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On Behalf of Innovation Alliance

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the H.R. __, Targeting Rogue and Opaque Letters (TROL) Act

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Chairman Upton, Ranking Member Pallone and Members of the Subcommittee, thank you for giving me the opportunity to speak today about the discussion draft of the Targeting Rogue and Opaque Letters (TROL) Act concerning patent demand letters. My name is David W. Long, and I am a patent attorney at Kelley Drye & Warren LLP here today on behalf of Innovation Alliance, a coalition of research and development-focused companies that believe in the critical importance of maintaining a strong patent system supporting innovative enterprises of all sizes. I have practiced patent law for almost 20 years, starting as a law clerk for the Honorable Edward S. Smith at the U.S. Court of Appeals for the Federal Circuit and continuing with patent counseling and representation in matters before the courts and U.S. Patent and Trademark Office.

The legislation before the subcommittee reflects the type of balanced, targeted measure appropriate for addressing bad faith demand letters while respecting patent rights and legitimate communications used to efficiently reach reasonable business solutions to patent infringement concerns. I will discuss a few points concerning the patent demand letter bill:

First, providing notice of patents and potential infringement plays an important role in the U.S. patent system, which is the greatest system of innovation the world has ever known. Demand letter legislation should be carefully crafted to do no harm to our innovation system.

Second, by and large, the bulk of business-to-business patent demand letters are legitimate efforts to efficiently reach reasonable business solutions to patent infringement concerns. Demand letter abuse is more likely to occur in limited circumstances where certain types of entities target small businesses outside the technology sector that are not familiar with patents or the underlying technology and, thus, are more vulnerable to deceptive demand letters.

Third, demand letter legislation that carefully targets problem circumstances without harming the patent system would: (a) clarify, but not expand, the FTC’s existing enforcement authority with respect to abusive demand letter practices; (b) avoid over burdensome disclosure requirements for demand letters; (c) protect good faith patent enforcement activities; and (d) preempt the growing patchwork of disparate state laws so that the federal government can continue controlling the balance needed to maintain a thriving patent system.

I. Providing Notice of Patents and Potential Infringement Play An Important Role in the U.S. Patent System

The U.S. patent system is the greatest system for innovation that the world has ever known. This is not by happenstance. Rather, patents are firmly embedded in our Constitutional structure as a fundamental driving force behind American innovation.¹ And our patent system has done just that. Consider, for example, the remarkable advancements in consumer wireless devices. Not too long ago, a “mobile” telephone was an expensive, bulky, suit-case-sized device lugged around by the elite to do phone calls. Today, mobile phones are carried in the pockets of mainstream consumers everywhere. They are a marvel of modern innovation that allows everyday people to hold in the palm of their hands not only the ability to do phone calls, but the power to see where they are on a map, what lies ahead, what weather is coming, how their loved ones are doing, what’s going on in the world as well as perform timely critical business tasks on the go and many other things too numerous to list here. Our patent system helped fuel this innovation every step of the way. A strong patent system is indeed an essential part of America’s economic success, contributing to economic growth, higher income and more jobs.

¹ U.S. Constitution, Art. 1, Sec. 8, Cl. 8 (“The Congress shall have power ... To promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries.”)

An important part of our thriving patent system is providing timely notice of patent rights. The patent system encourages patent owners to provide notice of their patent rights so that those who are using, or want to use, the patented technology may timely decide how they want to proceed in light of the patent. For example, the patent system encourages patent owners to “give notice to the public” of patent rights by marking their products and those of its licensees with patent numbers covering such products.² Otherwise, the patent owner might not recover damages for infringement of a patent that occurs before the infringer receives actual notice of the alleged infringement. Suing someone for infringing the patent provides such notice, but notice letters—often called “patent demand letters”—are a far more efficient way to start a dialogue toward resolution.

