

STATEMENT OF

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BEFORE THE

COMMITTEE ON ENERGY AND COMMERCE
Subcommittee on Commerce, Manufacturing, and Trade

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

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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>