

H.R. _____, THE TARGETING ROGUE AND
OPAQUE LETTERS ACT

HEARING
BEFORE THE
SUBCOMMITTEE ON COMMERCE, MANUFACTURING,
AND TRADE
OF THE
COMMITTEE ON ENERGY AND
COMMERCE
HOUSE OF REPRESENTATIVES
ONE HUNDRED FOURTEENTH CONGRESS

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**H.R. _____, THE TARGETING ROGUE AND
OPAQUE LETTERS ACT**

THURSDAY, APRIL 16, 2015

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON COMMERCE, MANUFACTURING, AND
TRADE,
COMMITTEE ON ENERGY AND COMMERCE,
Washington, DC.

The subcommittee met, pursuant to call, at 11:02 a.m., in room 2123, Rayburn House Office Building, Hon. Michael C. Burgess (chairman of the subcommittee) presiding.

Members present: Representatives Burgess, Lance, Guthrie, Bilirakis, Brooks, Mullin, Schakowsky, Clarke, Kennedy, Cardenas, and Pallone (ex officio).

Staff present: Charlotte Baker, Deputy Communications Director; James Decker, Policy Coordinator, Commerce, Manufacturing, and Trade; Graham Dufault, Counsel, Commerce, Manufacturing, and Trade; Melissa Froelich, Counsel, Commerce, Manufacturing, and Trade; Kirby Howard, Legislative Clerk; Paul Nagle, Chief Counsel, Commerce, Manufacturing, and Trade; Olivia Trusty, Professional Staff, Commerce, Manufacturing, and Trade; Michelle Ash, Democratic Chief Counsel, Commerce, Manufacturing, and Trade; Christine Berenholz, Democratic Chief Clerk; Jeff Carroll, Democratic Staff Director; Lisa Goldman, Democratic Counsel; Brendan Hennessey, Democratic Policy and Research Advisor; and Ryan Skukowski, Democratic Policy Analyst.

Mr. BURGESS. The Subcommittee on Commerce, Manufacturing, and Trade will now come to order.

The Chair will recognize himself for 5 minutes for the purpose of an opening statement.

**OPENING STATEMENT OF HON. MICHAEL C. BURGESS, A
REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS**

I do want to welcome all to our legislative hearing to consider the Targeting Rogue and Opaque Letters Act of 2015.

Last year, the subcommittee held a series of negotiations resulting in the draft legislation we consider today. Although the draft bill passed this subcommittee with bipartisan support, there are some who believe the text could be amended narrowly to achieve better protections for those who receive demand letters. So today we look forward to hearing from our panelists about how we can make some targeted changes to the draft text to achieve this goal.

The problem of abusive demand letters has set off a surge in State activity to address this issue. Unfortunately, many States

have unintentionally created problems for patent holders in trying to address the harms created by bad actors. For example, State courts should not be empowered to determine the reasonable cost of a patent license. Nor should the definition of a bad-faith demand letter be allowed to disregard the First Amendment rights of patent owners.

Causes of action under State law are in trouble in the demand letter space when they have been removed to Federal court. Federal Circuit doctrine generally controls patent matters. As we heard at our first demand letter hearing earlier this year, the Federal Circuit jurisprudence preempts all but a narrow set of cases in the demand letter context.

When Nebraska attempted to enjoin MPHJ Technology Investments from victimizing Nebraska businesses and residents, the case wound up in Federal court. There, it was dismissed under the Federal court's Noerr-Pennington doctrine, among other things.

Most of us agree that the MPHJ was indeed attempting to trick demand letter recipients into paying undue license fees. Federal legislation would provide State attorneys general a remedy for those demand letter recipients who may not be protected because State-level safeguards are negated.

These are a couple of the compelling reasons for Federal legislation and preempting the State laws that directly deal with demand letters. We do aim to move this bill forward, and I believe it could become law so long as it narrowly addresses the demand letter problem with due respect to the Constitution.

I want to thank the witnesses for being here. You will all be introduced, but, Ms. Lettelleir, as a fellow Texan, I particularly want to welcome you to our panel today.

[The prepared statement of Mr. Burgess follows:]

PREPARED STATEMENT OF HON. MICHAEL C. BURGESS

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For example, State courts should not be empowered to determine the "reasonable" cost of a patent license. Nor should the definition of a bad faith demand letter be allowed to disregard the First Amendment rights of patent owners.

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We aim to move this bill forward and I believe it could become law so long as it narrowly addresses the demand letter problem with due respect to the Constitution.

[The discussion draft appears at the conclusion of the hearing.]

Mr. BURGESS. I would like to recognize the ranking member of the full committee, Mr. Pallone, for 5 minutes for an opening statement.

Sir, you are recognized.

OPENING STATEMENT OF HON. FRANK PALLONE, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW JERSEY

Mr. PALLONE. Thank you, Mr. Chairman.

The patent system plays a crucial role in promoting innovation by providing an incentive to inventors to make costly and time-consuming investments in research and development of new inventions. At the same time, the system requires that the inventions be disclosed so that others can build upon the inventions.

At our last hearing on this issue in February and as early as the fall of 2013 in the Subcommittee on Oversight and Investigations, we heard from stakeholders that some businesses, especially small, Main Street ones like coffee shops, Realtors, hotels, restaurants, and retailers, have been receiving abusive patent demand letters. Efforts to combat abusive demand letters have already begun, and some State attorney generals have taken legal action to protect their citizens from unfair and deceptive demand letters. In addition, 20 States have already enacted legislation to tackle this abusive activity.

Furthermore, the FTC brought an administrative complaint against MPHJ Technologies, a well-known patent troll. That case was recently settled through a consent order that prohibits MPHJ from making deceptive statements in its demand letters.

The question before us is simple: Are those current efforts enough to combat the problem, or should Congress legislate in this area? Legislative solutions to address these vague, threatening, unsubstantiated, and often inaccurate letters have received bipartisan support, so I have hope that we can find a solution that all Members are able to support.

Last Congress, this committee held three hearings, and the subcommittee marked up a bill. And while I support efforts to find a tailored relief for our constituents receiving these abusive letters, we should not undermine the great work already occurring. For example, I will support efforts to ensure that States and the FTC continue to be able to enforce against fraudulent actors and are able to collect civil penalties from wrongdoers.

The States and the FTC are experts in consumer protection. These are not complicated patent law cases, as some suggest, but, instead, garden-variety fraud and deception cases. States may be particularly well suited to handle these issues because they best understand the circumstances of their residents.

However, I cannot support the bill before us today. It includes problematic language that does not move us forward. Among other

things, it created a knowledge standard, one not typically needed to prove fraud, and it preempts stronger State laws.

As I said yesterday in the context of data security and breach notification, if we as a Congress choose to legislate, we need to make sure that we are furthering the interests of consumers. As I also mentioned yesterday, if Congress seeks to preempt specific State laws, especially on issues in which the States have been leaders fighting unfair and deceptive acts, such as false and misleading demand letters, the Federal effort should be at least as strong as those State laws.

The goal of this legislation might be well intentioned, but the drafting is flawed. I am happy that this issue is going through regular order anew this Congress, and I urge my Republican colleagues to work with us in a bipartisan fashion to get the language right.

And thank you, Mr. Chairman. I yield back.

[The prepared statement of Mr. Pallone follows:]

PREPARED STATEMENT OF HON. FRANK PALLONE, JR.

Mr. Chairman, the patent system plays a crucial role in promoting innovation by providing an incentive to inventors to make costly and time-consuming investments in research and development of new inventions. At the same time, the system requires that the inventions be disclosed so that others can build upon the inventions.

At our last hearing on this issue in February, and as early as the fall of 2013 in the Subcommittee on Oversight and Investigations, we heard from stakeholders that some businesses, especially small, main street ones like coffee shops, realtors, hotels, restaurants and retailers, have been receiving abusive patent demand letters.

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Last Congress, this committee held three hearings, and the subcommittee marked up a bill. While I will support efforts to find tailored relief for our constituents receiving these abusive letters, we should not undermine the great work already occurring.

For example, I will support efforts to ensure that States and the Federal Trade Commission (FTC) continue to be able to enforce against fraudulent actors and are able to collect civil penalties from wrongdoers. The States and the FTC are experts in consumer protection. These are not complicated patent law cases as some suggest, but instead garden variety fraud and deception cases. States may be particularly well-suited to handle these issues because they best understand the circumstances of their residents.

However, I cannot support the bill before us today. It includes problematic language that does not move us forward. Among other things, it created a knowledge standard, one not typically needed to prove fraud, and it pre-empts stronger State laws.

As I said yesterday in the context of data security and breach notification, if we as a Congress choose to legislate, we need to make sure that we are furthering the interests of consumers. As I also mentioned yesterday, if Congress seeks to preempt specific State laws -especially on issues on which the States have been leaders fighting unfair and deceptive acts, such as false and misleading demand letters, the Federal effort should be at least as strong as those State laws.

The goal of this legislation might be well-intentioned, but the drafting is seriously flawed. I am happy that this issue is going through regular order anew this Congress and I urge my Republican colleagues to work with me in a bipartisan fashion to get the language right. Thank you.

Mr. BURGESS. The Chair thanks the gentleman. The gentleman yields back.

Let me just ask on the Republican side, is there any member who seeks time for an opening statement?

Seeing no request for time, I would ask the ranking member of the full committee, is there any member on the Democratic side who seeks time for an opening statement?

Mr. PALLONE. No.

Mr. BURGESS. Very well. Seeing none, that concludes time for the opening statements.

Again, I want to welcome all of our witnesses and thank all of you for agreeing to testify before the committee today.

Our witness panel for today's hearing will include Mr. David W. Long, a partner at Kelley Drye & Warren, testifying on behalf of the Innovation Alliance; Mr. Gregory Dolin, associate professor of law and co-director of the Center for Medicine and Law at the Baltimore University School of Law; Ms. Diane Lettelleir, senior managing counsel, litigation, J.C. Penney Corporation, testifying on behalf of United for Patent Reform; and Mr. Charles Duan, director of the Patent Reform Project for Public Knowledge.

Our first witness today will be Mr. David Long.

Sir, you are recognized for 5 minutes for a summarization of your testimony. And thank you for being here. You are recognized.

STATEMENTS OF DAVID W. LONG, PARTNER, KELLEY DRYE & WARREN, LLP, ON BEHALF OF INNOVATION ALLIANCE; GREGORY DOLIN, ASSOCIATE PROFESSOR OF LAW, UNIVERSITY OF BALTIMORE SCHOOL OF LAW; DIANE LETTELLEIR, SENIOR MANAGING COUNSEL, LITIGATION, J.C. PENNEY COMPANY, INC., ON BEHALF OF UNITED FOR PATENT REFORM; AND CHARLES DUAN, DIRECTOR, PATENT REFORM PROJECT, PUBLIC KNOWLEDGE

STATEMENT OF DAVID W. LONG

Mr. LONG. Thank you, Chairman Burgess. I am David Long, a patent attorney at the Kelley Drye & Warren law firm.

I am here today on behalf of Innovation Alliance to discuss patent demand letters. Innovation Alliance is a coalition of research-and-development-focused companies that believe in a strong patent system in which innovative businesses can thrive. Innovation Alliance supports the draft legislation we are discussing today and encourages its introduction as a balanced approach to address the vast majority of abusive patent behavior that has garnered so much attention.

Now, the resultant negative views of patent law from such negative attention is unfortunate and unwarranted. I love innovation, and I am very proud of our U.S. patent system that has fueled it. Before entering the legal profession, I earned a master's degree in electrical engineering and worked about 5 years in industry. In fact, I was a rocket scientist.

I have practiced U.S. Patent law for about 20 years now. I started as a law clerk at the U.S. Court of Appeals for the Federal Circuit in 1995 and have since focused on patent counseling and representation before courts and the U.S. Patent and Trademark Office. I am very active in national and international patent law organizations, and I have seen firsthand that the U.S. patent system is the greatest known system for innovation.

Now, consider the telecommunications industry in which my practice is focused. Not too long ago, a so-called mobile phone was actually a suitcase-size device lugged around by the privileged elite. Today, everyday people everywhere carry mobile phones in their pockets, and they do many remarkable things with them. And patents fueled that innovation every step of the way.

So the patent system certainly is not broken, as some have suggested, but, like all thriving systems, it must be tweaked from time to time, and that is why we are here today.

So a fundamental goal of the U.S. patent system is to encourage patent owners to provide notice of their patent rights to potential infringers. That way, they can determine whether to stop the alleged infringement, negotiate a license, design around the patent, or otherwise take some appropriate action.

By and large, the bulk of business-to-business patent notice letters, or what the draft legislation calls patent demand letters, are legitimate efforts to give notice and to start a dialogue that allows the parties to negotiate and reach a reasonable business solution.

What brings us here today is concern about deceptive demand letters. These generally arise from a few opportunistic bad actors with certain business models, what some call patent assertion entities, who mass-mail demand letters to small businesses that are not familiar with patents or the underlying technology, and, therefore, they may be vulnerable to deceptive demand letters.

Businesses typically turn to in-house or outside counsel to address the specific legal issues that arise as a normal part of their business. For example, they turn to employment lawyers who address human resources issues, they turn to transactional lawyers who address commercial contract issues. Technology-oriented businesses routinely turn to patent counsel to address patent demand letters that arise as a normal part of their business. But certain small businesses outside the technology sector may not have such patent counsel or experience, and, therefore, they may be vulnerable to deceptive demand letters.

So the draft legislation we are discussing today is a properly balanced and measured response to this patent demand letter concern.

First, the draft legislation properly is directed to entities that have a pattern and practice of sending deceptive demand letters, what some have called a smash-and-grab practice, where, at the nominal cost of a stack of form letters, envelopes, and postage stamps, deceptive demand letters are mass-mailed in hopes of getting a large return in the aggregate from many small nuisance settlements paid by vulnerable targets. That smash-and-grab model simply does not work if sending one or just a few demand letters, so a pattern and practice of deceptive demand letters is where the problem lies.

Second, the draft legislation properly focuses on bad-faith demand letters. This avoids the act being used as a gotcha against otherwise good corporate citizens whose demand letters technically may have fallen short of the act's requirement but there is no harm and no harm intended.

Moreover, the Constitution requires a showing of bad faith when it comes to Government action against patent demand letters. This protects a patent owner's First Amendment right to petition the Government for redress of grievances. And there is universal agreement among the courts that this First Amendment protection includes patent demand letters.

Third, the draft legislation properly preempts State laws, while allowing State attorney generals to protect their constituents from deceptive demand letters by invoking this act.

The key to our U.S. Patent system's success is that our Constitution specifically entrusts Congress with the power to promote the progress of science and useful arts through uniform patent rights. The Federal Government has the experience and the authority needed to address patent right concerns holistically and uniformly in order to maintain a balanced and thriving patent system.

Thank you, and I look forward to answering your questions.

[The prepared statement of Mr. Long follows:]

Statement of David W. Long, Partner, Kelley Drye & Warren LLP

On Behalf of Innovation Alliance

United States House of Representatives

Committee on Energy & Commerce

Subcommittee on Commerce, Manufacturing, and Trade

114th Congress, 1st Session

Hearing on Discussion Draft of

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

April 16, 2015

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.

Mr. BURGESS. The Chair thanks the gentleman. The gentleman yields back.

The Chair recognizes Mr. Gregory Dolin for 5 minutes for the purpose of an opening statement, sir.

STATEMENT OF GREGORY DOLIN

Mr. DOLIN. Thank you, Mr. Chairman.

Chairman Burgess, Ranking Member Pallone, members of the subcommittee, thank you for this opportunity to speak with you today about the draft bill prohibiting false statements and mandating disclosures in demand letters.

My name is Gregory Dolin. I would like to note that I am speaking in my personal capacity as a law professor at the University of Baltimore School of Law and not on behalf of my employer or any other organization that I am affiliated with.

This draft bill is directed at bad actors who engage in bad-faith communications in asserting patents against alleged infringers. These communications are known as demand letters.

At the outset, let me state that this bill is an admirable attempt to address bad behavior by some patent owners who abuse the civil litigation system. Furthermore, the bill is a significant improvement over previous attempts to address this problem.

Specifically, the bill commendably preempts State-based legislation that is purportedly aimed at the same problem but, in reality, starts to undermine the uniformity of our Nation's patent laws. An owner of the Federal property right should be able to enforce it on equal terms in every part of the country.

The bill is also praiseworthy for its attempts to provide a flexible standard against which to judge the patentee's bad faith.

Nonetheless, the bill continues to have significant problems. In an attempt to address bad-faith communications by bad actors, the bill mandates specific disclosures in all demand letters sent by all patent owners. This approach may end up discouraging all such communications by legitimate and illegitimate claimants alike. Unfortunately, as a result, the draft bill is likely to have significant but unintended negative consequences of increasing the amount of overall cost of litigation.

My testimony will focus on two provisions of the draft bill which I believe may undermine legitimate patentees' rights to enforce their patents while encouraging more unnecessary litigation.

First, the significant legal penalties proposed in this bill may discourage patentees from sending demand letters. This would actually be an unfortunate outcome. A demand letter serves the function of informing the recipient that it is infringing on property rights secured under Federal law.

At the same time, demand letters are not a legal prerequisite for filing a patent infringement lawsuit. Instead, a demand letter allows the patentee and the accused infringer to begin the process of privately evaluating the legal claims and, if warranted, entering into a settlement agreement.

Our justice system has long preferred out-of-court settlements, where the parties can strike an agreement making both of them better off, to costly judicial interventions which result in a clear winner and a clear loser. Our markets also prefer private resolu-

tions of legal claims, as evidenced by stock price fluctuations whenever a significant lawsuit is filed against a company.

Without the ability to begin the process of private resolution through sending of demand letters, patentees are likely to resort to lawsuit filings as their initial, as opposed to final, attempt to resolve patent disputes.

Under the current law, legal filings, such as complaints, answers, and motions, are immune from imposition of liability. Thus, under the present bill, a patentee may be more at risk for sending a demand letter than he would be for filing a civil action.

Faced with this choice, a reasonable actor would always prefer a lawsuit to a demand letter. In other words, a reasonable actor would act completely contrary to the societal preference for private resolution of legal disputes. Not only will this place additional burdens on our already overworked judges, but it will ultimately increase costs for both patentees and accused infringers and, therefore, consumers.

Second, the provisions of this bill seem to paradoxically require more disclosures from a patentee who sends a demand letter than from one who files a civil action seeking to enforce his patent rights in court.

The Federal rules of civil procedure require a plaintiff to do nothing more than to provide a, quote, "short and plain statement of the claim," end quote. This requirement is satisfied by identifying the patent which the plaintiff alleges the defendant infringes and the allegedly infringing product. The rules, unlike this present bill, do not require a patentee to identify a specific claim that is infringed or to describe in detail how the product infringes the identified patent and the patent's claim. These additional burdens on the patentees will again drive them away from demand letters and toward litigation.

In conclusion, safeguarding the patent system from abuses by bad actors is an important and laudable goal. Abuses in the system undermine the efficient operation of our patent laws and, with them, the growth of the innovation economy.

However, in drafting solutions to an admittedly real and serious problems, Congress must be careful to ensure that its cure is not worse than the disease. Congress should heed the lessons of past patent reforms, which have often created as many problems as they have solved, and avoid repeating this mistake.

Whatever route Congress chooses to take, it should ensure that it does not undermine legitimate patentees' ability to enforce their patents, less it undermine the necessary incentives for innovation and economic growth.

I thank you, and I look forward to your questions.

[The prepared statement of Mr. Dolin follows:]

STATEMENT OF
GREGORY DOLIN
Associate Professor of Law
University of Baltimore School of Law
BEFORE THE
COMMITTEE ON ENERGY AND COMMERCE
Subcommittee on Commerce, Manufacturing, and Trade
U.S. House of Representatives
“H.R. __, Targeting Rogue and Opaque Letters (TROL) Act”
April 16, 2015

INTRODUCTION

Chairman Burgess, Ranking Member Schakowsky, and Members of the Subcommittee:

Thank you for this opportunity to speak with you today about the draft bill prohibiting false statements and mandating disclosures in demand letters sent to alleged patent infringers.

This bill targets patent holders who attempt to engage in “bad faith communications” while asserting their patent rights against an alleged infringer. Communications between a patentee and alleged infringer are known as “demand letters.” These letters are sent to inform the alleged infringer of the existence of the patent, invite such a company or individual to enter into a license agreement, threaten a patent infringement lawsuit should infringement continue, or any combination of these goals.