Opening communications that provide notice of patent rights are often very general and introductory in nature. This gives the parties an opportunity to start a dialogue and negotiate between themselves what level of disclosures and discussions are warranted under the circumstances in order to efficiently reach a reasonable business solution. The accused infringer can pursue the level of diligence it believes appropriate under the circumstances in order to decide whether to continue its current activities based on a likelihood that the patent is not infringed, negotiate a license under the patent, or design around the patent, which the patent system encourages because such design around efforts may lead to further innovations.

Any demand letter legislation, therefore, should be carefully crafted so that it does not discourage legitimate efforts to provide notice of patent rights.

² 35 U.S.C. § 287(a).

II. Limited Circumstances of Abusive Demand Letters

By and large, the bulk of business-to-business demand letters are legitimate efforts to provide notice of patent rights and efficiently reach a reasonable business solution. Businesses in technology-oriented industries usually are accustomed to patent demand letters as a part of their business. They may have in-house patent counsel who address such demand letters in the same way that they have in-house employment counsel for human resource issues or in-house contract counsel for negotiating commercial contracts. Even if a business does not have such resources in-house, they may have outside counsel to assist with those issues or to at least direct them to someone who can assist them. Dealing with patent demand letters is simply another legitimate part of the business endeavor.

But there are a few bad actors that have distorted this otherwise legitimate patent enforcement practice in an attempt to extract money from certain types of businesses that generally are not familiar with patents or the technology covered by them. These bad actors often come from business models that are premised on monetizing acquired patents without the business itself conducting any research and development to create patentable innovations or providing any product or service that places innovations into consumers' hands. Rather, they may assert previously dormant patents with threats to wrench existing technology from the consumers' hands. These non-innovating, non-practicing patent monetization entities often are called patent assertion entities (PAEs), non-practicing entities (NPEs) or, in the pejorative, patent trolls.

The target of such PAEs often are small businesses in an industry outside of the technology sector that may use off-the-shelf equipment or software as an incidental part of conducting their business. Patents and patent law are very complex areas that such businesses typically do not deal with or have any familiarity. Further, they may have no understanding of

the technology or inner workings of the accused infringing equipment or software. Thus, an ambiguous and coercive patent demand letter may be very intimidating. Consider, for example, a small coffee shop that offers free WiFi to its customers. The coffee shop owner most likely knows all about coffee and the business of selling coffee. But that typically does not involve a working understanding of patents or the ins-and-outs of WiFi technology, including all the microchips, software and other things that make it work. They may be more vulnerable to abuse from deceptive patent demand letters than are other businesses.

Some examples that have been raised of deceptive demand letters that could lead to such abuse include circumstances where, in bad faith, the entity sending the demand letter: states that they own or have the right to assert a patent, but they do not; states that they investigated the alleged infringement, but have not; threatens to bring legal action for infringement without an intent to do so; or asserts infringement by activity occurring after a patent has expired.

III. Measured Response To Address Limited Problem Without Harming The Patent System

A lot of the more visceral aspects of the current patent reform debate arises from stories about PAEs threatening small businesses with ambiguous or misleading mass-mailed demand letters. The Committee understandably is interested in curtailing abusive activities of such bad actors, but should do so with a cautious and balanced approach that does not inadvertently harm legitimate patent enforcement practices. A dripping faucet may garner a lot of attention in a house, distracting attention from all the many great things about the house; it requires a response, but a measured one—i.e., replace a rubber washer, rather than ripping out the plumbing or tearing down the house.

A demand letter law that is too broad or too punitive may deter appropriate and useful efforts to provide timely and efficient notice of patent infringement or otherwise undermine

incentives to innovate. A patent's value rests in the patent holder's ability to meaningfully enforce it. Innovators must assess their ability to enforce and license intellectual property when deciding whether to make the significant investments necessary to develop or commercialize new products and technologies from which such intellectual property arises. Meaningful patent protection also is important when developing business partnerships and cooperative relationships in high-technology areas. Making notification obligations or enforcement of patent rights too burdensome, too costly, or too risky will adversely affect the innovation dynamics. Any legislation should narrowly target remedying the problem of abusive mass demand letter campaigns without harming patent holders engaged in legitimate patent enforcement activities.

