THE COALITION FOR 21ST CENTURY PATENT REFORM

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Any FTC Authority Directed To Patent Demand Letters Should Target Widespread, Bad Faith Assertions of Patent Rights and Should Be Narrowly-Tailored To Avoid Chilling Legitimate Patent Licensing Communications

Section 5 of S. 1720 would add a new §299B to the patent statute that would make the widespread sending of demand letters that assert, without a reasonable basis in fact or law, that the recipients are infringing a patent and owe compensation an unfair or deceptive act or practice within the meaning of section 5(a)(1) of the Federal Trade Commission Act (15 U.S.C. 45(a)(1)). The Coalition for 21st Century Patent Reform ("21C") believes that narrowly-tailored legislation, providing the Federal Trade Commission ("FTC") with the authority to target those who send such bad-faith patent demand letters would further the FTC's consumer protection mission and would curtail some of the egregious practices that unfortunately have developed whereby some patent owners send upward of hundreds – or even thousands – of letters to small businesses or individuals with false or misleading threats of litigation for alleged patent infringement and demand for payment.

Given the critical role that patent licensing plays in stimulating and protecting our nation's innovators, however, the 21C urges caution and balance to ensure that efforts to address what may be a small subset of egregious patent demand letter abuses do not inadvertently chill legitimate patent licensing communications. The patent system is designed to encourage notice and communication of patent rights to foster licensing and technology dissemination.

Some of our nation's most visionary and productive inventors do not manufacture or market their own inventions. Among these are America's independent inventors, university and government-based inventors, and many small businesses and start-ups. Those non-practicing entities may concentrate their energies on originating inventions rather than in developing them, leaving the commercialization to licensees who are better positioned to manufacture and market them. Or they may sell or license their patents to venture capitalists who will attend to raising the capital needed for commercialization.

In these circumstances, freely transferrable patent rights are fundamental to the achievement of the Constitutional objective of "promoting the progress of science and the useful arts." Inventors who are not in a position to develop or market their own inventions would be deprived of the value of their patents were they not able to freely license or sell them. Similarly, those who wish to bring these inventions to the public either by developing and marketing them themselves or by licensing them to others should not be discouraged in doing so. Such free trade in patent rights is beneficial to our society as it allows technology developers to combine many different inventions to create products that would not otherwise have been possible.

Thus, efforts to regulate patent licensing communications should be narrowly-tailored and measured to avoid the risk of unintended consequences or collateral damage to legitimate patent licensing communications. The 21C is concerned that some calls for FTC oversight of patent demand letters represent thinly-disguised efforts to devalue patent rights, to make patent infringement a less risky business decision, to make patent enforcement more difficult, or to use patent law to pick winners and losers among different industries. That is why the 21C urges that any legislation in this area be framed in

terms of objectively defined and identifiable unfair or deceptive acts or practices, involving widespread communications targeting multiple recipients, to protect consumers while avoiding unintended consequences that may upset the balance of the patent ecosystem as a whole.

In the sections that follow, the 21C offers its thoughts as to specific legislative measures that can achieve this balance between the need for consumer protection against bad faith demand letters and the need to ensure that we do not weaken our patent system by making patent licensing or enforcement more difficult or less certain, and thereby risk undermining the value of patent rights and chilling American innovation.

The Need to Define Specific, Objective Acts or Practices as Unfair or Deceptive

First and foremost, it is imperative that any legislation clearly define what are considered to be unfair or deceptive acts of practices in a clear and objective fashion. Patent owners engaged in legitimate patent licensing communications have no desire to deceive or mislead any recipients of their communications. To the contrary, it is in their interest to provide sufficient information to make clear their ownership of the patent rights in question and their intentions to license or enforce those rights.

So as not to impede such communications, any legislation should clearly spell out those objectively-identifiable acts or practices that the FTC may deem to be unfair or deceptive. This may include false statements or patent ownership or the right to enforce or license patents, as well as the lack of basic disclosures and specificity in the demand letter that would allow recipients to make informed decisions, leaving consumers vulnerable to abuse. But determinations of the merits or sufficiency of allegations of patent infringement included in demand letters are questions of substantive patent law, not consumer protection. The role of the FTC should be to protect the recipients of demand letters against false or materially misleading statements of fact, not to stray into substantive patent law by weighing in on the merits or sufficiency of patent disputes.