Importantly, the Patent Act does not require the patentee to send such letters prior to initiating a patent infringement lawsuit.¹ In this sense, such letters may be a useful tool to avoid litigation by beginning a negotiated solution to the alleged infringement, or causing the alleged infringer to stop the infringing activity without the need for judicial intervention. For this reason, demand letters have a long history and are indeed a norm in innovation industries. Still, there are unquestionably bad actors, as there are in any industry or area of the law, that abuse the process to intimidate recipients into “settling” legally meritless claims. Unlike legitimate patentees, such actors have no valid basis for their legal claims, because their patent may be non-existent, expired, invalid, otherwise unenforceable, or simply not infringed.

¹ See 35 U.S.C. § 287(a).

A legitimate patentee who seeks to enforce his legitimate property right through licensing or litigation does not need to make false or deceptive statements in his demand letters regarding the existence, enforceability, or applicability of a patent. Thus, the bill's prohibitions on such statements reflect current industry practices in pursuit of legitimate defense and enforcement of patent rights. Indeed, such prohibitions would be consistent with long-standing rules prohibiting deceptive business practices and vesting the enforcement of such prohibitions with the Federal Trade Commission.

The bill is also a commendable response to the proliferation of state-based provisions seeking to regulate demand letters. The state-based legislation is not only quite often substantively problematic, but also treads on the exclusive federal domain in the area of patent law. As the Supreme Court noted, "state regulation of intellectual property must yield to the extent that it clashes with the balance struck by Congress in our patent laws. ... Where it is clear how the patent laws strike that balance in a particular circumstance, that is not a judgment the States may second-guess."² This doctrine prohibits states both from relaxing the requirements needed to obtain exclusive rights to an invention, and also from making these rights, once obtained, harder to enforce. A patent, being national in scope and granted by the federal government, should be enforceable on the same terms and in the same manner in all corners of the country. State regulation of patent demand letters is inconsistent with this requirement. Thus, Section 4 of the bill, which preempts state regulation of patent demand letters, is important to reestablish proper constitutional balance to our system. It reconfirms that a patent has the same force and effect, and confers the same rights on the patentees throughout the United States, irrespective of the patentee's or accused infringer's location.

Despite the number of positive aspects of this bill, and while noting significant improvement from the prior versions of similar legislation, I remain concerned by two aspects of the current proposal. First, I fear that by threatening adverse legal consequences for sending demand letters, the bill seems to make this route riskier than the filing of a lawsuit. Second, I worry about the provisions that appear to require demand letters to be more detailed than civil complaints need to be under the Federal Rules of the Civil Procedure. These two provisions may have the unintended result of increasing patent infringement litigation, multiplying costs to both parties, and provoking market uncertainty.

There is a nearly uniform agreement in the industry, academia, research & development companies, courts, and Congress that there are bad actors in the patent system and that their presence hurts innovation and progress. However, in attempting to rid the system of bad actors, Congress should tread carefully lest its cure end up being worse than the disease. Unfortunately, a number of past patent reforms have fallen prey to just this problem.

WELL-INTENTIONED PATENT REFORMS HAVE OFTEN IMPOSED UNDUE BURDENS ON LEGITIMATE PATENTEES AND INCREASED OVERALL COSTS

Over the last several decades, Congress has enacted several major reforms to the Nation's patent laws. All of the reforms stemmed from the understandable desire to "establish a more efficient and streamlined patent system that will improve patent quality and limit unnecessary and

² *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 147 (1989).

counterproductive litigation costs.”³ With each round of reform, it was predicted that the new procedures would strengthen inventors’, investors’, and the public’s confidence in the patent system. And while some changes (such as the creation of the United States Court of Appeals for the Federal Circuit⁴ or the passage of the Bayh-Dole Act⁵) did indeed improve the patent system, others have proven to be more problematic.

The most recent round of reforms that culminated in the 2011 Leahy-Smith America Invents Act is a good example of the unintended negative consequences that patent reform efforts can have. As my recent research shows, the new Patent Office based post-issuance review procedures often do not serve their intended functions of quick resolution, reduced costs, and increased certainty. Indeed, quite the opposite effect has been observed.⁶ The new procedures opened more avenues for patent challenges, often by parties that have no interest in the underlying patent. As a result, instead of “limit[ing] unnecessary and counterproductive litigation costs,” the America Invents Act is responsible for occasionally increasing total litigation costs. Instead of improving inventors’ and public’s confidence in issued patents, the America Invents Act created a system where a patent’s validity is often unresolved after multiple rounds of litigation and reexamination. The upshot is that the value of the patent right for legitimate innovators is significantly undermined with some companies seeing a 25% drop in stock price at the mere initiation of post-issuance proceedings.⁷ Thus, although the America Invents Act has improved the environment for those facing frivolous, but expensive, patent lawsuits, it achieved this result at a very steep cost to legitimate patentees and to the overall patent system. It is this lesson that should give this Committee some pause before approving the proposed bill.

SIGNIFICANT RESTRICTIONS ON DEMAND LETTERS MAY BE COUNTERPRODUCTIVE

As mentioned previously, neither the Patent Act nor the Federal Rules of Civil Procedure require that a patentee send a demand letter prior to initiating suit alleging patent infringement. That patentees send these letters rather than immediately seek recourse to the adjudicatory system is indicative of the desire to resolve any disputes amicably and through settlement, rather than through judicial intervention. Such private settlements have always been favored by the judiciary and society at large and understandably so.⁸ Settlements allow parties to reach mutually beneficial agreements at lower costs than litigation would, and all without taxing the already overstretched justice system. However, to be able to pursue these settlements, parties should be able to communicate their legal claims privately, rather than through the public legal filings. Not only do the private communications reduce the potential level of antagonism between the parties, making them more likely to cooperate in finding a mutually agreeable

³ 157 Cong Rec S7413 (daily ed. Nov. 14, 2011) (statement of Sen. Kyl).

⁴ Federal Courts Improvement Act of 1982, Pub. L. No. 97-164, 96 Stat. 25 (codified as amended in scattered sections of 28 U.S.C..

⁵ Bayh-Dole Act, Pub. L. 96-517, 94 Stat. 3015 (1980) (codified as amended at 35 U.S.C. §§ 200-11 (2012)).

⁶ Gregory Dolin, *Dubious Patent Reform*, 56 B.C.L. REV. ____ (2015, Forthcoming), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2488220

⁷ *Id.* at 65.

⁸ See *Foster v. Hallco Mfg. Co.*, 947 F.2d 469, 477 (Fed. Cir. 1991); *Pearson v. Ecological Sci. Corp.*, 522 F.2d 171, 176 (5th Cir. 1975).

solution,⁹ but they avoid having unwarranted effects on the stock prices or market positions of the accused infringers.¹⁰

A system that makes such private communications subject to enhanced scrutiny may discourage the communications from occurring. Under the *Noerr-Pennington* doctrine,¹¹ it is well established that court filings, even if ultimately unsuccessful, are immune from legal liability, unless they are a mere sham. If this legislation results in demand letters being more likely to trigger legal liability for the patentee, then the patentee is likely to forego the letters and instead take a step that is immune from legal liability – file a civil action against the accused infringer.¹² If the patent holder is subject to more adverse consequences for sending a private letter to an accused infringer than he would be for filing a public lawsuit, fewer letters may end up being sent, and more suits may be filed. Given the cost of resolving such suits, a system that ends up increasing the likelihood of suits would indeed be counterproductive.

One additional feature of the proposed bill may push settlement attempts into the litigation arena. Section 2(a)(3)(D) appears to require the patentee to not just identify the infringing product, but to explain how the product infringes. To be fair, the Committee should be commended for incorporating significant flexibility into this provision, quite unlike what many states have done. Nonetheless, the provision is more onerous than the requirement that a civil infringement complaint contain nothing more than “a short and plain statement of the claim.”¹³ Indeed, an illustrative form for a patent infringement complaint, which appears in the Appendix to the Federal Rules of Civil Procedure, merely requires the plaintiff to allege that he owns a patent and that the defendant “has infringed and is still infringing the Letters Patent by making, selling, and using [the accused devices] that embody the patented invention.”¹⁴ The patentee is not required to provide any further details in his complaint.¹⁵ Even under the potentially more exacting requirement of *Bell Atlantic Corp. v. Twombly*, “a complaint ... does not need *detailed* factual allegations.”¹⁶

To the extent that the patentee will be asked to do significantly more to send a demand letter than to file a civil suit, the patentee will likely forgo the former option in favor of the latter one.

⁹ See Jennifer K. Robbennolt, Apologies and Legal Settlement: An Empirical Examination, 102 MICH. L. REV. 460, 463 (2003) (noting that private discussions “may reduce tension, antagonism, and anger so as to allow less protracted, more productive, more creative, and more satisfying negotiation.”).

¹⁰ See Charles Holoubek, M.S.E.L. & Timothy M. Shaughnessy, Ph.D., Market Reaction to Business Method Patents: An Empirical Analysis, 9 COMPUTER L. REV. & TECH. J. 279, 285 (2005) (discussing the drop in the price of Amazon.com when it filed suit against Barnes & Noble and suggesting that “market was disappointed that Amazon.com did not settle the complaint outside of court,” and feared “that a trial between the two leading online book sellers could drag on and drain resources from the coffers of both companies.”)

¹¹ *Eastern Railroad Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127, 135 (1961); *United Mine Workers v. Pennington*, 381 U.S. 657, 670 (1965).

¹² It should be noted that that courts apply the *Noerr-Pennington* doctrine broadly to cover not just court filings, such as complaints, but also to “conduct incidental to the prosecution of the suit,” such as a “decision to accept or reject an offer of settlement.” *Columbia Pictures Industries, Inc. v. Professional Real Estate Investors, Inc.*, 944 F.2d 1525, 1528 (9th Cir. 1991).

¹³ Fed. R. Civ. P. 8(a)(2).

¹⁴ Fed. R. Civ. P. Appendix of Forms, Form 18 (setting forth an example pleading for patent infringement).

¹⁵ Fed. R. Civ. P. 84 (“The forms in the Appendix suffice under these rules and illustrate the simplicity and brevity that these rules contemplate.”).

¹⁶ *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 545 (2007)

SECURE PROPERTY RIGHTS ARE KEY TO INNOVATION AND ECONOMIC GROWTH

Mark Twain once wrote that “a country without a patent office and good patent laws was just a crab, and couldn’t travel any way but sideways or backways.”¹⁷ This opinion has been shared by every Congress and every Administration from the founding of the Republic to the present day.¹⁸ Experience has shown, time and again, that strong patent rights lead to more innovation and larger benefits to consumers. For example, as a result of the Bayh-Dole Act of 1981 which allowed universities to obtain and commercialize patents on inventions made with the support of federal grants, we have seen explosion of start-ups and new consumer products. In 2013 alone, university-obtained patents led to the creation of more than 800 start-up companies and of more than 700 consumer products.¹⁹ This experience once again proves that patents are an essential legal tool to bring innovative, life-saving, and lifestyle-improving products to market. But a patent grant is only as good as a right to enforce it is. Reforms that threaten to undermine the patentee’s ability to enforce his patents, threaten to undermine the patent regime as a whole, and with it the incentives to create the technology that improve all of our lives.

¹⁷ MARK TWAIN, *A CONNECTICUT YANKEE IN KING ARTHUR’S COURT* 58 (Signet Classics 2004) (1889).

¹⁸ *See, e.g.*, REP. OF THE PRESIDENT’S COMM’N ON THE PATENT SYS., S. DOC. NO. 90-5, at iii (1st Sess. 1967).

¹⁹ *See* Letter to Congress by American Universities Regarding H.R. 9 (Feb. 24, 2015), available at <http://www.aplu.org/policy-and-advocacy/intellectual-property-technology-transfer/final-patents-letter-2-24-15.pdf>

Mr. LANCE [presiding]. Thank you very much, Mr. Dolin.

The committee is going to adjourn. We have just had a call for votes on the floor, and we will return after our votes.

We apologize. I consider this a personal plot against me. I have been in the Chair for 2 minutes, and now votes have been called. But we look forward to the testimony of the two remaining witnesses and for questions from the committee members following that, and we will return as quickly as possible upon completion of votes on the floor.

And so the committee stands in adjournment—recess, recess. And I would imagine, perhaps, 30 minutes or 35 minutes. Thank you very much.

[Recess.]

Mr. BURGESS [presiding]. The subcommittee will come back to order.

I believe, when we adjourned, we were to receive the testimony of Ms. Lettelleir.

You are recognized for 5 minutes for a summarization of your testimony, please.

STATEMENT OF DIANE LETTELLEIR

Ms. LETTELLEIR. Chairman Burgess, Ranking Member Schakowsky, and members of the Energy and Commerce Subcommittee on Commerce, Manufacturing, and Trade, I am Diane Lettelleir, senior managing counsel of litigation at J.C. Penney.

J.C. Penney is a 113-year-old company headquartered in Plano, Texas. Today, J.C. Penney has over 1,000 stores in 49 States and Puerto Rico and employs more than 116,000 associates nationwide.

I am testifying on behalf of United for Patent Reform, which is a diverse group of businesses that includes retailers, grocers, convenience stores, auto companies, auto dealers, trucking companies, hoteliers, realtors, homebuilders, and technology companies and many other Main Street businesses.

Patent trolls have a significant impact on Main Street business. Since 2012, patent trolls have sued more Main Street companies than even technology companies, which means each year Main Street businesses are spending millions of dollars and thousands of employee man-hours fighting patent trolls. It should not be lost that the same money could have been used to expand their business, hire new workers, or invest in new technologies.

The trolls target Main Street businesses because they often lack the legal and technical expertise and the money required to fight complex patent infringement claims. Patent trolls take advantage of these weaknesses and strategically offer settlements at a level set below the cost of litigation. The settlements offered are not based on the value of the claimed invention but, rather, on the cost of defense.

This results in a particularly malicious form of blackmail. The Main Street company must pay the unjustified settlement or take its chances in litigation, where the best-case scenario is spending potentially millions of dollars simply to prove that they had done nothing wrong.

This is compounded by the fact that demand letters are often vague, misleading, and deceptive. The demand letters usually fail

to include basic facts that any business would need in order to make informed decisions or even an explanation of what the defendant makes or does that allegedly infringes. The recipient of such a letter has no way of determining their potential liability or making an informed decision about the best way to respond.

This harmful and deceptive practice needs to be stopped. That is why members of the United for Patent Reform appreciate your leadership and the subcommittee's work on strengthening enforcement. Although we have some concerns about certain details of the proposed legislation, we urge the subcommittee to continue its important work.

I will briefly touch on important changes we would like to see. A more detailed description is included in my written testimony.

First, we seek the removal of a requirement of a pattern or practice of sending demand letters. The "pattern or practice" language creates unnecessary ambiguity about the number of letters that must be sent.

Second, the definition of "bad faith" should be removed. The focus should be on the effect on the target companies that receive these demand letters, rather than proof of the knowledge of the sender. Recipients of demand letters can be harmed by misrepresentations or omissions regardless of whether the party making them acknowledges that they are false or misleading.

We also seek the removal of a separate bad-faith requirement from the listed factors. In the original text, certain factors also required establishing bad faith as a separate showing. Requiring that bad faith be demonstrated to establish a violation, however, could nullify the act's provisions.

We also propose a few changes in the structure of the factors, which is set forth in more detail in my written testimony.

In addition, we suggest adding a sub-part that, in effect, requires the sender to identify the claims of the patent alleged to be infringed by the recipient. Failure to include such information in a demand letter is evidence that the assertion is objectively baseless and, thus, made in bad faith.

Finally, we request the removal of the affirmative defense. The affirmative defense would create a loophole that avoids application of the act even if the sender was found to have acted in bad faith. Instead of an affirmative good-faith defense, we support a list of factors relevant to showing that a sender has not acted in bad faith.

We remain committed to working diligently with the committee to develop demand letter legislation that will protect our member businesses from patent trolls while not compromising the rights of legitimate patent holders and that the designated enforcer will support.

Thank for the opportunity to testify, and I welcome your questions.

[The prepared statement of Ms. Lettelleir follows:]

UNITED *for*
PATENT REFORM

Statement of

Diane Lettelleir

Senior Managing Counsel, Litigation

J.C. Penney Incorporation

On behalf of

United for Patent Reform

submitted to the

U.S. House of Representatives

Committee on Energy and Commerce

Subcommittee on Commerce, Manufacturing and Trade

for its hearing on

“H.R. ____, the Targeting Rogue and Opaque Letters Act (TROL Act)”

held on

April 16, 2015

Chairman Burgess and Ranking Member Schakowsky and Members of the Energy and Commerce Subcommittee on Commerce, Manufacturing and Trade, thank you for the opportunity to testify today as a representative of the United for Patent Reform, about abusive patent demand letters.

I am Diane Lettelleir, Senior Managing Counsel, Litigation, at J.C. Penney. J.C. Penney is a 113-year old company founded by James Cash Penney in 1902 and today has 1,062 stores in 49 states and Puerto Rico and employs over 116,000 associates nationwide. We are headquartered in Plano, Texas.

I am testifying on behalf of United for Patent Reform, which, for retailers, is led by the National Retail Federation. United for Patent Reform represents businesses across industries to comprehensively address the problem of patent enforcement abuse. Abusive patent enforcement tactics have a detrimental impact on innovation, job creation and the integrity of our patent system. Patent litigation should be less expensive, more efficient, and fair to all parties.

Patent rights are important. Many of our coalition members are patent owners from various industries. Despite their varied industries and interests, are members are harmed in similar ways by abuses of the current system and seek a comprehensive solution to address the patent troll problem.

A Multi-faceted Approach to Patent Litigation Abuse

Legislation that would effectively defend our businesses must:

- **Require that patent demand letters include truthful, basic information.** Patent trolls send vague and deceptive letters alleging patent infringement to demand unjustified

payments from individuals and businesses. Vague demand letters should not serve as evidence that the accused infringer thereafter willfully infringed a patent.

- **Require patent owners to explain in detail the basis for the alleged infringement when they file a complaint.** Current law does not require that a patent holder explain how a patent is infringed, or even identify the accused product, making it nearly impossible for a target to evaluate the case and decide whether to fight or settle.
- **Provide protection for customers and end users from infringement accusations when a manufacturer is the more appropriate defendant.** Under current law, you can be sued for infringement if you simply use a product, system or method that is accused of infringement; cases against users should be stayed when there is parallel litigation proceeding against the manufacturer of the accused instrumentality.
- **Make patent litigation more efficient so that weak cases can be dismissed before extensive discovery.** Requiring patentees to explain and judges to decide what a patent means at the beginning of a case—the Markman hearing—narrows the case to the actual legal issues in question, drives early resolutions and avoids unnecessary and expensive discovery.
- **Require trolls to pay for the discovery they request beyond core documents so that they cannot run up costs just to force a settlement.** Since trolls do not actually produce or create anything, they have few documents to produce and no incentive to be reasonable in their discovery requests. Making trolls responsible for the costs of their discovery requests that go beyond the core documents needed to decide most patent issues will stop unreasonable demands made for negotiation leverage.

- **Require that a losing party who brings a frivolous case pay the other side's attorney's fees—and make sure they can pay.** Trolls currently have few barriers to litigation with no real cost to their non-practicing business. However, given that PAEs lose much more often than other patent owners, a stronger presumptive fee-shifting statute and a mechanism to ensure court ordered fee shifting is enforceable will deter nuisance suits.
- **Maintain and improve administrative alternatives to litigation.** Ensuring access to efficient and fair mechanisms to re-examine questionable patents, by among other things not watering down the PTO's existing standards will reduce litigation abuses and strengthen the patent system.

The Demand Letter Problem

Today, we are here to discuss the importance of increasing transparency and disclosures in demand letters. Patent trolls assert infringement claims not only by filing litigation but also by sending vague, misleading, or deceptive letters to businesses. The trolls demand that those businesses immediately purchase expensive licenses of uncertain or no inherent value or face the threat of protracted and costly patent litigation. These accusations often take the form of statements of broad concepts and general business methods (such as operating a retail business “online”), covering the use of technology in all areas of e-commerce and mobile retailing, in addition to specific software innovations. This approach is especially damaging to Main Street businesses, who rely on new, innovative technology to better serve their customers.

