



The Honorable Tim Murphy
U.S. House of Representatives
Committee on Energy and Commerce
Subcommittee on Oversight and Investigations
2125 Rayburn House Office Building
Washington, DC 20515-6115

January 6, 14

Dear Chairman Murphy,

Thank you again for inviting me to testify at the November 14, 2013 hearing entitled "The Impact of Patent Assertion Entities on Innovation and the Economy." At your request, attached below are responses to the additional questions for the record submitted by members of the Subcommittee.

If you have any further questions or if I can be of further assistance, please do not hesitate to contact me.

Sincerely,

Charles Duan
Director, Patent Reform Project
Public Knowledge

THE HONORABLE G.K. BUTTERFIELD

QUESTION 1A: Mr. Duan, you indicate in your testimony that one of the strategies employed by patent assertion entities is to send patent demand letters to small businesses. The majority of businesses in eastern North Carolina are small businesses, so this is particularly troubling to my constituents.

Are there any strategies that small businesses can employ to avoid being targeted by patent assertion entities?

ANSWER: First, I appreciate your recognition of, and fully agree with you on the value of, small businesses. I have worked with North Carolina technology businesses in my practice as an attorney, and they are among the most innovative in the world.

Unfortunately, the single most effective strategy that small businesses can use to avoid being targeted by patent assertion entities is to hide from them. A company that stays out of the public radar is much more difficult to target for patent infringement. And this is exactly what we see happening: small businesses that receive demand letters or pay settlements to patent assertion entities fastidiously avoid making those facts known, lest other patent assertion entities target those small businesses as well. The Application Developers Alliance famously has a member who will talk about his experiences defending against patent assertion only in a dark room with a disguised voice.

The traditional advice, of conducting a freedom to operate patent search prior to embarking on a project, is simply infeasible, particularly for these small businesses.

Such a patent analysis can cost tens or hundreds of thousands of dollars, because of the large number of patents to be searched and analyzed. This amount overwhelms the budget of most small businesses, especially in their early stages prior to investing in product development.

Furthermore, even the most comprehensive search will only reveal patents that could legitimately be asserted; it would not reveal a patent that an unscrupulous patent assertion entity would wrongly overstretch to attempt to cover a wide swath of products not properly contemplated by that patent. But it is that latter case that is the most worrisome for small businesses, as the illegitimate case is the most complex to understand, most costly to defend, and most destructive to innovation.

A third option is for a small business to join a group or collective that provides supportive services for those accused of patent infringement. Some of these organizations are forming, in both the for-profit and the non-profit sectors. I hope that they are successful, but there is a real question as to whether they will be. A similar idea was proposed several years ago, for insurance companies to offer insurance for patent assertion, but this idea has largely fallen to the wayside because the costs of patent assertion were too high and too unpredictable to be reasonably insured.

Again, though, for small businesses to protect themselves from patent assertion entities, it is necessary for those small businesses to have knowledge about those patent assertion entities. Knowing about the potential threats can help a business identify less risky avenues to take, and can support that business with valuable information and strategy should the business be targeted by a patent assertion entity. This is why we strongly support provisions for greater transparency and disclosure.

QUESTION 1B: If a small business receives a demand letter and cannot verify the legitimacy of the letter internally, what options besides hiring a private attorney does the small business have to verify the letter?

ANSWER: To begin, it is worth considering just how many steps go into verifying a demand letter. A full analysis would include numerous steps:

1. Identifying the patent being asserted
2. Computing the expiration date of the patent and determining whether all maintenance fees have been paid
3. Verifying the ownership of the patent, through the Patent Office chain of title records
4. Reading the claims of the patent to determine the invention being asserted by the letter
5. Reviewing the specification (text) of the patent, as well as the file history (procedural record) from the Patent Office, to determine the meaning of the claims of the patent
6. Searching for any litigation or administrative procedures involving the patent, to determine if the patent has been interpreted, held invalid or unenforceable, or otherwise considered
7. Identifying products and/or services of the business that may infringe the patent
8. Assessing whether those products and/or services infringe the claims of the patent based on the determined meaning of those claims
9. Searching for and analyzing any prior art that may invalidate the patent

If multiple patents are identified in the letter, then some or all of these steps must be performed repeatedly for each patent.