A. Clarify, Without Broadening, the FTC's Existing Authority

There is no need to expand the U.S. Federal Trade Commission's (FTC's) authority to police patent enforcement communications of all patent holders. The FTC already has the authority to protect consumers from potentially bad actors who engage in mass mailing of unfair or deceptive demand letters. Indeed, under its existing authority, the FTC recently investigated and reached an agreement and consent order with a PAE (what some called the "scanner patent troll") accused of sending mass-mailed demand letters threatening small business end-users of off-the-shelf document scanning equipment with litigation that the PAE allegedly did not intend to pursue. Among other things, the consent order bars the PAE from making misrepresentations when asserting patent rights in the future, including deceptive claims about the results of licensing or litigation regarding particular patents, claims that a particular patent has been licensed to a substantial number of licensees, or claims that a particular patent has been licensed at particular prices or price ranges. The PAE also must undertake certain record keeping practices to substantiate future patent assertion efforts and demonstrate compliance with the consent order for a twenty-year period.

Accordingly, the FTC's existing authority permits it to address the limited patent demand letter problem without improperly injecting the FTC into legitimate private disputes and negotiations concerning the infringement, validity and value of patents. The Committee's bill should clarify, but not expand, the FTC's existing authority. The Committee's demand letter legislation should draw a clear line between (1) deceptive shakedown scenarios warranting FTC enforcement and (2) legitimate and individualized patent enforcement correspondence between companies.

The "pattern or practice" requirement is appropriate because the purported need for demand letter legislation stems from just this kind of activity—the mass mailing of demand letters by certain types of PAEs. The "bad faith" requirement is necessary to capture the requirements of current case law and protect patent holders' First Amendment rights. Inclusion of these requirements will help to strike the correct balance between identifying the situations in which FTC can and should take action, and protecting the rights of patent holders engaged in legitimate enforcement activities.

Further, if Congress is going to legislate in the area of demand letters, Congress should specifically describe the conduct that would be considered unfair and deceptive. This clarity is necessary to prevent the bill from being misinterpreted and to put patent holders on notice of what type of conduct is prohibited.

B. Avoid Overly Burdensome Disclosure Requirements

The Committee should avoid imposing overly burdensome disclosure requirements that fail to account for the realities of patent enforcement and license negotiations. Not all licensing communications involve only a couple of patents and a small number of commercially available accused products. Licensing negotiations often involve a portfolio of hundreds or thousands of patents and numerous different existing or future devices, product models or manufacturing

processes. Some or all of such potentially infringing devices or processes may not be available to the patent holder to examine and make a conclusive decision about infringement. Even assuming such information were available, requiring highly detailed information in a demand letter (such as a detailed explanation of how each asserted patent claim is infringed by each accused product or process) would impose an undue burden on patent owners and could result in unnecessarily voluminous communications under the circumstances. For some patent holders, particularly small inventors, start-ups and those lacking extensive resources to devote to patent enforcement, such a burden would be enormous, expensive and impractical, and could impair their ability to enforce their intellectual property rights.

Further, such highly detailed information provided in the first instance may do more harm than good when first received by a small business unfamiliar with patents or the underlying technology. Patents are complex legal documents and interpreting patent claims can be very difficult such that even seasoned patent attorneys may find reviewing and researching detailed patent claim charts daunting at first encounter.

C. Protect Good Faith Conduct And First Amendment Rights

The Committee should refrain from creating a framework under which a patent holder could be punished for good faith conduct. The First Amendment affords broad protection for activities relating to enforcing and communicating patent rights in good faith. Again—the real consumer protection threat posed by demand letters results from bad faith communications sent to those unfamiliar with patents and the underlying technology. The appropriate goal of the legislation should be to identify, and clarify the FTC’s existing power to address, only those demand letters that are sent in bad faith.

