mandate that the controversial damages apportionment formula be applied in all cases and remove the court’s discretion to apply it if and when appropriate. In addition, the damages language maintains the controversial “prior art subtraction” concept by merely another name – it adds a “novel and non-obviousness limitation” to the royalty base. Because these changes seek to minimize the value of new technology by artificially mandating that a judge or jury ignore the context and contribution that new inventions make to existing

products and technologies, these changes would fundamentally alter the nature of damages law and decrease the value of patented technology. These fundamental changes would benefit the business models of a few large companies at the expense of all others, depress incentives to invest in research and development, and constrict job growth.

Second, the proposal requests a re-introduction of the controversial prior-user rights concept, which would allow a technology user to avoid liability for infringement by keeping the prior use of its technologies secret. The proposal was resoundingly defeated in both the companion House Bill and the version passed by the Senate Judiciary Committee. As was testified then, “Prior-user rights would harm small business startups as it would add the threat that after taking the sizable risks of R&D and market testing, a company could face the prospect of a market Goliath suddenly following up with a no-royalty product. Moreover, the litigation costs of challenging the validity of prior-user rights will favor those with deep pockets.”

Third, the proposal expands the controversial post-grant review process by allowing the previously mentioned prior-use concept to be used as a means to invalidate a properly granted patent. This is an unprecedented expansion of the means to invalidate a patent and a direct affront on the very tenets of the nation’s patent laws. In essence, where existing law supports innovation by encouraging sharing and disclosure of new technologies, this proposal would depress innovation by rewarding secrecy and hoarding of new technologies. At the same time, the proposal would do nothing to address broad-based concerns that the post-grant review process would lead to duplicative and abusive administrative challenges of a patent throughout its life, thus undermining the enforceability and certainty of all patent rights.

None of these proposed changes are a positive step forward towards a true compromise; a consensus bill that benefits all Americans and all industries. Any patent reform legislation should enhance U.S. innovation, competitiveness and job creation. Unfortunately the proposals from the Coalition for Patent Fairness fail this basic test and take S. 1145 in the opposite direction.

In closing, we would like to reiterate our commitment to working towards achieving a compromise bill that has a positive impact on the full range of American business, and that enhances our global economic leadership.

Respectfully submitted,

The Innovation Alliance