Some of these steps can be performed by the business itself without much difficulty. For example, steps 2 and 3 are based on publicly available data that can be accessed from the Patent Office website (although the lack of a requirement for recording patent transfers means that the step 3 analysis may be incomplete). Step 6 can also be done by the business itself, but it is currently difficult to do so due to a lack of a central repository for this information—which is why the transparency and disclosure provisions we propose would help those businesses.

The remaining steps generally require some legal knowledge to assist in interpreting relevant patent documents. The ordinary course, as you observe, is to hire an attorney to do so. Legal clinics may offer a lower-cost alternative in some appropriate situations, and law schools and organizations are taking steps to offer these.

Additionally, it is worth noting that many of these steps (e.g., steps 4–6 and 9) are independent of the business’s activities. Thus economies of scale can be introduced. For example, multiple companies who receive demand letters could share the cost of a patent validity analysis. However, this opportunity only becomes available when those companies have the resources to identify others who have received similar demand letters, making demand letter transparency a first step to accomplishing this.

QUESTION 2: Mr. Duan, studies show that patent assertion entities that manipulate our patent system to their benefit cause significant economic damage and deter innovation.

(a) How are patent demand letters from patent assertion entities hurting consumers?

(b) How are patent litigation abuses hurting consumers?

ANSWER: Both abusive demand letters and patent litigation abuses harm consumers. They do so in at least two ways.

First, they raise costs for the businesses that develop and produce innovative new products. When a business receives a demand letter or faces patent litigation, it must expend resources, including money, employees, and time. In the best case, the business is large enough to absorb those costs, and consumers face increased costs for products and services. But it is all too common for abusive demand letters and abusive patent litigation to be directed toward small businesses who cannot absorb those costs. Small businesses may be forced to remove useful features from products, lay off creative employees, or even exit their business lines due to these threats, and research has shown that all of these happened. In such cases, consumers do not merely face higher prices; they face fewer products, less innovative products, and less access to technology.

Obviously business litigation is an important aspect of our justice system, and in cases of legitimate infringement a business ought to be equipped to react appropriately. But abusive demand letters and abusive patent litigation are not designed to simply vindicate legitimate rights. Instead, they are designed to be as expensive as possible, to force those businesses on the receiving end into settlement.

This is why demand letters do not identify infringing products, leaving the business to guess at the reason for the demand letter. This is why abusive litigators demand enormous volumes of documents during litigation, to tie up business operations with discovery procedures. This is why patent assertion entities use Patent Office procedures to obtain dozens of patents on the same invention, forcing defendant lawyers to perform and bill hours of duplicative, brute-force work. All of these threaten productive businesses with enormous costs. These costs are passed on to consumers, either in higher prices for products or in lost products.

The second effect on consumers is more subtle. A key feature of our modern information revolution is that computer technology makes innovation accessible to the average person to a degree never before seen. In the days of Edison, innovators needed a lab, access to machinists, specialized materials, and other such resources not often available to the ordinary consumer. Today, a basic home computer and an Internet connection suffice to create the newest software tool or business. Every person who has recorded a macro in Microsoft Word, set up a home network in a unique configuration, or found any other clever use for a computer has invented something. Many of the great technology companies today arose out of someone just tinkering with an idea on a home PC. The line between consumer and innovator is blurring.

Patent abuses threaten to curtail this homegrown innovation. Lawsuits over basic technologies, such as MPHJ suing scanner users, Innovatio suing WiFi users, and Lodsys suing iPhone app developers, threaten to discourage basic uses of consumer technologies. Although ordinary consumers have not been sued for infringement yet, nothing in the law prevents this, and there is historical precedent: in the late 1800s, farmers across the country were threatened with patent infringement over using basic

farm tools and equipment, until Congress stepped in and revised the patent laws to curb such practices.

Thus, in addition to increasing costs for consumers, patent abuses threaten those consumers for their very act of using technology. We hope for a vibrant, productive society where we can all have access to the greatest technologies. Patents, when abused, can shatter that hope. We ask Congress to step in and act, to protect that bright future that technology promises us all.