

THE COALITION FOR 21ST CENTURY PATENT REFORM

Protecting Innovation to Enhance American Competitiveness

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On Behalf of the
Coalition for 21st Century Patent Reform

Before the

Subcommittee on Commerce, Manufacturing,
and Trade

Committee on Energy and Commerce
United States House of Representatives

On

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

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SUMMARY

The Coalition for 21st Century Patent Reform (21C) agrees that “bad-faith demand” letters are a problem and supports solutions to address them, but legislation in this area must reflect caution and balance. Appropriately “targeted” legislation will curtail the egregious practices that have developed whereby some patent owners send thousands of letters to small businesses with false or misleading threats of litigation for patent infringement and demand payment. Unfortunately, some legislative proposals to correct these abuses sweep in business-to-business communications and inadvertently chill legitimate patent communications. Efforts to address what is a relatively small number of egregious patent demand letter abuses should preserve legitimate patent communications in which patent owners normally engage.

The U.S. patent system is designed to encourage notice and communication of patent rights and to foster respect for patent rights. It is an efficient way to guide innovation around others’ patent rights to avoid or resolve infringement disputes without the need to file lawsuits, as well as to expand licensing and technology dissemination. Patent owners engaged in legitimate patent licensing communications have no desire to deceive or mislead any recipients.

Many of the proposals addressing written communications contain no meaningful limits to protect patent owners legitimately communicating their rights. The enforcement authority of the FTC and state Attorney Generals should not be invoked against patent owners in such cases. It should be reserved for those situations where hundreds of bad faith letters are sent to “end-users” who purchase merchandise in the ordinary course of their trade or business and who do not resell it. Such limits would further their consumer protection roles and reduce the risk that they would be drawn into individual patent disputes.

Some proposals would require patent owners to include burdensome and unnecessary details in any patent letter, far more than necessary to inform an infringer of the patent owners’ concerns. They include factors that a court could consider as evidence in bad faith that are wholly subjective, and would apply to all communications, not just those to small business end users. Such proposals will spawn unnecessary litigation, and are unlikely to pass Constitutional muster. Reasonable and clear rules of the road are needed to guide normal business activities; rules that will not inadvertently deter legitimate patent communications.

Any legislation crafted to protect small business end users from “patent trolls” should include a “safe harbor” to ensure that customary business communications of innovative companies are not impacted. An appropriately crafted safe harbor will also help to insulate any legislation from challenge on Constitutional grounds as intruding on protected free speech rights.

The interests of balance, uniformity and clarity apply nationally and would be furthered by the adoption of exclusive federal legislation preempting state law or regulation directed to patent demand letters. Federal preemption should also prevent the prospect of private enforcement under state unfair or deceptive trade practices laws.

Mr. Chairman and distinguished Members of the Subcommittee:

Thank you for the opportunity to appear today as a representative of the Coalition for 21st Century Patent Reform ("21C") and to testify on the subject of abusive patent litigation practices, and their impacts on American innovation and jobs.

Introduction

By way of introduction, I am the Deputy General Counsel in Caterpillar's Legal Services Division responsible for Caterpillar's Worldwide Intellectual Property practice. Caterpillar has roughly 14,000 patents worldwide - either awarded or in the approval process. We are a company of innovation - we spend \$8 million a day on R&D.

I am testifying today for the 21C, a broad and diverse group of nearly 50 corporations including 3M, Caterpillar, Eli Lilly, General Electric, Procter & Gamble and Johnson & Johnson. For more than 100 years, our Coalition's companies have played a critical role in fostering innovation. We invest billions of dollars annually on research and development to create American jobs and improve lives. Representing 18 different industry sectors, including manufacturing, information technology, consumer products, energy, financial services, medical device, pharmaceutical, and biotechnology, our Coalition advocates for patent reforms that will foster investment in innovation and job creation and promote vigorous competition in bringing new products and services to American consumers.

Opportunistic sending of demand letters by “patent trolls” is a problem

Let me state at the outset that the 21C acknowledges that “bad-faith demand” letters are a problem and we support solutions to address them. We too experience these so-called “patent trolling practices.” At the same time, however, we also need the ability to protect our hard-earned patents. We need the right - without violating the law - to send letters to those who are infringing our patents. There is a distinct and critically important difference between patent assertion entities or “patent trolls” who mass mail letters to small businesses, retailers and banks - hoping to “score” settlements based solely on intimidation - and hundreds of valid patent holders, including individual inventors and universities, placing the public on notice of their patent portfolios, offering their patents for license, and, when necessary, protecting their patented products from being infringed.