Recently, patent trolls have sent demand letters to dozens of retailers and other Main Street businesses on technology directed to arrival and status messaging systems and methods for

transportation, transportation logistics, cargo shipment, package delivery, package tracking and related industries. This is a primary function of a retail business dealing with supply chain logistics. We also know that this patent troll sent letters to large, national brands several years ago and now has worked its way to smaller Main Street companies.

These cases rarely go to trial because the patent troll has no intention of ever taking the retailer or Main Street business to court. They know that their damage claims are intimidating, and the prospect of relief through litigation so time-consuming, that many companies will make a business decision and settle, rather than litigate. It has been reported that trolls lose 92 percent of cases that proceed to merits judgments; but, as noted, it is infrequent that a defendant has the fortitude to litigate.¹ Smaller businesses, in particular, may find themselves ill-equipped legally or financially to defend themselves from abusive claims, and dealing with these claims certainly inhibits their ability to innovate and grow.

The exorbitant costs associated with seeing a court case through to final adjudication are startling for retailers, especially small businesses. Patent troll-related expenses and settlement agreements can cost millions of dollars annually. These expenditures and the employee hours diverted to fighting patent trolls are precious capital resources that Main Street businesses would rather reinvest in their businesses. It is important to note, however, that many of these businesses do not have these types of resources to redirect to fight patent trolls. Therefore, they often will settle a claim when they receive their first demand letter to make the problem go away.

Transparency and disclosure requirements, coupled with effective enforcement will deter patent trolls from targeting retailers and Main Street businesses. They thrive on providing little

¹ John R. Allison, Mark A. Lemley, and Joshua Walker, *Patent Quality and Settlement Among Repeat Patent Litigants*, 99 GEO. L.J. 677, 694 (2011).

information to their targets and extracting settlements out of fear of costly patent litigation. Effective legislation aimed at curbing patent trolls' abusive behavior will help address the problem that many retailers and Main Street businesses face.

Targeting Rogue and Opaque Letters (TROL Act)

J.C. Penney, our fellow retailers, and coalition partners appreciate your leadership and the Subcommittee's work on strengthening enforcement and dramatically reducing the number of bad faith demand letters that our businesses receive. Although we have some concerns about certain details of the proposed legislation, we urge the Subcommittee to continue its important work.

We suggest the following changes to the current draft of the TROL Act:

- 1. Remove requirement of "a pattern or practice of sending" demand letters.** The "pattern or practice" language creates unnecessary ambiguity about the number of letters that must be sent. Removing the term would make clear that even a single communication sent in "bad faith" would be considered an unfair or deceptive act or practice and allows a court more flexibility in identifying misconduct covered by the statute.
- 2. Remove definition of "bad faith."** In the original proposed text, "bad faith" was defined in terms of the sender's knowledge or awareness of the false or misleading nature of representations or omissions. In the mark-up, this definition was removed to be more consistent with current consumer protection law, which focuses on the effect on consumers rather than the knowledge of the violator. Indeed, recipients of demand letters can be harmed by misrepresentations or omissions regardless of whether the party making them knows them to be false or misleading. Instead of defining bad faith, we suggest listing misconduct that can be considered

“factors” in determining bad faith, including making representations without basis in fact or law, seeking compensation for invalid, unenforceable, expired patents or licensed activity, or failing to include critical information regarding the asserted patent and alleged infringement.

3. Removed separate “bad faith” requirement from the listed factors. In the original text, certain factors evidencing “bad faith” also required a separate showing that the listed conduct was performed in “bad faith.” Requiring that “bad faith” be demonstrated to establish a violation, however, could nullify the Act’s provisions. For example, under the original draft, the failure to include any of the information required by section 2(b)(5) would have been a violation only if the information was omitted with knowledge or awareness of a high probability to deceive. This would have the effect of nullifying the Act’s disclosure requirements.

4. Misrepresentations relating to third party licensees (factor 2) and prior knowledge of non-infringement (factor 3). We suggest separating these items as their own factors instead of including them within factor 1, which requires a separate showing that assertions were made without a reasonable basis in fact or law. The conduct covered in factors 2 and 3, on the other hand, is, by definition, without reasonable basis in fact such that a separate showing is not necessary.

5. List of material information (factor 5). We suggest adding a sub-part that, in effect, requires the sender to identify allegedly infringed claims. The Supreme Court’s *Twombly* and *Iqbal* decisions require that a complaint include a plausible basis for relief, which, in the patent context, would require a specific identification of infringed claims. Failure to include such information in a demand letter is evidence that the assertion is objectively baseless and thus made in bad faith.

6. **Remove affirmative defense.** The affirmative defense would create a loophole that avoids application of the Act even if the sender was found to have acted in bad faith. Instead of an affirmative good faith defense we propose a list of factors relevant to showing a sender has not acted in bad faith.

We remain committed to work diligently with the Committee to develop demand letter legislation that will protect our member businesses from patent trolls while not compromising the rights of legitimate patent holders, and that that the designated enforcers themselves support.

Conclusion

Addressing this abusive and growing patent litigation problem with common sense reform will help release Main Street businesses from the controlling grip on their industry that patent trolls currently enjoy. Loosening this grip will allow innovation and growth to flourish, and undoubtedly benefit the overall U.S. economy.

Multi-faceted patent litigation reform, which includes requiring transparency and fairness in demand letters, is about addressing the lucrative business model used by patent trolls of asserting meritless patents and obtaining shakedown settlements. Only Congress can pass the reform needed to bringing fairness to the patent enforcement process.

Requiring patent trolls to include more disclosures in their demand letters will bring us closer to stopping their abusive practices. We are eager to work with you and all Subcommittee members to address this growing and costly problem.

UNITED for PATENT REFORM

A diverse group of American
making sure Congress passes
reform. It's time we take back our patent system from trolls. Learn more at UnitedforPatentReform.com

or follow [@U4PatentReform](https://twitter.com/U4PatentReform) on Twitter.

businesses have united in
strong, common sense patent





Mr. BURGESS. The gentlelady yields back. The Chair thanks the gentlelady.

Mr. Duan, you are recognized for 5 minutes for summarization of your testimony, please.

STATEMENT OF CHARLES DUAN

Mr. DUAN. Thank you.

Chairman Burgess, Ranking Member Schakowsky, and members of the subcommittee, thank you for inviting me to testify today. My name is Charles Duan, and I am the director of the Patent Reform Project at Public Knowledge. We are a nonprofit organization that works at the intersection of technology and consumer policy. I previously worked as a software developer and also as a patent attorney.

I would like to start today by talking about an event from 1976, a hearing held in this very building. The hearing featured a witness who literally wore a mask as he testified about abuses in the debt collection industry. The practices he described were frightening: calling debtors every 5 minutes, intimidating children, pretending to be attorneys, and threatening lawsuits. These aggressive tactics ultimately led Congress in 1977 to pass the Fair Debt Collection Practices Act, one of the strongest Federal consumer protection laws on the books today.

These strong-arm tactics are at work again, now in the service of abusive patent demand letters. This committee has already held three hearings over the last 2 years where witnesses recounted the threats, misrepresentations, and deceptive practices used by unscrupulous asserters of patent rights. The situations are highly analogous. The bad debt collectors of the 1970s are the bad patent royalty collectors of today.

I would thus commend and thank the subcommittee for taking on this issue that affects most directly the smallest American businesses and the smallest American consumers, the ones most in need of protection. The members of the subcommittee have worked hard, with the aim of crafting a patent demand letter bill that will best protect consumers.

But while the subcommittee has made great strides toward that goal, the current draft bill doesn't adequately protect the consumer interests. In particular, we provide the following four recommendations to improve the bill.

First, the preemption of existing State laws will undesirably weaken, rather than strengthen, consumer protection. Right now, there are 20 State laws which provide the citizens of those States with protections against abusive demand letter practices. Some of these State laws provide protections beyond what the current TROL Act contemplates. That means that residents of those States would actually lose protections from abusive demand letters, the opposite result from what this bill intends to accomplish.

And it is not just existing State protections that stand to be lost by preemption. The States have historically served as laboratories of policy experimentation, developing new and innovative solutions to a changing landscape of problems, creating a marketplace of ideas from which Congress may draw. Preemption could cut that off, and that is not what we want. The TROL Act should be a floor,

not a ceiling, for consumer protection, allowing States to solve the problems of the future with new laws of the future.

Second, the affirmative defense provision is simply too broad. Read literally, it immunizes any demand letter sender who issues a few legitimate letters that comply with the bill. Clever schemers could easily use this by sending a mix of legitimate and abusive letters or sending letters with deceptions different from the ones in the bill, thus harming consumers while still following the letter of the law. The affirmative defense should be removed or tightened to avoid these sorts of loopholes.

Third, the bill identifies 17 specific acts that could be considered unfair or deceptive practices, but demand letters can be unfair or deceptive in far more than 17 ways. The State laws alone identify several others, and who knows what other deceptions will be invented in the future. So the bill should include a catchall provision to protect consumers from bad practices beyond the 17 listed in the bill.

Fourth, the bill only prohibits a, quote, "pattern or practice" of sending improper demand letters in, quote, "bad faith." These two extra requirements only make it harder for enforcement officials to protect consumers. The requirements are meant to protect legitimate patent asserters who make innocent mistakes, but that would be better done with something like the bona fide mistake provision in the FDCPA, not by these two requirements.

We ask the subcommittee to incorporate these suggestions into the draft bill, and we continue to support the subcommittee's efforts here. Certainly, the TROL Act is no substitute for broader patent reform, such as H.R. 9. No demand letter can block and stop abusive litigation. Still, the demand letter piece of the patent reform puzzle is critical, as it affects the smallest businesses and the weakest consumers, ones that this subcommittee should be proud to protect.

Thank you again for inviting me to testify. I look forward to your questions.

[The prepared statement of Mr. Duan follows:]



TESTIMONY OF CHARLES DUAN
DIRECTOR, PATENT REFORM PROJECT
PUBLIC KNOWLEDGE

BEFORE THE
SUBCOMMITTEE ON COMMERCE, MANUFACTURING AND TRADE
OF THE
COMMITTEE ON ENERGY AND COMMERCE
HOUSE OF REPRESENTATIVES

HEARING ON
H.R. _____, THE TARGETING ROGUE AND OPAQUE LETTERS ACT (TROL ACT)

APRIL 16, 2015

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SUMMARY

Patent demand letter abuses are a real problem for the American people and the economy. The aggressive tactics that some patent asserters use in their letters is reminiscent of the heavy-handed tactics employed by other abusive entities, such as debt collection agencies, that in the past have prompted Congress to enact consumer protection laws that guard against such misbehavior. Thus, the Subcommittee should see its activities in protecting against abusive demand letters as acts in the interest of consumer protection.

The states have been mindful of protecting their consumers as well. Twenty states have already enacted laws against unfair and deceptive demand letter assertions. These existing laws, in both their overall uniformity and instructive differences, provide a useful perspective as this Subcommittee moves forward with its bill on the same subject.

We applaud and thank the Subcommittee for its ongoing efforts in crafting a bill that will protect consumers from the threats that these improper demand letters can cause. However, for reasons explained in detail in the testimony below, we believe that this bill must continue to be strengthened in the consumer interest if it is to adequately and properly protect the American people. In particular:

- The states should not be preempted from providing their citizens with stronger, more innovative protections. This bill should serve as a floor, and not a ceiling, so that individual states may address new abusive tactics that arise in the future, rather than being shackled to a law of the past.
- The affirmative defense provision should be tightened to close loopholes that would allow intentional sending of improper demand letters.
- The list of improper acts relating to the sending of demand letters should be supplemented with a catch-all provision, again to ensure that future abuses are captured by the law.
- The required showings of a “pattern or practice” and of “bad faith” should be removed, as they unduly burden enforcement efforts and do not comport with any of the existing state laws.

Obviously this demand letter bill is only a small piece of a larger puzzle of patent reform; dealing with abusive demand letters will not solve all the problems with the patent system or even patent assertion practices. But it is a critical piece, one that affects perhaps the most vulnerable players trapped in the patent system, namely the small businesses and consumers who are least able to defend themselves from undue threats. We look forward to continuing to work with the Subcommittee to develop legislation that will protect that consumer interest and advance the goals of the patent system and the American public.

H.R. _____, THE TARGETING ROGUE AND OPAQUE LETTERS ACT (TROL ACT)

TESTIMONY OF CHARLES DUAN
DIRECTOR, PATENT REFORM PROJECT, PUBLIC KNOWLEDGE

CHAIRMAN BURGESS, RANKING MEMBER SCHAKOWSKY,
AND MEMBERS OF THE SUBCOMMITTEE:

Thank you for holding this hearing and inviting me to testify today on this important issue. My name is Charles Duan, and I am the Director of the Patent Reform Project at Public Knowledge. Public Knowledge is a nonprofit public interest organization whose primary mission is to promote freedom of expression, an open Internet, and access to affordable communications tools and creative works. We work to shape policy, including patent policy, on behalf of the public interest.

By way of background, prior to taking on my current position at Public Knowledge, I was a practicing patent attorney, where I prosecuted over a hundred patent applications before the U.S. Patent and Trademark Office, and litigated dozens of patent cases. Many of my clients were small businesses who had received demand letters or threats of litigation of the sort we will be discussing in this hearing today. Prior to this, I was a software developer at a Silicon Valley startup, where we built a system for facilitating collaboration among science researchers. As a result of these and other activities, I have had experience both with the intricacies of patent law and with the practicalities of running a small technology business.

My testimony is further informed by my organization's longstanding experience with matters of technology policy, intellectual property policy, and consumer protection policy. We work closely with a diverse group of nonprofit organizations, trade groups, companies, and foundations, thereby providing us with a wide-ranging perspective on the application of public interest principles to a body of law as complex and important as the patent system.

I. CONSUMERS REQUIRE STRONG LEGISLATION THAT PROTECTS THEM FROM ABUSIVE PATENT DEMAND LETTERS

It should be duplicative and unnecessary for me to reiterate the scope and magnitude of the problem created by abusive patent demand letters. The media is replete with stories of small businesses being targeted by unscrupulous and shady entities threatening patent litigation and demanding settlements.¹ The Federal Trade Commission recently settled its investigation of one such patent assertion entity notorious for sending out such letters,² and it is undertaking a study of the industry of patent assertion.³ The Energy and Commerce committee has already held at least three hearings discussing the problem of abusive patent demand letters.⁴ The problem is well known, to put it mildly.

What I would like to do today, however, is to recognize that protection from abusive demand letters is consumer protection, just like the many other consumer protection laws this Subcommittee and Congress have considered and enacted in the past. Abusive demand letters take advantage of their recipients with deception and fraud, using the same scare and strongarm tactics that have prompted those other consumer protection laws.

In particular, a comparison of the TROL Act to the Fair Debt Collection Practices Act (FDCPA) of 1977⁵ is surprisingly illuminating. At the last hearing on the TROL Act, several witnesses raised the FDCPA in comparison with the bill.⁶ And there are close

¹See, e.g., Joe Mullin, *Nebraska AG Seeks to Shut Down Vague Patent Demand Letters*, ARS TECHNICA (Jan. 7, 2014), <http://arstechnica.com/tech-policy/2014/01/nebraska-ag-seeks-to-shut-down-vague-patent-demand-letters/>.

²See Press Release, Fed. Trade Comm'n, *FTC Settlement Bars Patent Assertion Entity From Using Deceptive Tactics* (Nov. 6, 2014), available at <http://www.ftc.gov/news-events/press-releases/2014/11/ftc-settlement-bars-patent-assertion-entity-using-deceptive>.

³See Press Release, Fed. Trade Comm'n, *FTC Seeks to Examine Patent Assertion Entities and Their Impact on Innovation, Competition* (Sept. 27, 2013), <https://www.ftc.gov/news-events/press-releases/2013/09/ftc-seeks-examine-patent-assertion-entities-their-impact>.

⁴See *Update: Patent Demand Letter Practices and Solutions: Hearing Before the Subcomm. on Commerce, Manufacturing and Trade of the H. Comm. on Energy and Commerce*, 114th Cong. (2015); *Trolling for a Solution: Ending Abusive Patent Demand Letters: Hearing Before the Subcomm. on Commerce, Manufacturing and Trade of the H. Comm. on Energy and Commerce*, 113th Cong. (2014); *The Impact of Patent Assertion Entities on Innovation and the Economy: Hearing Before the Subcomm. on Oversight and Investigations of the H. Comm. on Energy and Commerce*, 113th Cong. (2013).

⁵Fair Debt Collection Practices Act, 15 U.S.C. §§ 1692–1692p (2014).

⁶H.R. ____: *A Bill to Enhance Federal and State Enforcement of Fraudulent Patent Demand Letters: Hearing*

similarities between abusive patent demands and abusive debt collection demands: both involve an owner of a legal quasi-property right (a debt, a patent), both often involve the transfer of that right to a third party who specializes in collecting money based on the right (a debt collector, a patent assertion entity), and both have involved criticisms of the heavy-handed tactics used by such third parties (harassing midnight phone calls, threatening demand letters).

In preparation for this hearing I have reviewed the legislative history of the FDCPA, and in particular the hearings in the House and Senate leading up to enactment of that law. During those hearings, Congress heard testimony from numerous debt collection agents, who detailed the often shocking techniques that they would use when calling debtors for collections.

The debt collection techniques described in that testimony, which members of Congress resoundingly decried as abusive and harassing, are chillingly similar to the tactics that patent demand letters employ today. One witness at an FDCPA hearing, a former collection agent, introduced a copy of his employer's manual into the hearing record.⁷ I have thus compared selections of instructions from that manual with selected passages from actual patent demand letters that have been sent.⁸

Both begin with impressing upon the recipient of the communication the necessity of acting quickly—in less time than, say, one would need to obtain counsel and objectively review the situation:

Before the Subcomm. on Commerce, Manufacturing and Trade of the H. Comm. on Energy and Commerce, 113th Cong. 4–5 (May 22, 2014) [hereinafter Statement of Fed. Trade Comm'n], <http://docs.house.gov/meetings/IF/IF17/20140522/102255/HHRG-113-IF17-Wstate-GreismanL-20140522.pdf>; *H.R. ____: A Bill to Enhance Federal and State Enforcement of Fraudulent Patent Demand Letters: Hearing Before the Subcomm. on Commerce, Manufacturing and Trade of the H. Comm. on Energy and Commerce*, 113th Cong. 2 (May 22, 2014) (testimony of Robert Davis on behalf of Stop Patent Abuse Now Coalition), <http://docs.house.gov/meetings/IF/IF17/20140522/102255/HHRG-113-IF17-Wstate-DavisR-20140522.pdf>.

⁷*H.R. 29: The Debt Collection Practices Act: Hearing Before the Subcomm. on Consumer Affairs of the H. Comm. on Banking, Finance and Urban Affairs*, Ninety-Fifth Cong. 27–60 (1977) (testimony of Hugh Wilson).

⁸I have previously used this style of comparison in the following article: Charles Duan, *Taking a Page from the Patent Troll Playbook*, SLATE: FUTURE TENSE (Dec. 17, 2014), http://www.slate.com/articles/technology/future_tense/2014/12/ben_edelman_used_patent_troll_tactics_in_going_after_a_chinese_restaurant.html.

Collections manual, directions to callers: “You must convey to the debtor that he must settle today—that time is of the essence—that the time for delivering further stalls or deliberation is over.”⁹

Patent demand letter: “To that end, we do need to hear from you within the next two weeks.”¹⁰

They avoid arguing the merits of their case, instead assuming that the money is owed:

Collections manual, directions to callers: “Do not argue merit if at all possible. To avoid—go over the top such as: ‘Now—you know better than that’ [or] ‘Now let’s not get into that’ ”¹¹

Patent demand letter: “As you have not contacted us to explain that you do not have an infringing system, we reasonably can only assume that the system you are using is covered by the patents. In that case, you do need a license.”¹²

But rather they escalate the threat by tying the deadline to an imminent lawsuit:

Collections manual, call script: “Papers go to the attorney tonight. You must bring the money in today.”¹³

Patent demand letter: “Accordingly, if we do not hear from you within two weeks from the date of this letter, our client will be forced to file a Complaint against you for patent infringement in Federal District Court where it will pursue all of the remedies and royalties to which it is entitled.”¹⁴

Both intimate that litigation will be vastly more expensive than paying up:

Collections manual, call script: “You are the one who is spending the Court costs and attorney fees, not me. Do as you like—either pay us or pay the attorney. Why pay more?”¹⁵

Patent demand letter: “While it is Plaintiff’s desire that the parties amicably resolve this matter, please be advised that Plaintiff is prepared for full-

⁹H.R. 29: *The Debt Collection Practices Act*, *supra* note 7, at 34.

