February 25, 2015

The Honorable Michael C. Burgess
Chairman, Subcommittee on Commerce,
Manufacturing and Trade
U.S. House of Representatives
2336 Rayburn House Office Building
Washington, DC 20515

The Honorable Jan Schakowsky
Ranking Member, Subcommittee on
Commerce, Manufacturing and Trade
U.S. House of Representatives
2367 Rayburn House Office Building
Washington, DC 20515

Statement for the Record for the Energy and Commerce Subcommittee hearing entitled
"Update: Patent Demand Letter Practices and Solutions"

Dear Chairman Burgess and Ranking Member Schakowsky:

On behalf of the thousands of financial institutions of all sizes and charters represented by the undersigned trade associations, we are writing to commend you for your leadership in holding a hearing entitled, "Update: Patent Demand Letter Practices and Solutions." We respectfully request that this letter be included as part of the record for the hearing.

We fully support your goal of developing legislation to tackle the scourge of bad faith patent demand letters. Financial institutions of every size have been targeted by Patent Assertion Entities (PAEs), often referred to as patent trolls, who in most cases assert patents of dubious quality through vaguely worded demand letters or intentionally vague complaints. Indeed, patent trolls' recent focus on credit unions, community banks and other financial institutions threatens to pose additional, unwarranted costs on lenders and the communities they serve. In our industry alone, there are hundreds of examples of a patent troll attempting to sell a product – the patent license – to a bank or credit union using tactics resembling fraud or extortion.

Although legislation has not yet been introduced, we strongly believe any legislative solution should include provisions clarifying the Federal Trade Commission's (FTC) authority to fight against deceptive practices, while not affecting legitimate patent holders' rights to send demand letters or otherwise assert their patent rights. FTC and state Attorneys General enforcement would help alter the fraudulent business model of trolls by removing some of their financial incentive to send intentionally vague demand letters in the hope of quick settlements. Although outside the scope of your Committee's jurisdiction, we believe it would also make sense for patent troll legislation to provide that if a demand letter does not contain specific information about the patent, the alleged infringement and who is asserting the patent, any civil action that is later brought by the troll would be dismissed. Compromise language developed by Senators Cornyn and Schumer in the Senate Judiciary Committee in 2014 provides a good model. Indeed, such a provision would complement this Committee's work because it would help provide the FTC the evidence of unfair and deceptive behavior it needs to bring enforcement actions against the worst actors.

Added transparency would also help businesses make sense of a demand letter upon receipt so they are better equipped to evaluate the claim. We also urge the Committee to limit the number of exceptions provided to patent trolls, such as through affirmative defenses to fraudulent behavior. In addition, we note that states have proven to be effective laboratories for developing and furthering robust policy relating to patent trolls. While most states could see a reduction in unsubstantiated bad faith demand letters if this legislation were to be enacted, the bill should also allow states that have proactively enacted laws to discourage bad faith demand letters to continue to enforce them. **If state law is preempted, it is imperative that strong and enforceable national standards for demand letter transparency be put in place**.

We look forward to continuing to work with the Committee and stakeholders to craft a bipartisan solution that directly addresses the growing abuse of our patent system and these specious claims that are having a negative impact on our industry, our customers, and the American economy. To that end, the following is a more detailed summary of the financial services recommendations for comprehensive legislation dealing with the patent troll problem.

Patent Troll Legislation – Principles Advocated by the Financial Services Industry

The financial services industry, like many other sectors of the economy, has faced deceptive demand letters and frivolous litigation from patent trolls asserting low-quality patents.

We have serious concerns about the current patent litigation environment as well as the quality of patents granted by the Patent and Trademark Office (PTO). In addition, patent trolls continue to assert low-quality patents through vaguely- worded demand letters with the full knowledge that their targets, our members, are more likely to pay unnecessary licensing agreements than engage in lengthy, costly litigation. The deadweight cost of compliance with demand letters and the threat of litigation are ultimately born by our customers.

To that end, the financial services industry has coalesced around a set of key principles needed to address this critical issue. These principles fall into three distinct yet interrelated baskets that, if enacted, would improve the patent system, promote innovation and discourage the assertion of low-quality patents as a legitimate business model.

1) Efficiency of the Litigation Process: improvements need to be made to make the cost and burdens of patent litigation equitable and more efficient.

2) Enhanced Transparency: abuse of the patent system through the use of vaguely-worded demand letters must be ended by requiring such letters to provide more details about the patent and who claims to assert it.

3) Patent quality: improvements are needed in the post-grant review of patents such as making the Covered Business Method (CBM) permanent and more useable for smaller entities.