According to our information, legislation addressing bad-faith demand letters has either been enacted or sent to the governor for signature in eight states and is under consideration in eighteen other states. We have been and will continue working diligently in the states, where we and other 21C member companies have a presence, to find a “workable” and practical solution to the problem. We will continue to work with the states and with Congress to develop a single set of rules, to ensure a high degree of uniformity and consistency nationally, that parties can confidently follow without being subject to a myriad of varying, and likely inconsistent, laws and rules promulgated by different states.

Remedies should reflect caution and balance

Appropriately “targeted” legislation will curtail some of the egregious practices that

unfortunately have developed whereby some patent owners send upward of hundreds - or even thousands - of letters to small businesses or individuals with false or misleading threats of litigation for alleged patent infringement and demand payment. Unfortunately, not only has federal legislation been proposed, but state laws have also been proposed, and in some cases enacted, that will sweep in business-to-business communications and inadvertently chill legitimate patent communications. Legislation in this area should reflect caution and balance. Efforts to address what is a relatively small number of egregious patent demand letter abuses should preserve legitimate patent communications that Caterpillar and other patent owners engage in as part of their normal business communications.

The U.S. patent system is designed to encourage notice and communication of patent rights and to foster respect for patent rights. It does this as an efficient way to guide innovation around others' patent rights to avoid or resolve infringement disputes without the need to file lawsuits, as well as to expand licensing and technology dissemination. Patent owners engaged in legitimate patent licensing communications have no desire to deceive or mislead any recipients of their communications. To the contrary, it is in their interest to provide early and sufficient information to make clear their ownership of the patent rights in question and their intentions to either license or enforce those rights. That is why the vast majority of patent owners send patent "enforcement" letters. These communications are self-policing by providing notice of another's patent rights of which the recipient of the letter may simply not be aware. Manufacturers appreciate receiving early notice of others patent rights in areas in which they may be planning to invest so that they can make changes or take a license to avoid a later infringement action.

Many of the legislative proposals address written communication which states that the intended recipient or any person affiliated with the intended recipient is, or may be, infringing a patent. These measures contain no meaningful limits to protect patent owners legitimately communicating their rights. They cover ANY written communication regarding patent infringement, made to anyone. The enforcement authority of the Federal Trade Commission (FTC) should not be invoked against patent owners legitimately communicating their rights. It should only be invoked in those situations where hundreds or even thousands of bad faith letters are sent to small businesses, retailers, banks, or individuals who are “end-users” who purchase merchandise, or contract for the purchase of merchandise, not for resale in the ordinary course of their trade or business. Limiting the FTC’s enforcement authority to these abusive situations furthers its consumer protection role while reducing the risk that the FTC will be drawn into individual disputes between patent owners and potential licensees or alleged infringers. Such “one-off” disputes should be decided by Federal Courts applying substantive patent law, not by the FTC under their consumer protection authority.

Customary business communications should be protected by a “safe harbor”

In order to mitigate the risk of adversely affecting deterring legitimate patent licensing and enforcement communications, any Federal, or for that matter any state, legislation crafted to protect small business and individual end users from the abusive practices of so-called “patent trolls” should include a “safe harbor” provision to ensure that customary business communications of innovative companies are not impacted. Such a provision should make it clear that the legislation is not intended to

impinge on a patent owner's right to put others on notice of its patent rights and the availability of, or need for, a license.¹ An appropriately drawn safe harbor provision will also help to ensure that the legislation is not vulnerable to challenge on Constitutional grounds as too intrusive upon protected rights of free speech in connection with legitimate patent licensing and enforcement activities.² Otherwise, there is a real risk that well-intended provisions, or the entire act itself, will be struck down on the grounds that the Constitutional rights of free speech and to petition our government has been abrogated by provisions seeking to mandate to patent owners what they must say when communicating information, rather than limiting those provisions to restrict them from making false and/or deceptive statements.

Prospective solutions should not unnecessarily burden patent owners

Some pending legislative proposals would impose a burdensome and unnecessary list of requirements that must be included in any patent letter, far more than what would be necessary in the normal course for a patent owner to adequately inform an infringer of the patent owner's concerns. It would hamper or even stop a patent owner's ability to send legitimate demand letters. For example, language in one proposed bill calls for "a clear, accurate, and detailed description, such as the manufacturer and model number, of each product, device, business method, service, or technology that allegedly infringes each claim." Patent claims are often lengthy

¹ See, e.g., *Virtue v. Creamery Package Mfg. Co.*, 227 U.S. 8, 37-38 (1913) ("Patents would be of little value if infringers of them could not be notified of the consequences of infringement, or proceeded against in the courts. Such action, considered by itself, cannot be said to be illegal."); *Va. Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 869 (Fed. Cir. 1997) ("[A] patentee must be allowed to make its rights known to a potential infringer so that the latter can determine whether to cease its allegedly infringing activities, negotiate a license if one is offered, or decide to run the risk of liability and/or the imposition of an injunction.").