¹⁰Letter from Farney Daniels PC, to unknown recipient, *DesNot, LLC Patent Licensing* (Nov. 16, 2012) [hereinafter MPHJ Letter Exhibit B], <https://www.ftc.gov/system/files/documents/cases/150317mphjtechexhibitsa-c.pdf>.

¹¹H.R. 29: *The Debt Collection Practices Act*, *supra* note 7, at 59.

¹²MPHJ Letter Exhibit B, *supra* note 10.

¹³H.R. 29: *The Debt Collection Practices Act*, *supra* note 7, at 34.

¹⁴Letter from Farney Daniels PC, to unknown recipient, *CalNeb, LLC Patent Licensing* (Jan. 21, 2013) [hereinafter MPHJ Letter Exhibit C], <https://www.ftc.gov/system/files/documents/cases/150317mphjtechexhibitsa-c.pdf>.

¹⁵H.R. 29: *The Debt Collection Practices Act*, *supra* note 7, at 36.

scale litigation to enforce its rights. This includes all motion practice as well as protracted discovery.”¹⁶

They further stress that final payment will only go up if the target chooses to fight:

Collections manual, call script: “The attorney will sue and add court costs, attorney fees, and other expenses to the bill. Why not pay now and avoid this extra expense? Remember, it costs *you*, not *us*.”¹⁷

Patent demand letter: “Please be advised that for each nondispositive motion filed by Company, Plaintiff will incorporate an escalator into its settlement demand”¹⁸

And to top it off, both throw in very specific details about the impending legal battle, to make the threat of full-blown litigation seem even more credible, and then reiterate the urgent payment option as the only way to stop it:

Collections manual, call script: “the only reason for my call at this time is to inform you of this *pending suit* and to see if you wish to *settle this matter out of court?*—Fine. This suit is scheduled to be *filed* on (give 5 days) at 4:00 P.M. here in San Francisco—so the balance will have to be in my office prior to that date. . . . if this balance of ___ is in my office prior to (filing date) we will cancel *litigation against* you. If not—suit will be filed as scheduled and you will be notified and served by a ward of the *court*.”¹⁹

Patent demand letter: “The Complaint is attached, so that you may review it and show it to your counsel. . . . [W]e must hear from you within two weeks of the date of this letter. Given that litigation will ensue otherwise, we again encourage you to retain competent patent counsel to assist you in this matter.”²⁰

The abusive patent demand letters that this Subcommittee aims to address are thus very analogous to the abusive debt collection practices that Congress dealt with in the FDCPA. Thus, this Subcommittee should take the same concern and expertise it has in dealing with consumer protection problems generally, and apply them to dealing with the patent demand letter problem here.

¹⁶Letter from Aeton Law Partners, to Danny Seigle, FindTheBest.com, Inc., *Lumen View Technology LLC v. FindTheBest.com, Inc.*, S.D.N.Y. (May 30, 2013), <https://trollingeffects.org/demand/lumen-view-technology-2013-05-30>.

¹⁷H.R. 29: *The Debt Collection Practices Act*, *supra* note 7, at 34 (emphasis in original).

¹⁸Aeton Law Partners, *supra* note 16.

¹⁹H.R. 29: *The Debt Collection Practices Act*, *supra* note 7, at 44 (emphasis in original).

²⁰MPHJ Letter Exhibit C, *supra* note 14.

II. THE EXISTING BLANKET OF STATE-LEVEL LAWS INDICATES THAT PATENT DEMAND LETTER ABUSES ARE WIDESPREAD AND CONCERNING

The TROL Act would legislate not on a blank canvas but on an existing field of state consumer protection laws. Accordingly, this Subcommittee should be cognizant of the nature and breadth of those current state protections as it assesses the bill.

Because patent demand letter abuses have such a concerning effect on consumers, twenty individual states have enacted some law directed specifically to those demand letters: Alabama,²¹ Georgia,²² Idaho,²³ Illinois,²⁴ Louisiana,²⁵ Maryland,²⁶ Maine,²⁷ Missouri,²⁸ Mississippi,²⁹ North Carolina,³⁰ North Dakota,³¹ New Hampshire,³² Oklahoma,³³ Oregon,³⁴ South Dakota,³⁵ Tennessee,³⁶ Utah,³⁷ Virginia,³⁸ Vermont,³⁹ and Wisconsin.⁴⁰

²¹Act of Apr. 2, 2014, Act No. 2014-218 (Ala.) [hereinafter Alabama Act], available at <http://alisondb.legislature.state.al.us/ALISON/SearchableInstruments/2014RS/PrintFiles/SB121-enr.pdf>.

²²Act of Apr. 15, 2014, No. 513, 2014 GA. LAWS 208 [hereinafter Georgia Act].

²³Act of Mar. 26, 2014, ch. 277, 2014 IDAHO SESS. LAWS 699 [hereinafter Idaho Act].

²⁴Act of Aug. 26, 2014, Pub. Act 098-1119 (Ill.) [hereinafter Illinois Act], available at <http://www.ilga.gov/legislation/publicacts/98/PDF/098-1119.pdf>.

²⁵Act of May 28, 2014, Act No. 297 (La.) [hereinafter Louisiana Act], available at <http://www.legis.la.gov/legis/ViewDocument.aspx?d=910796>.

²⁶Act of May 5, 2014, ch. 307, 2014 MD. LAWS 1775 [hereinafter Maryland Act].

²⁷Act of Apr. 14, 2014, ch. 543, 2013 ME. LAWS 1428 [hereinafter Maine Act].

²⁸Act of July 8, 2014, SB 706, 2014 MO. LAWS 1606 [hereinafter Missouri Act].

²⁹Act of Mar. 28, 2015, H.B. No. 589 (Miss.) [hereinafter Mississippi Act], available at <http://billstatus.ls.state.ms.us/documents/2015/pdf/HB/0500-0599/HB0589SG.pdf>.

³⁰Abusive Patent Assertions Act, Sess. L. 2014-110, 2014 N.C. SESS. LAWS 664 [hereinafter North Carolina Act].

³¹Act of Mar. 26, 2015, H.B. No. 1163 (N.D.) [hereinafter North Dakota Act], available at <http://sos.nd.gov/files/legislation/1163.pdf>.

³²Act of July 11, 2014, ch. 197, 2014 N.H. LAWS ch. 197 [hereinafter New Hampshire Act], available at <http://www.gencourt.state.nh.us/legislation/2014/SB0303.html>.

³³Act of May 16, 2014, sec. 305, 2014 OKLA. SESS. LAWS 305 [hereinafter Oklahoma Act], available at <http://www.oscn.net/applications/oscn/deliverdocument.asp?id=473182>.

³⁴Act of Mar. 3, 2014, ch. 19, 2014 OR. LAWS ch. 19 [hereinafter Oregon Act], available at https://www.oregonlegislature.gov/bills_laws/lawsstatutes/2014R1orLaw0019ss.pdf.

³⁵Act of Mar. 26, 2014, ch. 192 (S.D.) [hereinafter South Dakota Act], available at http://legis.sd.gov/Statutes/Session_Laws/DisplayChapter.aspx?Chapter=192&Session=2014.

³⁶Act of May 18, 2014, ch. 879 (Tenn.) [hereinafter Tennessee Act], available at <http://www.tn.gov/sos/acts/108/pub/pc0879.pdf>.

³⁷Act of Apr. 1, 2014, H.B. 117 (Utah) [hereinafter Utah Act], available at <http://le.utah.gov/~2014/bills/hbillenr/HB0117.pdf>.

³⁸Act of May 23, 2014, ch. 810 (Va.) [hereinafter Virginia Act], available at <https://leg1.state.va.us/cgi-bin/legp504.exe?141+ful+CHAP0810+pdf>.

³⁹Act of May 24, 2013, No. 47 (Vt.) [hereinafter Vermont Act], available at <http://legislature.vermont.gov/assets/Documents/2014/Docs/ACTS/ACT047/ACT047%20As%20Enacted.pdf>.

⁴⁰Act of Apr. 23, 2014, No. 339, 2013 WIS. ACT No. 339 [hereinafter Wisconsin Act], available at <http://>

Accordingly, any legislation considered by this Subcommittee must be measured not against a vacuum, but rather against the existing consumer protections that these state laws provide. Thus, in preparation for this hearing, I have carefully reviewed each of these twenty state laws, identified their similarities and differences, and considered their effects within the overall regulatory landscape. My testimony and recommendations will reflect this analysis.

III. THE PRESENT BILL SHOULD BE STRENGTHENED IN SEVERAL WAYS

As an initial matter, we applaud the Subcommittee for taking on this issue of patent demand letters and making substantial headway toward developing a bill that protects consumers from these problematic practices. We further thank the Subcommittee for its work in improving the bill, in view of numerous comments received in the last Congress on the initial discussion draft. The changes between the original discussion draft and the most current one reflect marked improvements in many areas to protection of consumers from abusive demand letters.

Nevertheless, we continue to believe that the bill needs to be improved to sufficiently protect the consumer interest, particularly in view of the growing body of state law protection acting as a background to this bill. The following are our suggestions for how the Subcommittee may do so.

A. FEDERAL PREEMPTION HERE WOULD ACTUALLY WEAKEN EXISTING CONSUMER PROTECTIONS FROM PATENT DEMAND LETTER ABUSES

Section 4(a) of the TROL Act would preempt the twenty existing state demand letter laws and prevent them and other states from enacting consumer-protective measures in this area. Such preemption of existing and future consumer protection laws, though not *per se* problematic, does demand careful scrutiny for at least two reasons.

docs.legis.wisconsin.gov/2013/related/acts/339.pdf

1. EXISTING STATE LAWS PROVIDE HIGHER LEVELS OF PROTECTIONS THAT WOULD BE WIPED AWAY BY PREEMPTION

First, preemption may ultimately weaken existing consumer protections by removing a strong state law and replacing it with a federal law that may be less protective. It would be a counterintuitive and counterproductive situation if the TROL Act, intended to protect consumers from abusive demand letters, actually left consumers in some states *less protected* from them.

The variety and ingenuity of the states reveals numerous additional levels of consumer protection beyond that contemplated in the TROL Act. For example:

- A majority of the state laws look to whether a demand letter imposes an unreasonably short response period or offers an unreasonable license value.⁴¹ North Carolina’s law more specifically considers whether the proposed license value is based on the cost of defending a lawsuit rather than the merits of the patent.⁴² The TROL Act considers none of these factors.
- Both the TROL Act and every state law make it an indicator of abuse when a demand letter asserts an invalid patent.⁴³ But North Carolina also makes it an indicator of abuse when a demand letter asserts a patent that, due to a defect in the prosecution history of the patent, would be technically valid but entirely ineffective against the demand letter recipient.⁴⁴
- Utah’s law considers an “escalator clause” in a demand letter, in which the settlement amount increases if the target of the letter hires counsel or fails to respond within a certain amount of time, to be indicative of abuse.⁴⁵ Such a factor is also not in the TROL Act.

⁴¹See, e.g., Alabama Act, *supra* note 21, §§ 2(e)(4)–5.

⁴²See North Carolina Act, *supra* note 30, § 75-139(a)(5).

⁴³See, e.g., Virginia Act, *supra* note 38, § 59.1-215.2(B)(8).

⁴⁴See North Carolina Act, *supra* note 30, § 75-139(a)(6).

⁴⁵See Utah Act, *supra* note 37, § 78B-6-1903(2)(b)(v).

In these and other states, federal preemption would have the effect of removing existing consumer protections currently enjoyed by citizens of those states. That should not be the result of this bill intended to protect consumers from abusive practices.

Indeed, a preemption proposal was considered and rejected by a Senate subcommittee for exactly this reason, in the context of the FDCPA. When a representative of a retail trade association proposed that Congress preempt existing state laws protecting consumers from unfair debt collection practices, the subcommittee chair asked “why States, for example like Arizona or Arkansas or New Hampshire or Vermont who have very tough laws—why they shouldn’t be free to have as tough a law as they want in the area.”⁴⁶ When the witness appealed to “tremendous operating problems” resulting from lack of preemption, the chair indicated he was “sort of surprised that you’re recommending that the States with tougher laws be compelled to give those laws up.”⁴⁷

The FDCPA as ultimately enacted does not preempt any state law “if the protection such law affords any consumer is greater than the protection provided” by the FDCPA.⁴⁸ It thus acts as a floor rather than a ceiling, and does not unintentionally strip consumers of their existing state law protections. If the TROL Act is to increase rather than decrease consumer protections, it ought to take the same approach as the FDCPA when it comes to preemption.

2. PREEMPTION PREVENTS STATES FROM DEVELOPING INNOVATIVE SOLUTIONS TO FUTURE DEMAND LETTER ABUSES

Second, preemption prevents individual states from further developing innovative solutions and creating a diversity of ideas in consumer protection. As Justice Brandeis observed: “It is one of the happy incidents of the federal system that a single courageous State may, if its citizens choose, serve as a laboratory; and try novel social and economic

⁴⁶S. 656, S. 918, S. 1130, and H.R. 5294: *Fair Debt Collection Practices Act: Hearing Before the Subcomm. on Consumer Affairs of the S. Comm. on Banking, Housing and Urban Affairs, Ninety-Fifth Cong.* 218 (1977) (question of Senator Riegle).

⁴⁷*Id.*

⁴⁸Fair Debt Collection Practices Act, 15 U.S.C. § 1692n (2014).

experiments without risk to the rest of the country.⁴⁹ One commentator has analogized the difference between state laws and preemptive federal laws by analogy to markets:

[C]ompetition for public policy ideas fosters accountability. A marketplace of public policy ideas is no different than a marketplace of consumer products—when you have only one seller, you have a monopoly. A monopoly of ideas is a market failure that leads to bad public policy.⁵⁰

It is thus unsurprising that consumer advocates have repeatedly criticized federal preemption of state consumer laws in numerous contexts, including consumer privacy,⁵¹ medical product labeling,⁵² banking,⁵³ and data security.⁵⁴

Patent demand letters are no different from those other consumer protection arenas. Overriding the work of the states in protecting their consumers, and eliminating the states' ability to innovate with policy—these preemptive acts can only be appropriate with a bill that strongly and flexibly protects the consumer interest. For the reasons provided above and in the following sections of my testimony, it is apparent that the TROL Act as currently written requires significant further work if it is to be such a bill.

3. CONCERN FOR UNIFORMITY OF LAW DOES NOT OUTWEIGH THESE HARMS OF PREEMPTION

These problems with preemption are not outweighed by a need for uniformity of the law. In the last hearing on the TROL Act, some witnesses suggested that preemption

⁴⁹*New State Ice Co. v. Liebmann*, 285 U.S. 262, 311 (1932) (Brandeis, J., dissenting).

⁵⁰Edmund Mierzwinski, *Preemption of State Consumer Laws: Federal Interference Is a Market Failure*, GOV'T L. & POL.'Y J. (N.Y. State Bar Ass'n), Spring 2004, at 6, available at <http://www.pirg.org/consumer/pdfs/mierzwinskiarticlefinalnysba.pdf>.

⁵¹*Securing Consumers' Data: Options Following Security Breach: Hearing Before the Subcomm. on Commerce, Trade, and Consumer Protection of the H. Comm. on Energy and Commerce*, 109th Cong. 37–38 (2005) (testimony of Daniel J. Solove, Associate Professor, George Washington University Law School).

⁵²Brief of *New England Journal of Medicine* Editors and Authors as *Amici Curiae* in Support of Respondent at 5, *Wyeth v. Levine*, 555 U.S. 555 (Aug. 14, 2008) (No. 06-1249).

⁵³*Comments of National Consumer Law Center et al. on Regulatory Review under the Economic Growth and Regulatory Paperwork Reduction Act of 1996* (Office of the Comptroller of the Currency Sept. 2, 2014), available at <http://www.nclc.org/images/pdf/rulemaking/occ-10-year-review-comments-consumer-groups09022014.pdf>.

⁵⁴*Discussion Draft of H.R. _____, Data Security and Breach Notification Act of 2015: Hearing Before the Subcomm. on Commerce, Manufacturing and Trade of the H. Comm. on Energy and Commerce*, 114th Cong. 2 (Mar. 18, 2015) (testimony of Laura Moy, New America's Open Technology Institute), <http://docs.house.gov/meetings/IF/IF17/20150318/103175/HHRG-114-IF17-Wstate-MoyL-20150318.pdf>.

was necessary because the “disparate requirements and prescriptions” of each state “will make enforcement of patent rights extremely burdensome.”⁵⁵ But actually reading those state laws reveals a different story.

Despite important differences described above, the enacted state laws are remarkably uniform. Fifteen of the states make illegal the sending of demand letters in “bad faith,” and enumerate a list of factors that weigh toward or against a finding of bad faith.⁵⁶ These states almost all use the same list of factors for bad faith, with some adding further examples of abusive practices; the list of factors weighing against bad faith is almost precisely identical among all fifteen states.⁵⁷

The remaining five states identify a number of practices that deem a patent demand letter *per se* improper, much like the TROL Act but without any requisite showing of bad faith.⁵⁸ Four of these five states identify the same six improper practices, with minor variation in substance; the exception is Wisconsin, which makes any demand letter containing “false, misleading, or deceptive information” improper.⁵⁹

Furthermore, all twenty states require demand letters to include certain disclosures with or subsequent to the sending of those letters. The required information is also highly uniform. Every state requires disclosure of the patent being asserted and the identity of the owner or licensee asserting the patent. Furthermore, every state requires some sort of general explanation of how the patent relates to the letter recipient’s products

⁵⁵H.R. ____: *A Bill to Enhance Federal and State Enforcement of Fraudulent Patent Demand Letters: Hearing Before the Subcomm. on Commerce, Manufacturing and Trade of the H. Comm. on Energy and Commerce, 113th Cong. 5 (May 22, 2014) (testimony of Alex Rogers, Qualcomm), <http://docs.house.gov/meetings/IF/IF17/20140522/102255/HHRG-113-IF17-Wstate-RogersA-20140522.PDF>.*

⁵⁶See Alabama Act, *supra* note 21, § 2(a); Georgia Act, *supra* note 22, § 10-1-771(a); Idaho Act, *supra* note 23, § 48-1703(1); Louisiana Act, *supra* note 25, § 1428(B)(1); Maryland Act, *supra* note 26, § 11-1603(a); Maine Act, *supra* note 27, § 8701(2); Missouri Act, *supra* note 28, § 416.652(1); North Carolina Act, *supra* note 30, § 75-139(a); North Dakota Act, *supra* note 31, § 51-36-02; New Hampshire Act, *supra* note 32, § 359-M:2(I); Oregon Act, *supra* note 34, § 2(2); South Dakota Act, *supra* note 35, § 2; Utah Act, *supra* note 37, § 78B-6-1903(1); Virginia Act, *supra* note 38, § 59.1-215.2(A); Vermont Act, *supra* note 39, sec. 2, § 4197(a).

⁵⁷Of the nine good faith factors, Idaho lacks four of the factors, Maryland and Maine each lack one, and Utah and Virginia each lack three. The remaining ten states recite all nine factors.

⁵⁸See Illinois Act, *supra* note 24, § 2RRR(b); Mississippi Act, *supra* note 29, § 2(1); Oklahoma Act, *supra* note 33, § 2(A); Tennessee Act, *supra* note 36, § 29-40-102(a); Wisconsin Act, *supra* note 40, § 100.197(b)-(c).

⁵⁹Wisconsin Act, *supra* note 40, § 100.197(b).

or services.⁶⁰ Only North Carolina, Utah, and Wisconsin add a small amount of required information to that list, relating to specifics of the nature of the infringement allegations.⁶¹

It is thus factually not the case that “disparate requirements” will unduly hamper patent enforcement efforts. The laws are largely similar, the differences being easy to identify and easy to comply with. Indeed, the amount of time necessary to pick up a statute book and read how to comply with a particular state’s demand letter requirements should pale in comparison by orders of magnitude to the time required to investigate the possible infringement and perform an initial analysis to ensure that the infringement allegation is not frivolous. Where, as here, the state laws are largely consistent and simple to apply, the uniformity justification for preemption is largely attenuated.

