



June 14, 2011

The Honorable Lamar Smith
Chairman
Committee on the Judiciary
U.S. House of Representatives
Washington, DC 20515

The Honorable John Conyers, Jr.
Ranking Member
Committee on the Judiciary
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Smith and Ranking Member Conyers:

The National Venture Capital Association (NVCA) appreciates your continued efforts to enact comprehensive patent reform legislation that rewards inventors for their innovation. NVCA has consistently supported comprehensive reform of our patent laws to make the system more efficient and effective.

As you know, the venture capital industry is the primary funding source for emerging companies in high technology, life-sciences and more recently cleantech. In 2010 alone the venture capital industry committed \$21.8 billion to these start-ups that remain the heart of innovation and the backbone of U.S. job creation. In 2008, venture-backed companies employed more than 12 million people and generated nearly \$3 trillion in revenue. Respectively, these figures accounted for 11 percent of private sector employment and represented the equivalent of 21 percent of U.S. GDP.

Small emerging growth companies need strong and reliable patents and want to reduce litigation from nuisance suits. Defending against infringement is disproportionately burdensome for small companies while the benefit of infringing relative to the cost is disproportionately attractive to large companies. Given this dynamic we delineate below the features of H.R. 1249 that we believe will positively impact the patent system. We also detail our concerns regarding specific features in the legislation that if not addressed, will be detrimental for venture-backed start-ups.

The America Invents Act of 2011 provides several elements that would help modernize the U.S. patent system. In particular, NVCA believes Section 22, which would end fee diversion from the USPTO, is critical because it would provide the USPTO the much needed resources to improve the quality of the patent application. NVCA also supports an expansion of prior user rights with the appropriate safeguards for university research involved in federal funding. We believe prior

user rights are an integral component of any new paradigm if the U.S. patent system changes to a "first to file" system.

However, NVCA is concerned that the lower estoppel standard for post-grant review (PGR) in the first window does not provide adequate safeguards to deter large companies from using PGR as a mechanism to harass small companies. For inter partes review, both the House and Senate have expanded the estoppels provision governing subsequent civil litigation and ITC proceedings to include issues that "reasonable could have been raised", as well as, issue actually raised. Under the first window post-grant review, subsequent court and ITC cases are subject to weak estoppels precluding re-litigation only on the grounds actually raised during the post-grant review. This conflicts with the primary goal of post grant review, which is to move as many patent challenges as possible out of the courts. Permitting a challenger to raise only one issue in post grant and 'reserve' all the rest for litigation seems to open the door for abuse.

In addition, because post grant review covers evidence beyond patents and printed publications, we believe that the broad estoppel language is essential to protect early stage companies. NVCA has estimated that a PGR administrative challenge could cost early stage companies in excess of \$500,000. This is a significant amount of money that could divert early stage companies from other critical business functions and potentially bankrupt these companies. Under the current system, when an early stage company believes its products are being infringed, the company has the ability to choose when to file a suit and where. This give the company much more control and an ability to manage the cost of litigation. For small innovators, post grant review challenges are likely to be brought during their early development and financing stages, precisely when they are most vulnerable. Thus, broad estoppel is critical to prevent abuse.

As the debate on this measure moves forward, NVCA urges the House to maintain Section 22, to end fee diversion to the USPTO and include broad estoppel language for post-grant review matters in H.R. 1249.

NVCA will continue to work with you and your Senate counterparts towards the goal of enacting fair and reasonable reform for all parties that meets the goals of advancing U.S. innovation and U.S. job growth.

Regards,



Mark G. Heesen
President