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)

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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 1977[5] 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

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[1] *See, 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/.

[2] *See* 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.

[3] *See* 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.

[4] *See 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).

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

[6] *H.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).

[8] I 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-

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

[10] Letter 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.

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

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

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

[14] Letter 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.

[15] *H.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.

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[16]Letter 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.

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

[18]Aeton Law Partners, *supra* note 16.

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

[20]MPHJ 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]

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[21]Act 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.

[22]Act of Apr. 15, 2014, No. 513, 2014 Ga. Laws 208 [hereinafter Georgia Act].

[23]Act of Mar. 26, 2014, ch. 277, 2014 Idaho Sess. Laws 699 [hereinafter Idaho Act].

[24]Act 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.

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

[26]Act of May 5, 2014, ch. 307, 2014 Md. Laws 1775 [hereinafter Maryland Act].

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

[28]Act of July 8, 2014, SB 706, 2014 Mo. Laws 1606 [hereinafter Missouri Act].

[29]Act 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.

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

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

[32]Act 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.

[33]Act 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.

[34]Act 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.

[35]Act 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.

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

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

[38]Act 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.

[39]Act 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.

[40]Act 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.

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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.

[41] *See, e.g.,* Alabama Act, *supra* note 21, §§ 2(e)(4)–5.
[42] *See* North Carolina Act, *supra* note 30, § 75-139(a)(5).
[43] *See, e.g.,* Virginia Act, *supra* note 38, § 59.1-215.2(B)(8).
[44] *See* North Carolina Act, *supra* note 30, § 75-139(a)(6).
[45] *See* 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

[46] *S. 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.*

[48] Fair 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

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

[50] Edmund 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).

[52] Brief 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

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[55] *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. 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.

[56] *See* 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).

[57] Of 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.

[58] *See* 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).

[59] Wisconsin 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 Loopholes 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

[60] *See* 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).

[61] *See* 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.

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[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.

[63] Fair 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.

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[64] *See* 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).

[65] *See* 15 U.S.C. § 1692k(a).

[66] *H.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]

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

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

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

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

[71] *See* 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-

[72]Statement 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 MPHJ[76] 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-

[73] *See supra* note 58.

[74] *See supra* note 56.

[75] *See, 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).

[76] *See* 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.

□