D. Federal Preemption Of State Demand Letters Laws Is Necessary For A Clear, Balanced And Thriving Patent System

Many states have enacted, or have pending, legislation directed to patent demand letters. So far, about eighteen states have enacted patent demand letter legislation and about eleven states have such legislation pending. These state bills contain disparate requirements and prescriptions. Some states limit the legislation to end users, but some do not. Some apply even after a patent lawsuit has been filed. Some have bright line disclosure obligations, but some do not. Some exempt certain entities, such as manufacturers or pharmaceutical companies. Some have safe harbors. Some have punitive damages and at least one has criminal penalties.

Ensuring compliance with a patchwork of state laws will make enforcing patent rights extremely burdensome and, for some patent holders, prohibitively expensive to conduct legitimate and good faith patent enforcement actions. Given the uncertainty of which state laws may apply to different entities, patent holders may need to prepare patent demand letters that comply with the most stringent provisions of all of the disparate state laws, thus resulting in an amalgam that does not even reflect whatever balance each individual state law sought to strike with its particular provisions.

Further, some state provisions can be subject to abuse. For example, many state bills allow the person receiving a demand letter to pursue a private cause of action against a patent holder and seek thousands of dollar in punitive damages. Patent holders may find themselves targeted by private plaintiff's threatening litigation to extract nuisance settlements, which may incentivize, rather than prevent, vexatious litigation. The patent law system already learned this lesson the hard way when it came to the notice provisions of the patent statute that had allowed private causes of action for false marking. That provision was exploited by some who created a cottage industry in suing companies that may have technically violated the statute but without

any apparent harm to anyone. In 2011, Congress rightfully ended that private cause of action practice by amending the false marking statute so that “[o]nly the United States may sue for the penalty authorized by [the false marking statute].”³

However well-intentioned, state patent demand letter laws should be preempted by federal legislation. The federal government is best positioned to address the problem through balanced legislation that provides clear and uniform national guidance. Patent law has long been the exclusive province of the federal government, which overall system uniformity and management has helped create a system for innovation that has been the envy of the world. Indeed, the international community recognizes the power of a more uniform patent system. For example, the European community is moving toward a Unified Patent Court to avoid the high costs, legal uncertainty and forum shopping by parties otherwise seeking to address patent issues in individual national courts they deem to have more favorable substantive or procedural laws. Subjecting American patent rights to a patchwork of disparate state demand letter laws would be a step in the wrong direction.

Based on my background, I also consider the issue from a system engineer’s point of view. Before practicing law, I worked in engineering that included rocket science. I recall a presentation about problems in having a rocket designed solely from a specialist’s point of view. To the aeronautical specialists, a rocket would be huge wings, control surfaces and a large fuel tank so it could fly-and-fly; but it would not know where it was going or do anything if it got there. To the guidance specialists, a rocket would be huge radar dishes, antennas, sensors and computers so that the rocket could land on a dime; but it could not get to that dime or do anything once it got there. To the payload specialist, a rocket would be a giant payload for doing

³ 35 U.S.C. § 292(a).

something once the rocket got to its destination; but the rocket could not get there. However well-intentioned and intelligent these specialists were, none of their individually designed rockets would go where it needed to go and do what it needed to do once it got there. It is the role of the system engineer to listen to these specialists and, through proper balance of all areas, design the rocket needed for the task at hand.

In this case, the federal government is the system engineer for the patent system. However well-intentioned the state demand letter laws may be, they have been designed with a special view toward a specific problem without the experience or full authority to design the entire patent system through carefully crafted and balanced legislation that maintains the American patent system as the greatest system of innovation ever known.

IV. Conclusion

Thank you again for your diligence to carefully craft a balanced solution to patent demand letter issues. The legislation before the subcommittee is the type of balanced, targeted measure needed to address bad faith demand letters while preserving the patent owner's ability and right to engage in communications about its patents. Thank you for allowing me to testify today about it. I look forward to answering your questions.