

UNITED *for* **PATENT REFORM**

Statement of

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On behalf of

United for Patent Reform

submitted to the

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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

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making sure Congress passes

reform. It's time we take back our patent system from trolls. Learn more at UnitedforPatentReform.com
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