B. THE CURRENT AFFIRMATIVE DEFENSE PROVISION OPENS SIGNIFICANT LOOP-HOLES FOR ABUSERS

Section 2(b) of the TROL Act provides an affirmative defense that overcomes any liability for sending demand letters upon a demonstration of “good faith,” which may be definitively proven by “evidence that the sender in the usual course of business sends written communications that do not violate the provisions of this Act.”

While this section appears to be a well-intentioned effort to protect legitimate patent owners from innocent mistakes, the affirmative defense as written is far too broad and offers an easy way for abusive demand letter senders to undertake their actions without repercussions. If one simply sends out a modicum of legitimate letters, then according to the affirmative defense provision, that person may intentionally send out abusive ones

⁶⁰See Alabama Act, *supra* note 21, § 2(e)(1); Georgia Act, *supra* note 22, § 10-1-771(b)(1); Idaho Act, *supra* note 23, § 48-1703(2)(b); Illinois Act, *supra* note 24, § 2RRR(b)(4); Louisiana Act, *supra* note 25, § 1428(B)(2)(a); Maryland Act, *supra* note 26, § 11-1603(b)(1); Maine Act, *supra* note 27, § 8701(3)(A)(1); Missouri Act, *supra* note 28, § 416.652(2)(1); Mississippi Act, *supra* note 29, § 2(1)(c)(iv); North Carolina Act, *supra* note 30, § 75-139(a)(1); North Dakota Act, *supra* note 31, § 51-36-03(1); New Hampshire Act, *supra* note 32, § 359-M:2(II)(a); Oklahoma Act, *supra* note 33, § 2(A)(3)(d); Oregon Act, *supra* note 34, § 2(4)(b); South Dakota Act, *supra* note 35, § 3(1); Tennessee Act, *supra* note 36, § 29-40-102(a)(3)(D); Utah Act, *supra* note 37, § 78B-6-1903(2)(a); Virginia Act, *supra* note 38, § 59.1-215.2(B)(1), (B)(3); Vermont Act, *supra* note 39, sec. 2, § 4197(b)(1); Wisconsin Act, *supra* note 40, § 100.197(2)(a).

⁶¹See North Carolina Act, *supra* note 30, § 75-139(a)(1), (a)(10); Utah Act, *supra* note 37, § 78B-6-1903(2)(a); Wisconsin Act, *supra* note 40, § 100.197(2)(a).

without fear of liability. Indeed, the affirmative defense makes no requirement for the non-violative communications to be bona fide demands, so the person could send reasonable letters to colleagues or affiliates, and then unreasonable ones to the actual targets.

Furthermore, the defense may be invoked by anyone who sends demand letters that “do not violate the provisions of this Act”—whether or not those letters are otherwise misleading, deceptive, or even fraudulent. Thus, those who discover new abusive tactics but otherwise comply with the enumerated provisions of the bill could be immunized from liability, were that defense read broadly.⁶²

Compounding the problem is the fact that the affirmative defense does not merely relieve the demand letter sender from liability for penalties; it relieves the sender from all liability. So not only would the FTC be unable to fine an abusive demand letter sender such as the one described above, but it would also be unable to enjoin the sender from committing further abuses.

The affirmative defense provision should thus be removed from the bill to prevent these problems. To the extent that some sort of protection from mistakes is desired for patent asserters, that protection should explicitly be for mistakes. The analogous language of the FDCPA is instructive:

A debt collector may not be held liable in any action brought under this subchapter if the debt collector shows by a preponderance of evidence that the violation was not intentional and resulted from a bona fide error notwithstanding the maintenance of procedures reasonably adapted to avoid any such error.⁶³

If the Subcommittee wishes to protect small inventors or other patent asserters from innocent mistakes, then the above is a tried and tested approach that more appropriately deals with that situation without creating loopholes for the unscrupulous to exploit.

⁶²*Cf. H.R. ____: A Bill to Enhance Federal and State Enforcement of Fraudulent Patent Demand Letters: Hearing Before the Subcomm. on Commerce, Manufacturing and Trade of the H. Comm. on Energy and Commerce, 113th Cong. 7 (May 22, 2014) [hereinafter Testimony of Wendy Morgan, Vermont Att’y General Office], <http://docs.house.gov/meetings/IF/IF17/20140522/102255/HHRG-113-IF17-Wstate-MorganW-20140522.pdf>.*

⁶³Fair Debt Collection Practices Act, 15 U.S.C. § 1692k(c) (2014).

This problem of smaller-scale demand letter abuse also suggests that a private right of action would be valuable. The TROL Act does not contain such a private right of action, though out of the twenty states with demand letter laws, fifteen states provide one.⁶⁴

A target's right to personally defend against an abusive demand letter sender is the backstop against small-scale bad behavior. The FTC and state attorneys general are offices of limited resources, and they cannot handle every complaint they receive from their respective constituencies. Thus, those authorities will likely focus on the large-scale abusive practitioners like MPHJ or Innovatio—letting smaller ones who send out only dozens of demand letters fly under the radar. The private right of action is what deters those smaller operators.

Such a private right of action is present in the FDCPA.⁶⁵ A line of questioning of an FTC official during one of the hearings demonstrates how Congress found such a private right to be necessary in that context:

“Mr. ANNUNZIO. Do you think allowing private remedies for consumers in this bill will help the enforcement of this bill?”

“Mr. GOLDFARB. I think it is essential to the enforcement of this bill because of the nature of the debt collection industry. There are so many small debt collectors that it is impossible for the enforcement agencies to effectively eliminate the abuses. It is the deterrent effect of private enforcement that will bring them into compliance with this law.”⁶⁶

This Subcommittee should apply those same principles to patent demand letters.

⁶⁴See Alabama Act, *supra* note 21, § 2(d); Georgia Act, *supra* note 22, § 10-1-773(c); Idaho Act, *supra* note 23, § 48-1706; Maryland Act, *supra* note 26, § 11-1605; Maine Act, *supra* note 27, § 8701(3)-(4); Missouri Act, *supra* note 28, § 416.654; Mississippi Act, *supra* note 29, § 4; North Carolina Act, *supra* note 30, § 75-141(b); North Dakota Act, *supra* note 31, § 51-36-06; New Hampshire Act, *supra* note 32, § 359-M:4(II); South Dakota Act, *supra* note 35, § 7; Tennessee Act, *supra* note 36, § 29-40-104; Utah Act, *supra* note 37, § 78B-6-1904(1); Vermont Act, *supra* note 39, sec. 2, § 4199(b); Wisconsin Act, *supra* note 40, § 100.197(3)(b).

⁶⁵See 15 U.S.C. § 1692k(a).

⁶⁶H.R. 11969: *The Debt Collection Practices Act: Hearing Before the Subcomm. on Consumer Affairs of the H. Comm. on Banking, Currency and Housing*, Ninety-Fourth Cong. 294-95 (1976) (Testimony of Lewis H. Goldfarb, Federal Trade Commission); *see also id.* at 297 (“The smaller debt collection companies would, in most cases, not fear that the Federal Government would become aware of their practices, and allocate the resources to sue each one of them. But I think there is a greater fear among them that if private individuals had the right to go into court and have their attorneys’ fees paid, that the law would be enforced. This would be a very effective deterrent to further violation.”).

C. THE LIST OF VIOLATIVE ACTS IS INEVITABLY INCOMPLETE AND SHOULD BE SUPPLEMENTED WITH A CATCH-ALL PROVISION

The TROL Act lists, in section 2(a), a number of acts and omissions relating to demand letters that could lead to a finding of an unfair or deceptive practice under the bill. Although that listing captures many of the most troubling and abusive practices seen in patent demand letters today, the listing is not comprehensive—nor could it ever be—and so a catch-all provision should be added.

As explained above, the state laws that have been enacted so far provide a useful resource for comparison, as they identify areas of concern beyond those contemplated by the TROL Act. Several features of state laws were identified above; others include failure to identify the real party in interest,⁶⁷ threatening to seek an injunction where such relief would be objectively unreasonable,⁶⁸ and issuing the same demand letter to multiple parties who offer different products or services without attempt at differentiating each party.⁶⁹ Furthermore, as demand letter practices evolve over time, one can expect new abusive tactics to arise.

The TROL Act does not enumerate all of these abusive practices, it cannot enumerate all of these abusive practices, and it should not try to enumerate them. Instead, it should incorporate catch-all provisions into the listings, to make clear that the lists of abusive practices are non-exclusive. This is the position that the Vermont attorney general's office took when it testified on this bill last year,⁷⁰ and it is the position that a majority of the states has taken.⁷¹

⁶⁷Utah Act, *supra* note 37, § 78B-6-1903(2)(a)(iii).

⁶⁸North Carolina Act, *supra* note 30, § 75-139(a)(11).

⁶⁹North Dakota Act, *supra* note 31, § 51-36-03(10).

⁷⁰Testimony of Wendy Morgan, Vermont Att'y General Office, *supra* note 62.

⁷¹See Alabama Act, *supra* note 21, § 2(e)(8); Georgia Act, *supra* note 22, § 10-1-771(b)(7); Idaho Act, *supra* note 23, § 48-1703(2)(i); Maryland Act, *supra* note 26, § 11-1603(b)(1)(ix); Missouri Act, *supra* note 28, § 416.652(2)(7); North Carolina Act, *supra* note 30, § 75-139(a)(12); North Dakota Act, *supra* note 31, § 51-36-03(14); New Hampshire Act, *supra* note 32, § 359-M:2(II)(i); Oregon Act, *supra* note 34, § 2(4)(h); South Dakota Act, *supra* note 35, § 3(9); Virginia Act, *supra* note 38, § 59.1-215.2(D); Vermont Act, *supra* note 39, sec. 2, § 4197(b)(9).

The FTC savings clause is a partial step toward this but it is not sufficient, because the incompleteness of the listing of abusive practices will still have effects in several ways. First, the affirmative defense of section 2(b) of the TROL Act is based on compliance with the listed terms of the bill, so without a catch-all provision, a demand letter sender would be free to utilize other, unlisted abusive practices without consequences. Second, despite the savings clause, the FTC and courts would likely still look to the text of the bill in interpreting whether a demand letter is unfair or deceptive, and without a catch-all provision those adjudicators might be inclined to view the list of abuses as comprehensive.

D. THE REQUIRED SHOWINGS OF A “PATTERN OR PRACTICE” AND OF “BAD FAITH” UNNECESSARILY WEAKEN THE BILL’S PROTECTIONS

Unique to the TROL Act are two prerequisites to any finding of an unfair or deceptive act based on patent demand letters: first, that the sender engaged in a “pattern or practice” of sending improper demand letters; and second, that the improper acts be done “in bad faith.”

The bad faith requirement would in all likelihood problematically raise the bar for enforcement officials such as the FTC and state attorneys general in attempting to protect consumers from abusive demand letters. As both the FTC and the Vermont attorney general office testified last year, ordinarily proof of mental state is not required for prosecution under consumer protection statutes, for basic relief such as injunctions or restitution.⁷²

While the testimony of those two witnesses was based on older language of the TROL Act, it appears that the recent changes to the definition of bad faith have only made that element more difficult to prove. The language of the May 15, 2014 draft provided that bad faith could be shown based on “knowledge fairly implied on the basis of objective circumstances.” Thus, according to that older draft, the bad faith standard was at least partially objective. In contrast, the current draft’s three-pronged definition requires show-

⁷²Statement of Fed. Trade Comm’n, *supra* note 6, at 6; Testimony of Wendy Morgan, Vermont Att’y General Office, *supra* note 62, at 9–10.

ing the subjective beliefs of the demand letter sender in all cases. This greatly increases the difficulty of stopping abusive demand letters, and ultimately leaves consumers less protected.

Indeed, not a single one of the twenty state laws imposes such an indeterminate requirement of bad faith. Of the five states that identify *per se* characteristics of improper demand letters, none requires any showing of the mental state of the demand letter sender.⁷³ And of the fifteen states that do refer to bad faith sending of demand letters, those states all identify specific factors, some objective and some subjective, that guide both demand letter senders and enforcement officials as to when bad faith will be found.⁷⁴ The TROL Act, by contrast, imposes a bad faith requirement that is purely subjective and that ultimately weakens the consumer protections this bill should offer.

Similarly, the requirement of showing a “pattern or practice” of sending improper demand letters unnecessarily weakens the bill. To show this, one would most likely need evidence of multiple demand letters sent by the same sender. But because demand letters are sent privately, evidence of multiple letters may be difficult to come by—indeed, this is one of the reasons that some have proposed creation of a registry of demand letters.⁷⁵ Furthermore, the well-known use of shell companies by abusive patent asserters such as MPHJ⁷⁶ only potentially exacerbates the problem of showing a “pattern or practice.” Thus, it should be unsurprising that not a single state imposes a “pattern or practice” requirement on all findings of improper sending of demand letters. The TROL Act should not include one either.

Understandably, these two additional requirements for finding the sending of demand letters to be an unfair or deceptive practice likely stem from a concern for legit-

⁷³See *supra* note 58.

⁷⁴See *supra* note 56.

⁷⁵See, e.g., Demand Letter Transparency Act, H.R. 3540, 113th Cong. sec. 2, § 263 (2013); *The Impact of Patent Assertion Entities on Innovation and the Economy*, *supra* note 4, at 25–26 (testimony of Charles Duan, Public Knowledge).

⁷⁶See Joe Mullin, *Patent Trolls Want \$1,000—for Using Scanners*, ARS TECHNICA (Jan. 2, 2013), <http://arstechnica.com/tech-policy/2013/01/patent-trolls-want-1000-for-using-scanners/>.

imate patent owners who might make an innocent mistake in negotiating for a license. But as explained previously with regard to the affirmative defense provision, the right solution to that problem, following the FDCPA, is to provide a defense for bona fide mistakes. The right solution is not to immunize wide swaths of demand letters, through broad and vague requirements like “bad faith” and “pattern or practice,” that serve to immunize abusive behavior at the expense of consumer protection.

IV. THE TROL ACT IS VITAL REFORM, THOUGH ONLY ONE PIECE IN A LARGER PATENT REFORM EFFORT

While I have spent the last few pages identifying issues with parts of the TROL Act, I want to reiterate the general message I began this testimony with: this Subcommittee is to be commended for taking on such an important issue that affects American consumers and the American economy today. Abusive patent assertion is a widespread problem that affects businesses large and small, and ultimately robs consumers of affordable, accessible technology.

Addressing the problem of unfair and deceptive demand letters, as the TROL Act does, will not solve all the problems with the patent system, or even all the problems with abusive patent assertion. There continues to be a place for further legislation such as the Innovation Act, to deal with problematic acts during patent litigation, which will not go away no matter how strongly this Subcommittee deals with demand letter abuses.

But solving the demand letter problem is a critical part of unlocking the larger puzzle of patent abuse, and a part that most directly affects the smallest businesses and the least protected consumers who lack the resources to defend themselves. This is fundamentally what consumer protection is about, and it should be the focus of the Subcommittee’s thinking as it continues its process with this bill.

Again, thank you for inviting me to testify at this hearing, and I look forward to your questions.

□

Mr. BURGESS. The gentleman yields back. The Chair thanks the gentleman.

I think that concludes all of our witness statements, and we will move into the Q&A part of the hearing. And I will recognize myself for 5 minutes for questions.

And I want to ask a question of the entire panel, and I would like for each of you to answer.

It seems like over the past year we have heard a lot of different stories about various patent assertion entities that have targeted a wide variety of industries. Would each of you describe the trajectory of this problem? And then, in particular, I am interested in your opinion, is the problem getting worse or getting better?

Mr. Long, let's start with you.

Mr. LONG. Thank you, Chairman Burgess.

I think the trajectory is actually going down. When you look at—some of the biggest concerns was this MPHJ, or what some people called the patent scanner troll. And the FTC stepped in in that case, and they entered a consent order. I believe that was finalized just a few months ago.

You look at the Innovatio case; it has been a poster child for patent abuse, so to speak. It concerned someone sending letters to mom-and-pop coffee shops, to hotels about their WiFi. And we see that case was handled, and very appropriately, by Judge Holderman in the Northern District of Illinois, and it actually has reached, I think, a settlement on all those issues.

So I think, as the public becomes more informed of what is going on, given all the resources that we have on the Internet and even at the Patent Office to investigate someone you receive a letter from, I think things are going much better.

Mr. BURGESS. Thank you.

Mr. Dolin, your comments on the trajectory of the problem? Better or worse?

Mr. DOLIN. Thank you, Mr. Chairman.

I would like to answer your question by pointing out that one person's patent troll is another person's innovator.

Certainly, I am not here to dispute that there are bad actors in the system, just like there are bad actors in any system, just like there are bad actors in medical malpractice litigation or any other civil litigation. So I certainly agree that there are actors who deform the system, and those should be dealt with.

But nonpracticing entities and patent distortion entities include our universities, who develop cutting-edge technologies. They include companies that allow people to invest money in innovation and essentially provide funds to small inventors.

So, on one hand, certainly there are these mom-and-pop shops that are faced with bad-faith demand letters, and those should be protected. But let's not forget that on the other side there are equally small mom-and-pop-shop innovators who come up with new research and technology that ultimately is used to develop new cell phones, new medications, new machinery that actually makes our lives so much better.

So I think the problem is there, but the problem is I don't think as bad as has been portrayed. And I think that problems, just like many problems, have—that coin has two sides.

Mr. BURGESS. Thank you.

Ms. Lettelleir?

Ms. LETTELLEIR. Thank you, Chairman.

We see a continued and steady stream of demand letters being received by the members of United for Patent Reform. I can speak from personal experience that at J.C. Penney, for example, we have received three in just the last 45 days, one of which was not even more than 200 words in length.

So it is a continual problem that our membership is facing. And I think it is important to note that the United for Patent Reform includes in its members companies like Oracle, like Bell, Samsung, huge owners of patent rights who are very interested in preserving the right to innovate and the right to protect those innovations, and yet they support the changes we are suggesting to this legislation. And that is because they are also targeted by demand letters; they see their customers targeted by demand letters. It is really only an issue of scale in terms of how much is demanded in these letters.

And while it is a huge problem for the smaller members of our constituency in United for Patent Reform, those small members are customers of our larger members. And, also, J.C. Penney is a consumer, for example, of small innovative businesses. When a small innovator receives a demand letter, I have to be concerned, as counsel for a major company that is considering using or adopting their innovation. The very fact that they have already been targeted by one or more trolls interferes in our ability to adopt their innovation, because it is now no longer a small transaction for J.C. Penney. We may be looking at a \$100,000 contract with a small company to adopt their technology, but, suddenly, by adopting that technology, J.C. Penney is added to the target list of the trolls, and now I am looking at legal bills of \$2 million and \$3 million to defend against the troll.

Mr. BURGESS. Thank you.

Mr. Duan, do you have an observation? Getting better or getting worse?

Mr. DUAN. Yes, you know, I think I will make just a couple quick points.

The first point is, you know, I think that we have seen some data that shows that patent litigation continues to rise. There was a brief downtick, but, you know, that has not proved to be a long-term thing.

The second thing I would point out is we should be worried about the future. Right? You know, a lot of the patents that we are talking about are related to, like, old software technologies on very broad concepts. But, you know, my organization works on a lot of future technologies. We are doing this great event on 3D printing in the next few weeks, which I would encourage you all to attend.

But one of the things that I worry about whenever I see some of these new technologies is, are we just opening up a door to the next wave of patent trolls? Are we just opening up the door to a whole range of patents on 3D printing that will ultimately stifle a growing industry?

And so, you know, I think that the work that the subcommittee is doing in trying to deal with this problem initially will not only

fix a problem that is current but will also fix problems that will come down the road as new technologies arise. So I think that is an important thing to remember.

Mr. BURGESS. The Chair thanks the gentleman, all members of the panel.

Ms. Schakowsky, 5 minutes for your questions, please.

Ms. SCHAKOWSKY. Thank you.

Let me just say a few things, and then, Mr. Duan, I have some questions for you.

Section 2(b) of the draft bill contains an affirmative defense that statements, representations, or omissions are not made in bad faith if the sender can prove that they were mistakes made in good faith.

The draft bill text states that good faith made be demonstrated by, quote, "evidence that the sender, in the usual course of business, sends written communications that do not violate the provisions of this act." But it also says that good faith may be demonstrated by, quote, "other evidence."

