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**Committee on Energy & Commerce
Subcommittee on Commerce, Manufacturing, and Trade
U.S. House of Representatives**

Hearing:

“Trolling for a Solution: Ending Abusive Patent Demand Letters.”

**Testimony of Jason Schultz
Associate Professor of Clinical Law
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April 8, 2014

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Chairman Terry, Ranking Member Schakowsky, and Members of the Committee, thank you for holding this hearing and inviting me to testify today about ending abusive patent demand letters.

I am an Associate Professor of Clinical Law at New York University School of Law, where I teach a Technology Law & Policy Clinic. In my clinic, law students represent individuals, non-profits, and startups on a range of legal issues, including defending themselves against abusive patent threats. My clinic is also a member of the Application Developer Alliance’s Law School Patent Troll Defense Network, a nationwide group of law schools, law students, and lawyers, working together to provide free legal services to individual and startup software developers and other small business entrepreneurs who are threatened by patent trolls.¹ Prior to teaching, I served as a Senior Staff Attorney at the Electronic Frontier Foundation, where I founded the Patent Busting Project, an effort to help individuals and small businesses fight back against abusive patent threats, and before that, I worked as a patent litigation associate at Fish & Richardson, one of this nation’s oldest and most respected intellectual property firms. In total, I have over 10 years of experience defending clients against patent threats, including dozens of demand letters.

Patent trolls (also known as Patent Assertion Entities, or PAEs) are causing enormous harm to innovators and consumers for many reasons. They are often attacked by trolls who purchase vague and overbroad patents to launch or threaten lawsuits. One particular type of troll, which some have labeled “bottom feeders”² harms businesses and consumers in a particularly nefarious way – through dangerous and irresponsible demand letter-writing campaigns. Indeed, as the White House found: “The PAE business model is based on the

¹ See <http://devsbuild.it/trolldefensenetwork>.

² Mark A. Lemley & Douglas Melamed, *Missing the Forest for the Trolls*, 113 COLUM. L. REV. 2117, 2126 (2013).

presumption that in many cases, targeted firms will settle out of court rather than take the risky, time-consuming course of allowing a court to decide if infringement has occurred.”³

These demand letters are often vague, lacking basic details such as which claims of the patent are at issue. They also rarely explain or describe in detail exactly how the recipient’s product or service infringes. Faced with such threats, many entrepreneurs have no way to evaluate the legitimacy of the claim, let alone the appropriate value of any settlement offer. And even though a demand letter is not a legal complaint, and even if it makes specious claims, the mere threat of litigation brings with it serious costs. As one study found:

Patent demands can be costly to resolve, and particularly so for small companies. The overwhelming majority of companies said that resolving the demand required founder time (73%) and distracted from the core business (89%); most experienced a financial impact as well (63%). However, responses and the costs of these responses ran the gamut; for example, 22% of those surveyed said they “did nothing” to resolve the demand.⁴

So, rationally, many simply settle and pay licensing fees that may not even apply to the technology they are building or using.

How to Help:

Require Patent Owners to Do Their Homework Before Sending a Demand Letter

The primary way this Committee can act to help fix this problem is to require patent owners to do their “homework” before sending a demand letter.

Companies that actual invent patentable products and services are no strangers to competition. They understand that they need to innovate *and* study the competition in order to stay ahead of the curve. Most if not all entrepreneurs, especially in the tech sector, follow competing products and services very closely, both from an engineering and marketing perspective. Thus, if they find a product or service that infringes one of their patents, it is not very costly to describe how that product or service infringes in letter form. They’ve already done their homework for business reasons.

³ Executive Office of the President, *Patent Assertion and U.S. Innovation*, at 12, http://www.whitehouse.gov/sites/default/files/docs/patent_report.pdf

⁴ Colleen V. Chien, *Startups and Patent Trolls* (Santa Clara Univ. Sch. of Law Legal Studies Research Paper Series, Accepted Paper No. 90-12, 2012) at 10, (“Chien 2012”), http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2146251.

Bottom-feeding trolls, on the other hand, rarely do their homework. They do not compete with companies in the marketplace; all they care about is threatening them and their users with court actions. They simply fire off boiler-plate demand letters to any conceivable recipient, hoping to maximize their return by preying on as many victims as possible, with as little effort as possible. It's a shotgun approach; there are no extra points or profits for accuracy.

To impose a "homework" requirement of actually analyzing the accused product or service disrupts this equation and makes many forms of "bottom feeder" trolling less profitable and thus less appealing. By raising the marginal cost per demand letter, the model breaks down. On the other hand, legitimate patentees who are already engaged in market research and competitive analysis have nothing to fear from this requirement.

So what would constitute such due diligence? At their core, reasonable demand letters would provide four pieces of information: (1) the specific patent numbers and claims asserted; (2) the specific products or services accused of infringing; (3) a "claim chart" explaining how the accused product or service satisfies every element of every asserted claim; and (4) patent status information, including whether the patent is currently part of any administrative or judicial proceeding and who has a financial stake in exploitation of the patents described.

For enforcement of non-compliance, there are many options. In my mind, the easiest would be unenforceability of the patents or claims listed, a remedy already available for forms of "patent misuse." One could also craft it as a standing requirement for bringing suit, much like copyright registrations are required in copyright infringement lawsuits under 17 U.S.C. § 411. One could also impose fines or encourage enforcement actions by federal or state agencies that police unfair and deceptive trade practices.

In closing, I wish to thank you again for inviting me to participate in this hearing and would be pleased to answer any further questions you might have for me.