Collectively, these principles will go a long way in protecting the financial services sector and the millions of customers our members interact with on a daily basis from the harm wrought by patent trolls. As the issue of patent reform unfolds in the 114th Congress, we look forward to working with you to advance these core principles.

The following summarizes a set of principles that the financial services sector is advocating for inclusion in any patent reform legislation during the 114th Congress:

LITIGATION EFFICIENCY

- Contribution Doctrine: Patent trolls target financial services companies as end-users of a product or service, leaving our members vulnerable and liable for products and services outside of their control. Adding a right of contribution to the patent law would enable a more equitable distribution of liability between end users and vendors. Under common law and certain federal statutes, there is right of contribution (e.g., a tortfeasor, or defendant, has a right to seek contribution from other joint tortfeasors where one tortfeasor has paid more than its fair share of damages to the plaintiff). In the patent context, a right of contribution could arise where a patent troll sues the end user of a system, not the upstream supplier of components of the system. Unfortunately, no right of contribution exists under the patent law and state law claims for contribution are preempted.

- End-User Protections: End users should be protected from patent troll lawsuits based on infringements by manufacturers and producers. Trolls should be required to sue the party that is actually responsible for infringement, and end users should be protected by having their cases consistently stayed when the manufacturer is best positioned to fight the patent troll. Definitions should ensure that the stay adequately shields business from all corners of "Main Street" America, including financial services.

- Limitation to Core Discovery Documents: Each party is to pay for the discovery it requests beyond "core" documents. Any discovery requested beyond the "core" documents is at the expense of the party requesting such discovery.

ENHANCED TRANSPARENCY

- Demand Letter Reform: Vaguely-worded demand letters have been used by patent trolls to entice licensing agreements and the payment of royalties even though the facts around infringement may not be compelling. Demand letters should contain greater specificity. This enhanced transparency will help curb abusive lawsuits. Further, demand letters should be filed with regulators and recorded in a public, searchable database. In addition, a demand letter should be sufficient to enable a covered business method review, and State laws that have been enacted to curb abusive demand letters by patent trolls should be viewed as a complement to any federal protections, and not be preempted.

- Enhanced Pleading Standards: Complaints for patent infringement should specifically identify the accused product, the asserted claims and factual basis for infringement.

- Close Marking Loophole: Under current law, a company practicing a patent can only collect past damages if it marks it products, meaning it labels the product as a patented product. Conversely, a patent troll is entitled to past damages because they have nothing to mark. It is unfair that an entity that does not practice a patent is entitled to more damages than a company that actually employs people and contributes to the economy by selling products and services. To fix this loophole and put operating companies and patent trolls on a level playing field, a plaintiff should only be able to collect damages from the date it provided notice of infringement. Marking a product should be considered adequate notice of infringement.

- Recordation of Patent Sales: Establish public record of patent sales, analogous to the sale of real estate. Each sales record should include: (1) Real Parties in Interest – clear identification of purchaser, parent companies of purchaser, as well as identification of companies and individuals that retain a financial interest in the patents; and (2) Purchase Price. P-patent brokers should have licensing and other oversight requirements to ensure that the market is a level playing field and brokers have the requisite expertise and adhere to ethical business practices. As part of the sales process, an objective, third-party valuation should be required. In addition, there should be a transaction fee to cover the costs associated with licensing brokers and maintaining public sales records.

PATENT QUALITY

- Permanent Covered Business Method program and Improvements to other Post-Grant programs: Post-grant review should be available to all practitioners including those who do not generally possess prior art in the form of patents and printed publications. Congress validated this assertion in the American Invents Act when they created the

CBM program. Unfortunately, without intervening action, the CBM program will expire in 2020 once again leaving certain industries exposed to low quality business method patents. The CBM program should be made permanent as it has proven to be a successful low-cost alternative to litigation of covered business method patents. However, additional modifications should be made to inter partes review to ensure that it can be accessed by all practitioners using the very best prior art available. Safeguards should ensure that post-grant proceedings cannot be used to harass patent holders and not so restrictive as to protect low-quality patents from review.

- Language to make CBM Program permanent should include the ability for the PTO to waive or reduce the fee for small entities.

- Lift the prior art bar for inter partes and remove the estoppel bar.

Sincerely,

American Bankers Association
American Insurance Association
The Clearing House Payments Co., L.L.C.
Credit Union National Association
Financial Services Roundtable
Independent Community Bankers of America
National Association of Federal Credit Unions
National Association of Mutual Insurance Companies