So, Mr. Duan, just to be clear, could this affirmative defense provision permit a bad actor to avoid liability simply because he did not have a history of sending deceptive letters, even though those other letters in consideration were not patent assertion letters?

Mr. DUAN. Yes, I think that, you know, you are hitting the nail exactly on the head. The problem with the affirmative defense provision is that it provides just so many opportunities for finding loopholes to allow for somebody to send out abusive demand letters that just happen to comply with the particular provisions or that manage to convince a court that they comply with the specific provision of the law, even though they actually are abusing consumers.

The two examples that I provided in my testimony were, first of all, you know, somebody could send out a number of legitimate letters possibly to just their friends and then send out abusive letters and thereby be able to show that they had a pattern or practice of sending out reasonable letters. Similarly, you know—

Ms. SCHAKOWSKY. So these letters don't have to have anything to do with patents?

Mr. DUAN. It doesn't—

Ms. SCHAKOWSKY. The friendly letters.

Mr. DUAN. Yes. I mean, it doesn't seem like the provision would require that.

And, similarly, the provision only requires that, in order to take advantage of the provision, one only has to send letters that comply with the specific requirements of the law. And the specific requirements of the law are those 17 requirements that I laid out. It says nothing about whether or not those letters are abusive or misleading or deceptive in any other way.

And, you know, the State laws that I have looked through extensively give numerous other examples of ways in which demand letters could be misleading or deceptive. You know, they could demand an amount that is far beyond the reasonable licensing arrangement for the patents. North Carolina has a very interesting provision relating to threatening an injunction against someone when have you no right to obtain an injunction.

There are lots of different ways that a letter could be abusive that fall outside of the scope of what this bill provides, and that affirmative defense would effectively immunize those actions.

Ms. SCHAKOWSKY. So do you agree that section 2(b), then, is not nearly specific enough?

Mr. DUAN. Yes.

Ms. SCHAKOWSKY. In your written testimony, you suggest borrowing language from the Fair Debt Collection Practices Act, which you used as a first example, which allows debt collectors to avoid liability if they can prove the violation was a bona fide mistake.

Can you explain why you think this language is better than the affirmative defense currently in the draft bill?

Mr. DUAN. Well, I think that the idea behind the bona fide mistake is that it actually captures the thing that we are try to protect.

We are trying to protect the small inventor who, you know, maybe for some reason or other accidentally doesn't comply with the law because, you know, they misread it or they failed to include a certain piece of information. And, you know, I don't think that that sort of activity should be punished, as long as the person is reasonable about it, attempts to fix the problem, attempts to fix the problem within a reasonable amount of time. You know, that is not the kind of thing that we want to be punishing.

But what we don't want is a provision that, in order to keep that sort of case out of the courts, also keeps a whole bunch of other cases out of the courts, cases that ought to be there, cases that ought to be unfair and deceptive practices.

And, you know, I think that the caselaw that I have seen on the FDCPA indicates that that provision has worked well in that context, and I think it can work well here.

Ms. SCHAKOWSKY. Thank you.

And I yield back.

Mr. BURGESS. The gentlelady yields back. The Chair thanks the gentlelady.

The Chair recognizes the vice chair of the subcommittee, Mr. Lance, for 5 minutes for your questions, please.

Mr. LANCE. Thank you, Mr. Chairman.

Mr. Long, I would like to get your thoughts on one possible alteration of the draft legislation. As you know, the draft bill prohibits patent owners from omitting certain information if the omission were made in bad faith. This bad-faith provision protects patent owners from an FTC enforcement action when their omission was a mistake.

Critics of the text have said that it would be difficult for the FTC to enforce the provisions because it would be hard to prove bad faith.

What if we made some changes to the bill to lower the FTC's enforcement burden with respect to required disclosures? For example, could the enforcement bar be lowered in cases where a patent owner refuses to provide information a second time after the demand letter recipient requests that information?

Mr. LONG. Thank you, Congressman Lance.

So I am looking at that provision. I recall reviewing information from the FTC staff last year, and, when they talked about this pro-

vision, about an issue of did you omit some detail that the act had asked for, it is my understanding they thought that omitting that information, actually, in the normal course, wouldn't be harmful and wouldn't do any harm.

And so their concern was actually, well, if omitting it doesn't do any harm and you require a bad-faith omission, what good does that provision do? And it is because of the concern that omitting that information may not necessarily harm somebody that you have that extra protection for the bad faith if something was omitted.

I think, otherwise, when we talk about changing the burden if there is a second request, it is so circumstance-driven what that second request might be. I certainly don't think you would want a bright-line rule in that regard.

Often, the patent portfolios are at issue when you are talking about businesses sending letters to other businesses. They may have been very innovative in the particular space that their patents cover and have a lot of patents, so it may be that the second response may not be some of the requested information. It might be more, let's figure out the most efficient way to see what information we need to do this, to reach a reasonable business decision.

Thank you.

Mr. LANCE. Thank you.

Would anyone else on the panel like to comment?

Ms. Lettelleir?

Ms. LETTELLEIR. Yes, I am not sure I totally understand what is being proposed, but I think one of the things you have to keep in mind is much of what occurs with respect to these demand letters occurs under a veil of secrecy.

What will happen typically is, after you receive the first demand letter, then when you request additional information, you will receive a typical response along the lines of, "We would be happy to share more information with you just as soon as you sign a non-disclosure agreement." And that non-disclosure agreement is typically very far-reaching and prohibits you from discussing anything that is discussed with the patent troll with any third party, even your vendors, perhaps.

And so I think that runs into some problems, because I can see a response being, "Well, we offered more information. We just asked them to sign a non-disclosure agreement, and they refused, so that is why we didn't provide the information in response to the second request." And I am not sure how the rubric that you are proposing would fit within the realities of what is happening with the patent trolls and their requirements for non-disclosure agreements.

Mr. LANCE. Thank you.

Mr. Dolin?

Mr. DOLIN. If I may—

Mr. LANCE. Absolutely.

Mr. DOLIN. Thank you, Congressman.

I think I disagree with, sort of, the concern that was just raised, in part because non-disclosure agreements or filing under seal is so common in civil litigation. And so, again, to the extent that the patentee will have to jump through more hoops while sending a de-

mand letter which ultimately serves to amicably resolve any legal disputes—now, again, I want to emphasize that there are sometimes these bad actors who don't have any legal basis for their claims and they are simply acting as extortion artists.

But, plenty of times, these patentees have valid patents, and they seek to resolve their legal disputes without resorting to courts. And requiring them to provide more information under broader requirements than they would have to comply with in civil litigation seems to me to be somewhat counterproductive.

It seems me to push those patentees towards the route of litigation, which is ultimately a defeat for consumers, defeat for patentees, and defeat at the end of the day for people who have to defend against these patents, because, as was mentioned, that would cost a couple of million dollars as opposed to settling it amicably.

Mr. LANCE. Thank you.

Mr. Duan?

Mr. DUAN. I will just add a couple of words.

You know, I think that, certainly, if somebody accidentally omits some information that is required and is requested to provide it and they provide it, you know, I think that is what ordinarily happens in any sort of situation, not just the patent demand letter situation. If somebody makes a small technical error, then, you know, they fix it.

I think the more important point, though, is that, you know, these aren't terribly hard requirements to comply with. They are fairly simple pieces of information that are being requested. They are information that ought to be in the hands of the asserter of the patent if they are to make a legitimate assertion in the first place.

So it should be a fairly simple thing to comply with, and, you know, if they happen to do it in two letters because of an unintentional omission, you know, I think that is reasonable.

Mr. LANCE. Thank you very much.

And, Mr. Chairman, I yield back 19 seconds.

Mr. BURGESS. The gentleman yields back. The Chair thanks the gentleman.

The Chair recognizes the gentlelady from New York, Ms. Clarke, for 5 minutes for your questions, please.

Ms. CLARKE. I thank you, Mr. Chairman. And I thank our ranking member. I thank our panelists for sharing the information with us today.

In addition to preempting more consumer-protective State laws, the draft bill contains a \$5 million cap on civil penalties that can be collected by State attorneys general for section 2 violations.

Mr. Duan, let's imagine a recipient of an abusive demand letter suffers damages in excess of \$5 million. In this case, what good is the cap on civil penalties?

Mr. DUAN. It certainly is problematic, and I thank you for the question.

You know, I think that the problem is that it is very hard to tell right now what the problems of the future will look like. It is entirely possible that, you know, someone will come up with some sort of very expensive type of demand. And, as a result, I think that, you know, tying the hands the State attorneys general through the civil cap penalty or through some of the other sorts of

means that are in this bill would be substantially problematic to full enforcement.

Now, I know that the FTC has enforcement capabilities, as well. But the FTC is a single agency, and, you know, it only has so much capacity. So we need to rely on other parties to fully enforce these sorts of issues, particularly when it comes to some of the smaller patent assertion entities, you know, who possibly will fly under the radar of Federal authorities.

As a result, I think that we want to avoid tying the hands of State attorneys general in being able to protect the consumers in the individual States. You know, consumer protection has been long the province of the States, and I don't see why that should be any different here.

Ms. CLARKE. On the note of the FTC, it is a relatively small agency and has limited resources, so State enforcement is crucial and complementary to the FTC's efforts to protect consumers.

Under its current budget, how large of a role do you think the Commission could reasonably play in combating abusive demand letters?

Mr. DUAN. So I personally don't know the budget of the FTC. I unfortunately did not read that—

Ms. CLARKE. OK.

Mr. DUAN [continuing]. In the many volumes of texts that I have read in preparation for this hearing.

Ms. CLARKE. Sure. Sure.

Mr. DUAN. But what I will point out is, you know, the FTC should be applauded for their settlement with MPHJ. They spent a lot of time working on that, and I think it was an important settlement. But that is one settlement in however many years they have been looking at this. That, I think, is indicative of what their resources are capable of.

And I think the fact that MPHJ is probably the biggest and most notorious of the patent trolls out there really shows that that is what the FTC is going to be able to look at. They are not going to be able to go after, you know, the smaller patent troll who goes after restaurants or who goes after, you know, retail shops. They are going to look for the bigger ones.

And that is why I think we need to have State attorneys general who are able to, you know, be on the ground, take care of the individual problems that are harming the consumers of their respective States.

Ms. CLARKE. So, much of the enforcement action against the senders of abusive demand letters has occurred at the State level. How important is it to preserve the ability of State attorneys general to continue their enforcement efforts?

Mr. DUAN. Well, I think that, you know, the past enforcement actions are indicative of how much they really care about this issue. You know, we have had the Vermont's State attorney general testify, I think, before this committee. I think we have had the attorney general from Nebraska also testify on this issue. Both of them have indicated that they are very, very interested and very, very concerned for their consumers. And, you know, I think that that level of enthusiasm to protect the consumer interest demonstrates

that they are a valuable resource in dealing with this consumer protection problem.

Ms. CLARKE. The remedies available to State attorneys general under this bill are more limited. How would that effect the continued enforcement by State attorneys general?

Mr. DUAN. Well, you know, again, I think that anytime that you are tying the hands of State attorneys general, it makes it much more difficult for them to be able to protect their consumers. You know, if they start having to prove additional factors, such as, you know, the bad faith or a pattern or practice, you know, I think that will make them less inclined to deal with this issue, which would really be an unfortunate thing for the small businesses and consumers who are receiving these demand letters.

Ms. CLARKE. Very well. I appreciate your response.

And I yield back the balance of my time, Mr. Chairman.

Mr. BURGESS. The Chair recognizes the gentlelady. The gentlelady yields back.

The Chair recognizes the gentlelady from Indiana, Ms. Brooks, for 5 minutes for your questions, please.

Mrs. BROOKS. Thank you, Mr. Chairman.

And I learned in preparation for this hearing that, in Indiana, currently, State lawmakers are currently working on legislation to prohibit a person from asserting a bad-faith claim of patent infringement.

And, while the legislation is still being perfected, I would sense that there is probably some disagreement in the panel regarding bad faith. And I apologize that I was not here at the beginning of the testimony and so forth but would like to dig in a little bit with respect to bad faith. And I would like to hear again from each of you what your views are with respect to the use of bad faith in this legislation.

Mr. Duan, would you please share with us what your thoughts are as to whether or not it should be included at all? I heard from Ms. Lettelleir that she would not like it included, I believe, and it should be removed.

And so I would like—"bad faith," and then I would also like to move to a question with respect to the term "pattern and practice" and what we should do with respect to that term.

Mr. DUAN. Thank you. That is an excellent question.

You know, I think our position is that we think that the bad-faith element is not required and basically only adds to the burden of enforcement officials, who will have to somehow prove the mental state of the person who was sending a letter in order to prove their case.

That it is not required, you know, I think as demonstrated by the Fair Debt Collection Practices Act. There have been a number of challenges under Noerr-Pennington saying that, you know, the requirements that debt collectors only call between certain hours and include certain disclosures in their debt collection notices, there have been challenges to that, saying that these are unconstitutional impingements upon the right to petition. The Sixth Circuit has in no uncertain terms said that that is not the case.

The cases that are relied on in the patent context to suggest that that is not the case are fairly unreliable. I think that they have

been overruled, to a certain extent, by the Supreme Court. So, you know, I don't think that those arguments hold up anymore.

That it is bad for the overall system, you know, I think is demonstrated by the fact that the FTC currently doesn't require any sort of bad faith in order obtain just injunctive relief. And that makes sense. The idea is that, if the FTC sees somebody who is sending out demand letters that are improper just on the basis of the letter, they should be able to tell them, "Stop doing that. We can get an injunction against you from doing that. We don't have to prove your mental faith in order to keep you from deceiving consumers." So I think that that is an important point for why it would be problematic.

Did you want me to answer the "pattern or practice" right now? Mrs. BROOKS. Certainly. Go ahead.

Mr. DUAN. So, you know, I think that the pattern or practice is additionally problematic. Again, it adds to the enforcement burden.

The real problem is that, as was discussed previously, a lot of these demand letters go unnoticed. They fly under the radar because they are sent privately. So, you know, if I receive a demand letter and I go to my State attorneys general or I go to the FTC and say, hey, you know, I need you to look into these guys, they are going to have to find somebody else who received a letter. And who knows where they are going to find that, right? Because there is no registry of these letters. They are not going to be able to identify it, so they won't be able to bring the case.

And that is going to be a real problem for enforcement just as a practical matter. Because of the fact that these are private, it won't be possible all the time to find multiple letters, and, as a result, it won't be possible to protect consumers in the way that is necessary.

Mrs. BROOKS. Who else would like to—Ms. Lettelleir? And I would also like you to, if you could, list some of the factors that you think should be included in order to remove affirmative defense language from the text.

You mentioned that you thought there could be a list of factors. So I am sorry, I jumped to a different question, but you mentioned that you thought it could include a list of factors to show that the sender didn't act in bad faith. And what are some of those factors you would like included in order to remove the affirmative defense language?

Ms. LETTELLEIR. I don't think we have, at this point, proposed specific factors, but—

Mrs. BROOKS. OK.

Ms. LETTELLEIR [continuing]. I think there is a logical way that that could be viewed, in terms of, for example, if letters have been sent in which they have only omitted one of the required disclosures and they can show that they had other letters in which that one particular one was not omitted, for example.

And I think as a practical matter that, before a letter is going to bubble to the surface and to the attention of the FTC or an enforcement agency, it is going to be one of those in which it is wholly uncompliant with the act. There are going to be substantial issues with the letter. And I think you can account for how close do they come, you know, and what they are able to articulate about why

it was omitted. Because, in some instances, perhaps in their view it didn't apply for some reason. That might be—if they can articulate a reason that a particular disclosure they did not feel was appropriate for that particular demand for some reason. It is hard for me to imagine that scenario, because, you know, what is required to be disclosed is very rudimentary, really. It is not a burdensome thing to disclose.

So I think that there is a lot of flexibility in terms of what those could be and are really going to be commonsense factors about what would be omitted and why it was omitted.

Mrs. BROOKS. Thank you all for sharing. My time is up.

I yield back. Thank you.

Mr. BURGESS. The gentlelady yields back. The Chair thanks the gentlelady.

The Chair recognizes the gentleman from California, Mr. Cárdenas, for 5 minutes for your questions, please.

Mr. CÁRDENAS. Thank you very much, Mr. Chairman.

I appreciate all the witnesses being here today to help enlighten us on what is going on out there in the real world.

I just want to point out that the targets of patent demand letters are often small businesses and that do not necessarily have a large legal team at their disposal, especially a legal team equipped to handle patent matters.

As we have heard so many times from the owners of these small businesses, the high cost of dealing with abusive patent demand letters do significant harm to their business and their livelihood and, in some cases, cripple that small business or even end that small business, and there go jobs.

The targets of these unfair and deceptive demand letters have explained that the letters they receive rarely contain enough information for them to evaluate the allegations of infringement or the demands for compensation without the help of a patent lawyer. And when targets consult lawyers, the lawyers must spend a significant amount of time, energy, and money to conduct an investigation of the claims made in these letters, which costs targets extraordinarily high to these small businesses when it comes to legal fees and other matters.

The draft bill attempts to address that lack of detail in a demand letter through section 2(a)(3), which requires certain information be included in the demand letters.

Mr. Duan, do you think the five elements required in this section would create enough transparency and allow the average recipient of these misleading leaders to avoid costly patent lawyer fees?

Mr. DUAN. Thank you for the question. I think that it is an excellent question.

I think that they are an important start. The elements that are listed there are probably some of the most critical elements—you know, the identification of the patents, identification of the person who asserts the right. You know, those are definitely the most critical pieces that would enable somebody to, you know, look at this and really figure out what is going on here.

I think that the requirements for explaining the basis of the infringement allegations could be strengthened. Right now, some of those are in there, but they do not include a requirement, for exam-

ple, for identifying particular claims. They sometimes allow for exceptions in situations where—they allow for certain exceptions, in which somebody might be able to avoid having to disclose that sort of information.

Excuse me. I have a bit of a cold.

Anytime that you send out a demand letter, at least if you are sending it legitimately—you know, I did this when I was practicing as a patent attorney—you do the investigation. You know what the basis is for the infringements. You have investigated the products, you have investigated the patent, you understand what is going on. You wouldn't send out the letter, as a matter of legal ethics, if that weren't the case. And that is what legitimate people do.

All that is being asked here is to put that into the record so that the person has a fair shot at understanding what is going on. That is what is being asked here.

Mr. CÁRDENAS. Thank you.

The first requirement of this section is that the sender of a patent demand letter include the identity of the person asserting the right to license the patent to or enforce the patent against the recipient. That language may only require disclosure of the identity of the person sending the letters and not, for example, the identity of the parent company.

Mr. Duan, do you think that this section needs further clarification so that recipients and State attorneys general and the FTC know exactly who is behind the patent demand letter?

Mr. DUAN. Certainly. I think that, you know, identification of the real party in interest can be very important in a lot of situations.

You know, I think that there are some examples—particular examples aren't coming to mind, but I think there are situations where, for example, the person who is receiving the letter might have already taken a license, or somebody upstream might have already taken a license, and knowing the real party in interest could reveal that information and, you know, allow them to simply dismiss the letter, saying, you know, I already have a license to this.

In other cases, for example, with MPHJ, the center of the letters uses a bunch of shell companies, which makes it hard at the beginning to figure out that all of these demand letters are coming from the same place. So disclosure of the real party in interest could allow for that to happen, which would allow for the State attorney general to identify a pattern or practice if that element is left in.

So, you know, I think that that element is fairly critical in a lot of situations to proper enforcement.

Mr. CÁRDENAS. OK. Thank you.

Ms. Lettelleir—I am sorry if I butchered your name—J.C. Penney is not a small company. Thank you so much for coming forward and testifying today. But what elements do you think that J.C. Penney, for example, sees in that section that could be improved?

Ms. LETTELLEIR. Well, we would like to see a specific identification of the claim in the patent that they are asserting as being infringed. We think that is very fundamental to understanding what is being asserted against you and is fundamental to any business being able to make an informed decision about how to respond to the letter.

And to your point in terms of, you know, the need for legal counsel—and while I am here and I work for J.C. Penney, I am representing the United for Patent Reform that has many members that are very small and do not have on-staff patent attorneys at their disposal to advise them. One of the things that is very important in terms of disclosure of the real party in interest and the claims that are specifically being infringed is it does help a small-business owner identify what company they may have acquired product from that is in fact the source of the accused infringement.