² Courts have held that patent demand letters fall within the First Amendment's guarantee of "the right of the people . . . to petition the Government for a redress of grievances," U.S. Const. amend. I, and thus are protected from liability by the Noerr-Pennington doctrine. See, e.g., *In re Innovatio IP Ventures, LLC Patent Litig.*, 921 F. Supp.2d 903 (N.D. Ill. 2013) (collecting cases).

and very detailed, and in many cases companies simply do not have access to a competitor's product or technology to provide such information. For example, Caterpillar's surface and underground mining patent portfolio could cover a competitor's machine located in a remote mine site, or Caterpillar's advanced manufacturing technology patent portfolio could cover activities inside a competitor's manufacturing facility to which we have no access. Such detail is not available without discovery in litigation.

Solutions should be focused on surgically fixing the problem

The definition in some of these legislative proposals, regarding communications of possible patent infringement that a court "may consider" as evidence that an assertion was made in bad faith, are filled with wholly "subjective factors." Moreover, the definitions make communications to anyone, not just to small business end users of products who have no intention of reselling them, subject to sanctions. Some of these proposals would have the determination of whether a demand letter constitutes an unfair or deceptive act dependent on factors such as whether the response time is "unreasonably short," whether the amount proposed for a license is a "reasonable estimate," whether the claim of infringement was "meritless" or whether it is "likely to materially mislead a reasonable intended recipient." Such vague and indefinite restrictions on patent owner's right to inform others of their patent rights will spawn unnecessary litigation, and are unlikely to pass Constitutional muster.

Patent communications are like other business activities in the sense that what is needed are reasonable and clear rules of the road to guide normal business

activities. The definition of assertions that would constitute an unfair or deceptive act which are so nebulous, as they are in many of these proposals, that they leave patent owners pursuing legitimate enforcement and licensing activities without clear guidance as to what they can and cannot communicate to infringers and potential licensees are equally troublesome. The appropriate goal of legislation in this area should be to identify, and empower the FTC to address through its enforcement powers, only those demand letters which are truly intended to deceive or mislead their recipients. For example, a demand letter may be considered to be objectively false or misleading if it falsely states that litigation has been filed against the recipient or there is a widespread pattern of such threats being made where the sender knows that no litigation has been filed. Similarly, a demand letter that seeks compensation for a patent that has not been issued, or that has been held to be invalid, or has expired could be considered to be objectively false or misleading.³

Legislation in this area should reflect caution and balance to ensure that efforts to address what is a relatively small number of egregious patent demand letter abuses do not inadvertently chill legitimate patent communications that patent owners engage in each and every day.

Federal preemption is needed to ensure certainty and uniformity

The public, and patent owners alike, will benefit from the adoption of clear, balanced and uniform legislative guidance regarding the FTC's authority to target bad-faith patent demand letters that clearly constitute unfair or deceptive trade practices within

³ For a more complete list of objectively false and materially misleading assertions found in deceptive demand letters, see Statement of Philip S. Johnson, "Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse," Judiciary Committee of the United States Senate, December 17, 2013, available at <http://www.patentmatter.com/issue/pdfs/JohnsonSenateJudiciaryCommitteeStatement20131217.pdf>.

the meaning of Section 5(a)(1) of the Federal Trade Commission Act. These interests of balance, uniformity and clarity apply nationally and are furthered by the adoption of exclusive federal legislation. Just as substantive patent laws derive from the Constitution and are exclusively within the province of Federal statutes and courts, so too should issues relating to consumer protection against patent demand letters be applied consistently and uniformly nationwide through federal legislation, regulation and judicial action. Thus the FTC, rather than individual states, appears to be in the best position to weigh the balance that federal legislation establishes between the need for consumer protection against bad faith demand letters and the need to ensure that we do not weaken our patent system by making patent licensing or enforcement more difficult or less certain. Legislation in this area should expressly provide that it preempts state law or regulation directed to patent demand letters.

Federal preemption should also prevent the prospect of private enforcement under state unfair or deceptive trade practices laws. Private enforcement does not further consumer protection and it heightens the risk that one of the more “sophisticated” infringers to whom we send a letter will file suit to exert leverage in our private patent dispute. In such cases, not only might the infringer be able to continue with its infringement, it may even get a “windfall” in the form of exemplary damages. This should be avoided so as to not tilt the playing field in favor of infringers, and against inventors and patent owners, in a way that goes well beyond what’s needed to protect against so-called “patent trolls.”

Conclusion

The 21C is prepared to work with the Committee on Energy and Commerce, other

House Committees, as well as with Members of the Senate to assist in the drafting of legislation, consistent with foregoing principles, to provide guidance for the FTC, using its existing authority, to sanction such abusive bad faith demand letter practices while ensuring that legitimate patent communications are not inadvertently discouraged.