Thus, the appropriate role of legislation in this area should be to identify, and empower the FTC to address through its enforcement powers, those only demand letters which truly are intended to deceive or mislead their recipients. Demand letters may be considered to be objectively false or misleading if they:

- Falsely state that litigation has been filed against the recipient, or threaten litigation if compensation is not paid, and there is a widespread pattern of such threats being made and no litigation having been filed;
- Originate from a person or entity that does not have the right to enforce or license the patent, and is not the representative of a person or entity with the right to enforce or license the patent;
- Seek compensation for a patent that has not been issued or that has been held to be invalid or unenforceable in a final, unappealable or unappealed decision; or
- Seek compensation for activities by the recipient undertaken after the patent has expired.

Likewise, demand letters may be materially misleading if they fail to disclose or inform the recipient of basic facts underlying the demand, namely:

- The identity of the person or entity with the right to enforce or license the patent;
- The patent or patents forming the basis of the demand; and
- Identification of at least one product, service or other activity of the recipient alleged to infringe the identified patent or patents.

Any legislation should clearly spell out and enumerate these and any other acts or practices that the FTC will be entitled to address as an unfair or deceptive trade practice. Patent owners pursuing legitimate licensing activities should have clear guidance as to prohibited communications and should not be left wondering about the rules they must follow.

Also, as further protection for legitimate licensing communications, the FTCôs enforcement authority should be invoked only when the foregoing activities are numerous and widespread. The problem to be addressed, from a consumer protection standpoint, is caused by those patent owners who send hundreds ï or even thousands ï of letters to small businesses or individuals with false or misleading threats of litigation and demand for payment. Limiting the FTCôs enforcement authority to these widespread practices furthers its consumer protection role while reducing the risk that the FTC will be drawn into individual disputes between patent owners and particular potential licensees or alleged infringers. Those one-off disputes should be decided by federal courts applying substantive patent law, not by the FTC under the guise of consumer protection.

The Need to Define a Safe Harbor for Legitimate Patent Licensing Communications

To mitigate the risk of chilling effects on legitimate patent licensing and enforcement communications, the legislation should include ñsafe harboròlanguage that makes clear it is not intended to impinge on a patent ownerôs right to put others on notice of its patent rights and the availability of, of need for, a license.[1] Such language will also help to ensure that the legislation is not vulnerable to challenge on constitutional grounds as intruding upon protected rights of free speech in connection with legitimate patent licensing and enforcement activities.[2]

The Need for Federal Preemption

The public and patent owners alike will benefit from the adoption of clear, balanced and uniform legislative guidance regarding the FTCôs authority to target bad-faith patent demand letters that, when sent on a widespread basis to multiple recipients, may constitute unfair or deceptive trade practices within the meaning of Section 5(a)(1) of the Federal Trade Commission Act. These interests of balance, uniformity and clarity apply nationally and are furthered by the adoption of exclusive federal legislation. Just as substantive patent laws derive from the Constitution and are exclusively within the province of federal statutes and courts, so too should issues relating to patent demand letters be applied consistently and uniformly nationwide through federal legislation, regulation and judicial action. The FTC, rather than individual states, is in the best position to weigh the balance that federal legislation establishes between the need for consumer protection against bad faith demand letters and the need to ensure that we do not weaken our patent system by making patent licensing or enforcement more difficult or less certain. Thus, legislation in this area should expressly provide that it preempts state law or regulation directed to patent demand letters.

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[1] *See, e.g.*, *Virtue v. Creamery Package Mfg. Co.*, 227 U.S. 8, 37-38 (1913) (ñPatents would be of little value if infringers of them could not be notified of the consequences of infringement, or proceeded against in the courts. Such action, considered by itself, cannot be said to be illegal.ò); *Va. Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 869 (Fed. Cir. 1997) (ñ[A] patentee must be allowed to make its rights known to a potential infringer so that the latter can determine whether to cease its allegedly infringing activities, negotiate a license if one is offered, or decide to run the risk of liability and/or the imposition of an injunction.ò).

[2] Courts have held that patent demand letters fall within the First Amendmentôs guarantee of ñthe right of the people . . . to petition the Government for a redress of grievances,ò U.S. Const. amend. I, and thus are protected from liability by the *Noerr-Pennington* doctrine. *See, e.g.*, *In re Innovatio IP Ventures, LLC Patent Litig.*, 921 F. Supp.2d 903 (N.D. Ill. 2013) (collecting cases).

Crafting Appropriate Legislative Language

The 21C is prepared to work with the Judiciary Committee and Members of the Senate to aid in the drafting of legislation, consistent with foregoing principles, to provide the FTC with the authority to target bad-faith patent demand letters that, when sent on a widespread basis to multiple recipients, constitute unfair or deceptive trade practices within the meaning of Section 5(a)(1) of the Federal Trade Commission Act.