And many times it is very difficult to sift through and understand what is even being accused. And if you don't understand what is being accused, a business owner has no chance of properly identifying and then communicating with the vendor that may have sold them the product.

And we have experienced firsthand an incident where we received a demand on a product that we acquired from Adobe, and, once we figured it out after an extensive amount of work, Adobe had already taken a license to those patents and had sought to protect their customers as part of that license.

So getting to who is taking the action, who owns the rights, and what exactly you are being accused of is key for a small business to ever get to who is behind and who they should be looking to for assistance.

Mr. CÁRDENAS. Thank you.

Thank you, Mr. Chairman. Yield back.

Mr. BURGESS. The gentleman's time has expired.

The Chair recognizes the gentleman from Kentucky for 5 minutes for your questions, please.

Mr. GUTHRIE. Thank you, Mr. Chairman.

Sorry for bouncing in and out. We have a competing hearing going on right now in another subcommittee.

So, Mr. Long, does the legislation preserve the FTC's section 5 authority? And could the FTC continue to bring actions against patent trolls for deceptive demand letters under section 5 authority if the bill were enacted?

Mr. LONG. Yes. Thank you for your question. It absolutely does. It has a provision that says, nothing within this act is meant to keep the FTC from doing what it otherwise could do. So that certainly is a catchall that could catch some of these concerns people have that may not be delineated in the proposed act.

Mr. GUTHRIE. Also for you, Mr. Long, could the State attorneys general continue to bring cases under their many FTC acts under the bill?

Mr. LONG. And that is such a good question. I will have to say that is not clear to me. I haven't looked at that issue, and so I would have to look more to see what the State attorney general is asked to do.

But I know that an important part of this act and an important part of the compromise, given all the work that has been done to get us here, is that it does, indeed, allow the State attorney generals to use this act as a vehicle to address the concerns of their constituents when they face these issues.

Mr. GUTHRIE. Could you submit an answer to that when you have the opportunity to review it to the level—I know you said you

didn't have an opportunity to review to the level you want to to feel comfortable, so would you submit a written answer?

Mr. LONG. Yes.

Mr. GUTHRIE. We will make sure you get the question again.

And, also, Mr. Long, the bad-faith standard—the bill also includes a bad-faith requirement. Why is “bad faith” necessary, and why is “bad faith” required by the First Amendment at all?

Mr. LONG. Very good questions. There are two reasons.

There is a practical reason why you want to have “bad faith” in what is going on here. There is a lot of—and, by and large, the bulk of patent demand letters are all legitimate demand letters. You want to have “bad faith” because you don't want this to be a vehicle for a gotcha. A patent owner may have inadvertently for whatever reason sent something that fell short of the act, but there is no harm and there is no intent to get harm, so we want to have that “bad faith.” So I think that is a good practical issue to have.

But, more importantly, and directly to your constitutional law question, it is indeed a constitutional First Amendment right, the right to petition the Government for redress. And that includes, for example, cases, the right to go to the court and not be punished because you exercised the right to do what you should be allowed to do.

Courts have universally applied that caselaw through patent demand letters. And so the exception, where the First Amendment right won't protect you, is for what is called a sham litigation, where the reason you brought the case was not because you wanted the outcome of what the case would be, what the royalty would be that the jury would give you, but because of what would happen because you brought the process to begin with.

For example, in terms of patent assertion entities, the concern is you brought the case not because you want the royalty that the court would give you but because you want that expense or that process to force whoever your target is to give you money that may not be warranted by your patent. And that requirement, that sham litigation aspect, can apply if what has been done has been done in bad faith. So it is an important First Amendment protection.

Mr. GUTHRIE. Thank you.

And I have one more for you, Mr. Long. What information is disclosed in professionally written demand letters? And is that information different from what is required in the TROL Act? And is the information requirement burdensome so as to cause an infringing party to file a suit to avoid writing a demand letter?

Mr. LONG. A very good question.

When I look at—and we are talking particularly about the things that are required to be disclosed—those are typical things you will find in a typical legitimate demand letter. You are identifying who has the right to the patent. You are identifying what the patent is. You are identifying perhaps a claim that you think that person may be practicing. You identify what particular product they may be using. And you describe in the level of detail that is needed in that first instance, why you think they infringed. Those are typical things that are not too onerous.

The problem comes particularly in what you would require someone to reasonably disclose, because there are all kinds of cir-

cumstances. For example, if you have a large portfolio of patents, you are not going to disclose every claim in every part of those patents that you think are infringed. It may not be worth that. Often the parties will agree, let's select a representative set of your patents to talk about.

And another issue is that often you may not know why they infringe. All the information you could find seems to indicate they may be using your invention, but the heart of their product that you think may use your invention could be in a microchip that you don't have access to or in source code and you don't know how it is written. And so that provision there varies, as far as showing and explaining why there is infringement, varies significantly from circumstance to circumstance.

Mr. GUTHRIE. Thank you, Mr. Long.

My time has expired, and I yield back.

Mr. BURGESS. The gentleman's time has expired. The gentleman yields back. The Chair thanks the gentleman.

Seeing no further questions—

Ms. SCHAKOWSKY. Mr. Chairman, can I just submit for the record my opening statement and four letters from State attorneys general?

Mr. BURGESS. Without objection, so ordered.

[The information appears at the conclusion of the hearing.]

Mr. BURGESS. If there are no further Members wishing to ask questions, I would like to thank the witnesses and the Members for their preparation and their participation in today's hearing.

Before we conclude, I would like to include the following documents to be submitted for the record by unanimous consent: a letter from the National Association of Convenience Stores; a statement for the record on behalf of the American Hotel and Lodging Association; a joint letter on behalf of the American Bankers Association, the Clearinghouse Payments Company, the Credit Union National Association, Financial Services Roundtable, Independent Community Bankers of America, and the National Association of Federal Credit Unions.

[The information appears at the conclusion of the hearing.]

Mr. BURGESS. Pursuant to committee rules, I remind Members they have 10 business days to submit additional questions for the record.

And I ask the witnesses to submit their responses within 10 business days upon receipt of the questions.

Without objection, the subcommittee is adjourned.

[Whereupon, at 1:02 p.m., the subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

PREPARED STATEMENT OF HON. JANICE D. SCHAKOWSKY

Thank you, Mr. Chairman, for holding this legislative hearing on the TROL Act. Patent Assertion Entities, also known as patent trolls, pose a serious threat to consumers and businesses all across the country. They send vague and threatening letters to businesses and end users around the country—extracting settlements in the thousands of dollars from businesses that can't afford to go to court.

It costs patent trolls virtually nothing to send patent demand letters, but they have cost American businesses tens of billions of dollars in recent years.

I am interested in finding a solution to this problem that protects businesses and consumers against patent trolls. That solution must also recognize the legitimate rights of patent holders to protect their ideas and technology.

I appreciate this bill's attempt to balance those two priorities—it is not easy work. Unfortunately, this bill misses the mark.

This bill requires the FTC to prove “bad faith” of the sender in order for patent demand letters to be considered an unfair or deceptive act or practice. In short, this means that the FTC has to be able to prove that the sender of a patent demand letter knowingly made false statements or was aware that the recipient would be deceived. That is an incredibly high burden of proof—and its unenforceability would prevent action against trolls.

This bill's affirmative defense clause is also a major issue. Under this bill, the sender of patent demand letters can avoid FTC action if they can demonstrate that they in the usual course of business sends written communications that do not violate this Act.” That's crazy. What it means is that if you communicate—as all of us do—on a regular basis without sending patent demand letters, you can troll as much as you like.

Not to be a broken record for those that watched the full committee markup yesterday, but I have serious concerns about this bill's preemption of State laws. 20 States—including my home State of Illinois—have already enacted specific policies to curb trolling. In many ways, these State protections exceed those that would be guaranteed under the TROL Act. We should not preempt State law with this bill that does nothing to address the problem of patent trolls.

I look forward to hearing the perspectives of our witnesses on these and other issues today, and to working to improve this legislation before it is marked up. I yield back.

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.....
 (Original Signature of Member)

114TH CONGRESS
 1ST SESSION

H. R. _____

To provide that certain bad faith communications in connection with the assertion of a United States patent are unfair or deceptive acts or practices, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

Mr. BURGESS introduced the following bill; which was referred to the Committee on _____

A BILL

To provide that certain bad faith communications in connection with the assertion of a United States patent are unfair or deceptive acts or practices, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
 2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Targeting Rogue and
 5 Opaque Letters Act of 2015”.

1 **SEC. 2. UNFAIR OR DECEPTIVE ACTS OR PRACTICES IN**
2 **CONNECTION WITH THE ASSERTION OF A**
3 **UNITED STATES PATENT.**

4 (a) IN GENERAL.—It shall be an unfair or deceptive
5 act or practice within the meaning of section 5(a)(1) of
6 the Federal Trade Commission Act (15 U.S.C. 45(a)(1))
7 for a person, in connection with the assertion of a United
8 States patent, to engage in a pattern or practice of send-
9 ing written communications that state or represent that
10 the recipients are or may be infringing, or have or may
11 have infringed, the patent and bear liability or owe com-
12 pensation to another, if—

13 (1) the sender of the communications, in bad
14 faith, states or represents in the communications
15 that—

16 (A) the sender is a person with the right
17 to license or enforce the patent at the time the
18 communications are sent, and the sender is not
19 a person with such a right;

20 (B) a civil action asserting a claim of in-
21 fringement of the patent has been filed against
22 the recipient;

23 (C) a civil action asserting a claim of in-
24 fringement of the patent has been filed against
25 other persons;

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1 (D) legal action for infringement of the
2 patent will be taken against the recipient;

3 (E) the sender is the exclusive licensee of
4 the patent asserted in the communications;

5 (F) persons other than the recipient pur-
6 chased a license for the patent asserted in the
7 communications;

8 (G) persons other than the recipient pur-
9 chased a license, and the sender does not dis-
10 close that such license is unrelated to the al-
11 leged infringement or the patent asserted in the
12 communications;

13 (H) an investigation of the recipient's al-
14 leged infringement occurred; or

15 (I) the sender or an affiliate of the sender
16 previously filed a civil action asserting a claim
17 of infringement of the patent based on the ac-
18 tivity that is the subject of the written commu-
19 nication when the sender knew such activity
20 was held, in a final determination, not to in-
21 fringe the patent;

22 (2) the sender of the communications, in bad
23 faith, seeks compensation for—

24 (A) a patent claim that has been held to
25 be unenforceable due to inequitable conduct, in-

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1 valid, or otherwise unenforceable against the re-
2 cipient, in a final determination;

3 (B) activities undertaken by the recipient
4 after expiration of the patent asserted in the
5 communications; or

6 (C) activity of the recipient that the sender
7 knew was authorized, with respect to the patent
8 claim or claims that are the subject of the com-
9 munications, by a person with the right to li-
10 cense the patent; or

11 (3) the sender of the communications, in bad
12 faith, fails to include—

13 (A) the identity of the person asserting a
14 right to license the patent to, or enforce the
15 patent against, the recipient, including the iden-
16 tity of any parent entity and the ultimate par-
17 ent entity of such person, unless such person is
18 a public company and the name of the public
19 company is identified;

20 (B) an identification of at least one patent
21 issued by the United States Patent and Trade-
22 mark Office alleged to have been infringed;

23 (C) an identification, to the extent reason-
24 able under the circumstances, of at least one
25 product, service, or other activity of the recipi-

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1 ent that is alleged to infringe the identified pat-
2 ent;

3 (D) a description, to the extent reasonable
4 under the circumstances, of how the product,
5 service, or other activity of the recipient in-
6 fringes an identified patent and patent claim; or

7 (E) a name and contact information for a
8 person the recipient may contact about the as-
9 sertions or claims relating to the patent con-
10 tained in the communications.

11 (b) AFFIRMATIVE DEFENSE.—With respect to sub-
12 section (a), there shall be an affirmative defense that
13 statements, representations, or omissions were not made
14 in bad faith (as defined in subparagraphs (B) and (C) of
15 section 5(1)) if the sender can demonstrate that such
16 statements, representations, or omissions were mistakes
17 made in good faith, which may be demonstrated by evi-
18 dence that the sender in the usual course of business sends
19 written communications that do not violate the provisions
20 of this Act. That such statements, representations, or
21 omissions were mistakes made in good faith may also be
22 demonstrated by other evidence.

23 (c) RULE OF CONSTRUCTION.—For purposes of sec-
24 tions 3 and 4, the commission of an act or practice that
25 is declared under this section to be an unfair or deceptive

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1 act or practice within the meaning of section 5(a)(1) of
2 the Federal Trade Commission Act (15 U.S.C. 45(a)(1))
3 shall be considered to be a violation of this section.

4 **SEC. 3. ENFORCEMENT BY FEDERAL TRADE COMMISSION.**

5 (a) VIOLATION OF RULE.—A violation of section 2
6 shall be treated as a violation of a rule defining an unfair
7 or deceptive act or practice prescribed under section
8 18(a)(1)(B) of the Federal Trade Commission Act (15
9 U.S.C. 57a(a)(1)(B)).

10 (b) POWERS OF COMMISSION.—The Commission
11 shall enforce this Act in the same manner, by the same
12 means, and with the same jurisdiction, powers, and duties
13 as though all applicable terms and provisions of the Fed-
14 eral Trade Commission Act (15 U.S.C. 41 et seq.) were
15 incorporated into and made a part of this Act. Any person
16 who violates section 2 shall be subject to the penalties and
17 entitled to the privileges and immunities provided in the
18 Federal Trade Commission Act.

19 (c) EFFECT ON OTHER LAWS.—Nothing in this Act
20 shall be construed in any way to limit or affect the author-
21 ity of the Commission under any other provision of law.

22 **SEC. 4. PREEMPTION OF STATE LAWS ON PATENT DEMAND**
23 **LETTERS AND ENFORCEMENT BY STATE AT-**
24 **TORNEYS GENERAL.**

25 (a) PREEMPTION.—

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1 (1) IN GENERAL.—This Act preempts any law,
2 rule, regulation, requirement, standard, or other pro-
3 vision having the force and effect of law of any
4 State, or political subdivision of a State, expressly
5 relating to the transmission or contents of commu-
6 nications relating to the assertion of patent rights.

7 (2) EFFECT ON OTHER STATE LAWS.—Except
8 as provided in paragraph (1), this Act shall not be
9 construed to preempt or limit any provision of any
10 State law, including any State consumer protection
11 law, any State law relating to acts of fraud or decep-
12 tion, and any State trespass, contract, or tort law.

13 (b) ENFORCEMENT BY STATE ATTORNEYS GEN-
14 ERAL.—

15 (1) IN GENERAL.—In any case in which the at-
16 torney general of a State has reason to believe that
17 an interest of the residents of that State has been
18 adversely affected by any person who violates section
19 2, the attorney general of the State, may bring a
20 civil action on behalf of such residents of the State
21 in a district court of the United States of appro-
22 priate jurisdiction—

23 (A) to enjoin further such violation by the
24 defendant; or

25 (B) to obtain civil penalties.

1 (2) MAXIMUM CIVIL PENALTY.—Notwith-
2 standing the number of actions which may be
3 brought against a person under this subsection, a
4 person may not be liable for a total of more than
5 \$5,000,000 for a series of related violations of sec-
6 tion 2.

7 (3) INTERVENTION BY THE FTC.—

8 (A) NOTICE AND INTERVENTION.—The at-
9 torney general of a State shall provide prior
10 written notice of any action under paragraph
11 (1) to the Commission and provide the Commis-
12 sion with a copy of the complaint in the action,
13 except in any case in which such prior notice is
14 not feasible, in which case the attorney general
15 shall serve such notice immediately upon insti-
16 tuting such action. The Commission shall have
17 the right—

- 18 (i) to intervene in the action;
19 (ii) upon so intervening, to be heard
20 on all matters arising therein; and
21 (iii) to file petitions for appeal.

22 (B) LIMITATION ON STATE ACTION WHILE
23 FEDERAL ACTION IS PENDING.—If the Commis-
24 sion has instituted a civil action for violation of
25 section 2, no State attorney general may bring

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1 an action under this subsection during the
2 pendency of that action against any defendant
3 named in the complaint of the Commission for
4 any violation of such section alleged in the com-
5 plaint.

6 (4) CONSTRUCTION.—For purposes of bringing
7 any civil action under paragraph (1), nothing in this
8 Act shall be construed to prevent the attorney gen-
9 eral of a State from exercising the powers conferred
10 on the attorney general by the laws of that State
11 to—

12 (A) conduct investigations;
13 (B) administer oaths or affirmations; or
14 (C) compel the attendance of witnesses or
15 the production of documentary and other evi-
16 dence.

17 **SEC. 5. DEFINITIONS.**

18 In this Act:

19 (1) BAD FAITH.—The term “bad faith” means,
20 with respect to section 2(a), that the sender—

21 (A) made knowingly false or knowingly
22 misleading statements, representations, or omis-
23 sions;

24 (B) made statements, representations, or
25 omissions with reckless indifference as to the

1 false or misleading nature of such statements,
2 representations, or omissions; or

3 (C) made statements, representations, or
4 omissions with awareness of the high prob-
5 ability of the statements, representations, or
6 omissions to deceive and the sender inten-
7 tionally avoided the truth.

8 (2) COMMISSION.—The term “Commission”
9 means the Federal Trade Commission.

10 (3) FINAL DETERMINATION.—The term “final
11 determination” means, with respect to the invalidity
12 or unenforceability of a patent, that the invalidity or
13 unenforceability has been determined by a court of
14 the United States or the United States Patent and
15 Trademark Office in a final decision that is
16 unappealable or for which any opportunity for ap-
17 peal is no longer available.

ELLEN F. ROSENBLUM
Attorney General



FREDERICK M. BOSS
Deputy Attorney General

DEPARTMENT OF JUSTICE
OFFICE OF THE ATTORNEY GENERAL

July 9, 2014

Honorable Fred Upton, Chairman
House Committee on Energy and Commerce
2125 Rayburn House Office Building
Washington, DC 20515

Honorable Henry Waxman, Ranking Member
House Committee on Energy and Commerce
2125 Rayburn House Office Building
Washington, DC 20515

RE: House Bill on Patent Demand Letters

Dear Sirs:

I write to comment on federal legislation addressing the abusive issuance of patent infringement demand letters. The State of Oregon has a strong interest in both the substantive provisions of the proposed federal legislation as well as the potential pre-emption of Oregon laws. With nearly unanimous bi-partisan support, Oregon's legislature recently enacted legislation to protect our businesses and citizens from abusive, unfair and deceptive practices by patent assertion entities. Oregon law now requires the senders of patent infringement demand letters to include straightforward information in their communications and to only make a demand after minimal due diligence provides a good faith basis to conclude the Oregon business has infringed upon the sender's patent. We have already begun monitoring patent infringement demand letters to ensure that Oregonians are protected and we have been asked by legitimate Oregon businesses to review questionable demands.

This office has reviewed the draft legislation dated July 1, 2014, and offers the following comments and concerns:

- The bill would unacceptably pre-empt state law. There is no reason for express pre-emption in this area of law.
 - The line between acceptable and unacceptable conduct in issuing demand letters within Oregon, whether related to patents or any other claims, is a matter the State is well positioned to define and police. The State has ample experience regulating unlawful trade practices and determining what conduct is fair and permissible. Here, despite the claims of some opponents to such regulation, a refusal to provide adequate information to support an alleged patent infringement claim is neither a legitimate business practice nor protected conduct. Importantly, Oregon's law does not impinge upon federal laws or alter a patent holder's right to file suit.

- Complying with Oregon's or similar state laws requiring honest disclosures and fair information in demand letters is not an unreasonable burden. Satisfying certain basic requirements of state laws in which the alleged infringement is occurring is no different than complying with local court rules. Indeed, here the two go hand in hand because patent infringement demand letters routinely threaten litigation.
- Express pre-emption negatively impacts the state's ability to protect its citizens. While the bill provides that an Attorney General is not pre-empted from pursuing consumer protection claims, Oregon law prohibits specific enumerated business acts rather than broadly prohibiting "unfair and deceptive acts and practices" as can be found in certain other states' laws. State courts are well positioned to deter unlawful demand practices, no special expertise on patent issues is required, and the senders of abusive demand letters have no valid basis to be exempted from state courts. Limiting the Oregon Attorney General to enforcing federal law in federal court imposes unnecessary burdens without added benefit.
- Additional aspects of the bill would hinder effective enforcement.
 - The bill prohibits acts taken "in bad faith" and defines "in bad faith" to require knowing, reckless or intentional acts. Requiring proof of the transgressor's mental state is an unnecessarily high burden. In contrast, Oregon's law explicitly identifies acts and omissions relevant to a court's determination of bad faith. Focusing on the acts means the conduct is measured on an objective standard, rather than a subjective standard of the alleged transgressor's intent.
 - An earlier version of the bill provided that a state Attorney General could recover damages but not penalties. The most recent version of the bill provides that a state Attorney General can recover penalties but not damages, and furthermore, the bill limits penalties to instances in which recipients suffered actual damages. Recovery of damages as well as penalties are key components of effective law enforcement, and are allowed under Oregon's law. The remedies available to the position of the Oregon Attorney General are important to deter future violations by the same party or by others, regardless of whether the unlawful conduct has caused actual damages. We strive to prevent harm, not just react after it has happened.
 - The bill prohibits *stating or representing* that the sender has the right to enforce the patent. This potentially allows a person who doesn't have the right to enforce a patent to avoid violating the law simply by not stating that he has the right. This change appears to create a major undesirable loophole.
 - The bill also does not include a provision addressing unreasonably short response periods. Oregon determined that when the sender imposes an unreasonably short response period before threatened consequences will be carried out then the

Rep. Fred Upton and Rep. Henry Waxman
Page 3

recipient does not have adequate time to consider whether the patent infringement claim is credible. This high pressure tactic is another hallmark of abusive conduct. Addressing this conduct is important because the threat of an imminent lawsuit is the cudgel used to coerce payment from vulnerable targets.

- The bill also does not include a requirement that the sender perform due diligence in investigating the alleged infringement prior to demanding payment. Oregon law requires prior investigation to ensure the allegation has a basis in fact and to prevent false or deceptive claims for payment. The bill's failure to include such a requirement essentially encourages a claimant to avoid investigating; indeed, the bill prohibits falsely stating that an investigation has occurred. As a result this bill likely would result in increasing the number of baseless patent infringement demands.

There have been other bills recently considered in the House or Senate on this issue. While the bills differ in their mechanisms, and many of the concerns expressed above apply variously to those other bills as well, none of the other bills appear to expressly pre-empt state law. I strongly urge that Congress maintain a state's ability to enforce state law defining fair conduct for patent demand letters.

Sincerely,



ELLEN F. ROSENBLUM
Attorney General

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OFFICE OF THE ATTORNEY GENERAL
109 STATE STREET
MONTPELIER, VT
05609-1001

July 9, 2014

The Honorable Lee Terry
Chairman, Subcommittee Commerce,
Manufacturing, and Trade
United States House of Representatives
2125 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Jan Schakowsky
Ranking Member, Subcommittee Commerce,
Manufacturing, and Trade
United States House of Representatives
2125 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Terry and Ranking Member Schakowsky:

As an Attorney General that has received numerous complaints from small businesses and non-profits throughout my state regarding the expense and disruption caused by abusive patent demand letters, I write to express my thoughts on H.R. _____. I appreciate the subcommittee's efforts to address abusive patent demand letters. But I have serious concerns about the proposed legislation. The proposed bill would create unnecessary obstacles to enforcement and could undermine the States' authority to enforce laws protecting consumers against abusive patent enforcement practices. I urge the Subcommittee to amend the proposed bill to make it a useful and strong tool against patent trolling.

I. The proposed standards are not strong enough and would be too difficult to enforce.

The proposed "bad faith" requirement, which is incorporated into the standards in section 2(a), is unnecessary and will make it too easy for patent trolls to continue their practices. In other commercial speech contexts, such as advertising, the States and the FTC may regulate deceptive and misleading commercial speech without proving intent. Debt collection practices, which also involve potential litigation, are regulated without regard to intent. Persons who engage in a pattern or practice of sending patent demand letters should be held to a similar standard of providing accurate and complete information.

Some specific suggestions for changes to sections 2 and 5(1) follow:

- Section 5(1)(C): Again, I recommend eliminating the bad faith requirement. If the definition of bad faith remains in the bill, the "intentionally avoided" language in Section 5(1)(C) should be removed. A requirement that the "sender intentionally

avoided the truth” negates the “high probability” language and makes subsection (C) is no different than subsection (A), which encompasses knowing statements, representation or omissions.

- Section 2(a)(1)(A) – The bad faith requirement is incongruous with the final clause “and the sender is not a person with such a right.” A person should be liable for sending a letter that falsely claims that the person has a right to enforce a patent. Adding an additional requirement that the false statement be made in “bad faith” is an obstacle to enforcement and will make it unnecessarily difficult to protect consumers.
- Section 2(a)(1)(I) – This section creates a double knowledge requirement, to show first that the “sender knew such activity was held, in a final determination, not to infringe a patent” and then to demonstrate bad faith.
- Section 2(a)(2)(C) – This section similarly creates a double knowledge requirement: proving first that the sender knew the recipient’s activity was authorized and then proving that the sender acted in bad faith.
- Section 2(a)(3) – There should be no bad faith requirement for affirmative disclosures. The purpose of the affirmative disclosures is to provide strict liability for failure to provide basic information. The information set forth in subsection (3) is information that is minimally necessary for a recipient of a patent letter to comprehend the allegations and determine an appropriate course of action. Requiring proof that information was omitted “with awareness of the high probability of the . . . omissions to deceive” substantially weakens the disclosure requirements. That means consumers will still receive demand letters that provide little information and are accordingly deceptive and unfair.
- Section 2(a)(3)(C), (D) – These two affirmative disclosures already provide that senders may be excused from including the required information if it is not “reasonable under the circumstances.” Adding a further required showing of bad faith would make it nearly impossible to enforce under these provisions.
- Section 2(a)(3)(B) – The communication should include all of the patents that the sender alleges have been infringed. The current language would only require that the sender list one patent, even if its actual allegation is that there are seven patents that are being infringed.
- Section 2(b) – In addition to requiring the enforcing agency to prove that the letters were sent in bad faith, this provides the sender with an affirmative defense of good faith. Moreover, good faith is demonstrated by a pattern of sending communications that do not violate the Act. This is completely unnecessary in light of the bad faith requirement. Furthermore, it allows an actor that previously behaved properly a safe harbor to engage in abusive patent communications at a later date. This creates a giant loophole that would eliminate the effectiveness of this legislation.

II. The bill should be carefully drafted to avoid preempting state consumer protection authority and to give states strong and effective tools under federal law.

States, including Vermont, have taken substantial steps to address abusive patent trolling practices under state consumer protection laws. The bill should not weaken this important enforcement tool. States are in the best position to protect their small businesses, nonprofits, and other consumers targeted by abusive patent practices. State consumer protection laws are a strong and flexible tool that state attorneys general regularly use to protect consumers and ensure that commercial practices are honest and fair. My understanding is that the intent of the proposed bill is to leave undisturbed state enforcement authority under existing consumer protection laws. As explained below, the bill should be amended to include clearer language to accomplish that goal:

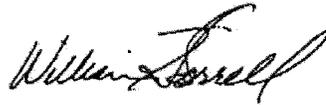
- Section 4(a) – Subsections (1) and (2) are inconsistent and could significantly interfere with the states’ enforcement of their consumer protection statutes. By preempting not only laws, rules and regulations, but also “requirement[s], standard[s], or other provision[s] having the force and effect of law,” subsection (1) may be interpreted to preempt states from using their general consumer protection laws to protect small businesses targeted by unfair and deceptive patent licensing communications. This would significantly hamper the ability of states, which have been at the forefront of this issue, to protect their citizens. That language should be removed.
- Section 4(b): Language should be added to either 4(b)(1) or 4(b)(4) that clarifies that bringing suit under federal law is an option for a state attorney general, but the federal action does not displace the authority to bring suit under state consumer protection law.
- Section 4(b)(1) – Requiring that a resident be “adversely affected” would limit the ability of states to act when consumers contact them with an improper patent communication. It ties the hands of states that wish to proactively protect businesses before the businesses pay large amounts of money based on deceptive communications.
- Section 4(b)(1)(B) – Civil penalties are obtained by the State; they are not received on behalf of recipients. There should be both a provision for civil penalties and a separate provision for restitution on behalf of recipients who suffered actual damages as a result of the violation.
- Section 4(b)(2) – As drafted, this provision creates a maximum penalty per sender, irrespective of the number of letters sent or the campaign. This simply encourages patent trolls to engage in numerous, large trolling campaigns. Once an entity has maxed-out liability, it will be allowed to send unfair and deceptive letters with impunity under this section.

I support federal legislation that protects consumers. Consumers that purchase common off-the-shelf technology like scanners and routers should be not targeted with abusive

patent demand letters and asked to pay licensing fees that dwarf the cost of the products they purchased. I have serious concerns, however, that this proposed legislation does little to protect consumers who receive these kinds of demands. The enforcement standards are not strong enough and the bill may be interpreted to undermine critical state enforcement authority. I urge you to amend the bill to make it an effective tool to protect consumers and deter patent trolling.

Thank you for your work on this issue and for considering this input.

Sincerely,

A handwritten signature in black ink, appearing to read "William H. Sorrell". The signature is fluid and cursive, with a large initial "W" and "S".

William H. Sorrell
Vermont Attorney General

cc: The Honorable Fred Upton, Chairman, Committee on Energy & Commerce
The Honorable Henry Waxman, Ranking Member, Committee on Energy & Commerce



JANET T. MILLS
ATTORNEY GENERAL

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July 10, 2014

The Honorable Lee Terry
Subcommittee Commerce, Manufacturing and Trade
US House of Representatives
2125 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Jan Schakowsky
Subcommittee Commerce, Manufacturing and
Trade
US House of Representatives
2125 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Terry and Ranking Member Schakowsky:

I write to express my concerns with H.R. _____, "Targeting Rogue and Opaque Letters" scheduled to be marked up today by the Subcommittee. I specifically join on to the letter of concerns sent to the Subcommittee yesterday by Vermont Attorney General Sorrell. Abusive patent enforcement practices are a problem that is affecting small businesses and nonprofits in Maine and I urge the Subcommittee to strengthen the draft legislation in the ways suggested by General Sorrell and to avoid restricting States' ability to enforce our consumer protection laws. Federal efforts are critical to provide strong protections to consumers and businesses from these practices and I appreciate the efforts of the Subcommittee in this regard.

Yours very truly,

Janet T. Mills
Attorney General



State of North Carolina
Department of Justice

Roy Cooper
Attorney General

P. O. Box 629
Raleigh, N.C. 27602

July 18, 2014

The Hon. Fred Upton, Chairman
House Committee on Energy
and Commerce
2125 Rayburn House Office Bldg.
Washington, D.C. 20515

The Hon. Henry Waxman
House Committee on Energy
and Commerce
2322A Rayburn House Office Bldg.
Washington, D.C. 20515

Re: H.R. __, The "Targeting Rogue and Opaque Letters Act of 2014"

Dear Chairman Upton and Ranking Member Waxman:

I am writing to encourage your committee not to preempt state laws that are designed to protect consumers and businesses from questionable claims of patent infringement by Patent Assertion Entities (PAEs, sometimes called "patent trolls"). Section 4(a)(1) in the Targeting Rogue and Opaque Letters Act of 2014 could be interpreted to preempt these types of state laws. That provision should be removed or amended so as to preserve state authority.

Consumers and businesses are often targeted by PAEs because they purchase and use off-the-shelf commercial products that rely on common technology, such as printers, scanners, or wireless routers. PAEs are often successful at getting consumers and businesses to pay them because defending complex patent infringement lawsuits can be expensive. I am concerned about this issue and have opened an investigation based on complaints our office has received.

Moreover, North Carolina is in the final stages of adopting patent troll legislation HB 1032 that is designed to provide much needed protections for consumers and business. It is important to note that there is no attempt in this legislation to invade the province of federal patent law. A number of other states have passed similar laws or are in the process of considering similar laws.

I support adoption of effective, balanced patent troll legislation on the federal level but believe state authority should be preserved, not preempted. Consumers and

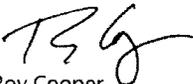
House Committee on Energy & Commerce
July 18, 2014
Page 2

businesses are better protected when there are more cops – both federal and state - on the beat. It is critical that states be able to move quickly to enforce their own laws and protect their own residents. This model has worked effectively in other areas of consumer protection and it would not serve our constituents well by intruding on state authority and preempting state laws here.

Thank you for your work on this important issue and for considering this input. If you have any questions, please feel free to contact me.

With kind regards, I am

Very truly yours,



Roy Cooper

RAC/sm

cc: North Carolina Congressional Delegation
Rep. Tom Murry



April 16, 2015

SUBMITTED VIA E-MAIL

The Honorable Michael Burgess
 Chairman, Subcommittee on
 Commerce, Manufacturing, and Trade
 2125 Rayburn House Office Building
 Washington, DC 20515-3301

The Honorable Jan Schakowsky
 Ranking Member, Subcommittee on
 Commerce, Manufacturing, and Trade
 2125 Rayburn House Office Building
 Washington, DC 20515-3301

Re: The Targeting Rogue and Opaque Letters Act (H.R. –)

Dear Chairman Burgess and Ranking Member Schakowsky,

On behalf of the National Association of Convenience Stores (“NACS”), I write to express appreciation for the Subcommittee’s efforts to reign in the abusive practices of patent assertion entities or patent trolls that send American companies, including convenience stores, vague and deceptive demand letters that threaten business owners with often illegitimate patent litigation suits. NACS values your leadership on this issue and believes that the Subcommittee’s hearing on this topic is a helpful step toward finding solutions to this problem.

NACS is an international trade association composed of more than 2,200 retail member companies and more than 1,600 supplier companies doing business in nearly 50 countries. The convenience store industry operates approximately 150,000 stores across the United States and in 2013 generated almost \$700 billion in total sales, representing approximately 2.5% of United States GDP. Yet, the convenience store industry is truly an industry of small businesses. The vast majority of branded outlets are locally owned, more than 70 percent of the NACS’ total membership is composed of companies that operate ten stores or less, and more than 60 percent of the membership operates a single store.

Patent trolls pose a grave and costly threat to the U.S. convenience store industry. Every year, NACS members receive numerous patent demand letters that threaten litigation should the recipient refuse to pay a licensing settlement fee. Since most convenience stores do not have in-house (or outside) patent counsel and lack experience in patent litigation, it is often cheaper for NACS members to settle a patent infringement claim rather than fight it. Patent trolls recognize and exploit this, often asserting infringements claims that are not based on a legitimate patent claim.

Abusive patent trolls are particularly detrimental to our industry because most convenience stores operate with a slim one-to-three percent profit margin. Thus, all of the additional costs imposed on NACS members by patent trolls – such as the legal fees needed to battle patent trolls or the licensing fees used to pay them off – are extremely damaging to convenience store owners because they take away already scarce funds from investment and other economically productive opportunities. For this reason, NACS has been actively involved

The Association for Convenience & Petroleum Retailing

1600 Duke Street ■ Alexandria, Virginia 22314-3436, USA ■ (703) 684-3600 ■ FAX (703) 836-4564 ■ www.nacsonline.com

with efforts to reign in abusive tactics by patent trolls through the United for Patent Reform Coalition.

Legislation to deal with abusive demand letters is necessary. The Targeting Rogue and Opaque Letters ("TROL") Act (H.R. →) can be a vehicle for progress in this area, but we think it needs to be strengthened to protect business owners from those letters. Patent trolls making false and misleading statements and omissions in demand letters is unfair and deceptive. Doing that should be a violation of law without requiring the Federal Trade Commission to jump through additional hurdles to show the trolls violated the law a lot of times or had a specific state of mind. And, demand letters should provide the basic information necessary for a business to make sense of, and evaluate in some way, its claim.

NACS is committed to collaborating with the Subcommittee to strengthen the provisions in the TROL Act to ensure that it actually functions to protect businesses, like convenience stores, that have been victimized by abusive patent trolls. NACS supports the goals of the TROL Act and is eager to work with you to ensure that the legislation will effectively deal with the problem of abusive patent demand letters.

Sincerely,



Paige Anderson
Director, Government Relations
National Association of Convenience Stores



Statement for the Record

Submitted by the American Hotel & Lodging Association

to the

United States House of Representatives Energy & Commerce Committee

for a hearing entitled:

“H.R.____, Targeting Rogue and Opaque Letters (TROL) Act”

April 16, 2015



On behalf of the 1.8 million employee U.S. hotel industry, the American Hotel & Lodging Association applauds Chairman Burgess and Ranking Member Schakowsky for holding a hearing today on the TROL Act and abusive demand letters sent by patent trolls every day to businesses of all sizes and from almost all industries. We hope that this hearing will lay the groundwork for legislation which will limit the ability of patent trolls to extort money from our hotels through frivolous patent infringement claims. While the TROL Act is clearly intended to address this problem, we believe certain limited revisions need to be made to strengthen its approach to patent trolls, and we are very hopeful that the Committee will be able to make such changes.

We are a founding member of the United for Patent Reform coalition which includes companies and trade associations from across the economic spectrum, including home builders, realtors, convenience stores, restaurants, and retail shops, as well as innovative technology companies like Google, Facebook, Samsung, and Cisco. Members of our coalition include some of the largest patent holders in the country, clearly demonstrating that the reforms we seek will not decrease the value of patents or limit their enforceability.

However, when a patent troll, with no interest in pursuing any productive use of a patent it holds, can continuously profit from sending exceedingly vague or deceptive demand letters to franchisees who own one or two hotels, and have no in-house legal staff, something is wrong with our patent litigation system.

The Innovation Act, introduced by Congressman Goodlatte and a bi-partisan group of supporters, though not perfect, is an excellent first step in reining in patent trolls, but without a strong companion bill addressing demand letters from the Energy & Commerce Committee, the Innovation Act will not be effective for our members. Very often, our hoteliers have no cost effective options but to pay the patent trolls when they receive a demand letter, and would therefore not benefit significantly from the litigation reforms contained in the Innovation Act. We need legislation to delineate the role of the Federal Trade Commission in cracking down on abusive demand letters through its existing statutory authorities. The TROL Act begins this clarification process but should be improved.

We look forward to working with the Committee to pass strong legislation in concert with the broader reforms being considered in the House and Senate Judiciary Committees. Only then will hotel owners, operators and investors be able to stop wasting time and money on defending their businesses from patent trolls, and turn their full focus toward enhancing the guest experience, building new hotels and creating jobs in their communities.

| | |
|--|---|
| The Honorable Michael C. Burgess, M.D. Chairman, Subcommittee on Commerce, Manufacturing and Trade Committee on Energy and Commerce United States House of Representatives Washington, D.C. 20515 | The Honorable Jan Schakowsky Ranking Member, Subcommittee on Commerce, Manufacturing, and Trade Committee on Energy and Commerce United States House of Representatives Washington, D.C. 20515 |
|--|---|

April 16, 2015

Dear Chairman Burgess and Ranking Member Schakowsky:

On behalf of financial institutions of all sizes and charters represented by the undersigned trade associations, we are writing to commend you for your leadership over the past two Congresses in developing legislation to tackle bad faith patent demand letters. Although the legislation is in need of improvement, it is a positive step forward.

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, the recent focus of patent trolls on credit unions and community banks 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.

Your bill would clarify the Federal Trade Commission (FTC)'s 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 could 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. Added transparency could also help businesses make sense of a letter upon receipt, better equipping them to evaluate the legitimacy of the claim.

We encourage the Committee to do more to make this legislation an effective tool to combat patent trolls. In particular, the definition of "bad faith," is very restrictive and it should be either removed altogether or expanded to help ensure more small businesses can enjoy the protections of the bill. In addition, we note that states have proven to be effective laboratories for developing and furthering robust policy relating to patent trolls. The bill should allow states that have proactively enacted laws to discourage bad faith demand letters to continue to use those laws to protect banks, credit unions, other small businesses and their customers from abusive behavior by patent trolls.

Your bill is a constructive step towards addressing the problem demand letters pose to small businesses. 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

April 16, 2015
Page 2

these specious claims that are having a negative impact on our industry, our customers, and the American economy.

Sincerely,

American Bankers Association

The Clearing House Payments Company

Credit Union National Association

Financial Services Roundtable

Independent Community Bankers of America

National Association of Federal Credit Unions

CC: Members of the Subcommittee on Commerce, Manufacturing & Trade