Adam Neylon

State Representative • 98th Assembly District

Testimony by Rep. Adam Neylon on behalf of the Patent Notification Act

Ladies and gentleman of the committee, thank you for your time this morning. I am here to provide testimony on Senate Bill 498, or the Patent Notification Act. This legislation addresses an emerging problem facing all businesses that own patents, and creates standardized way to address claims of patent infringement in Wisconsin.

The communication asserting infringement, defined in this bill as the "patent notification" process, must include information such as the company making the claim, the patent or pending patent number, and an explanation of the infringement.

This information will help the businesses being targeted in Wisconsin to determine if the claim is legitimate, so they are able to make an informed decision moving forward. Additionally, but equally as important, it helps expose fraud in the system, and keeps small businesses and startups from being extorted by a patent troll.

A patent troll is someone who provides false, misleading or deceptive information in regard to ownership of a patent or pending patent. Often the "troll" will suggest settling the issue out of court by paying what is called a licensing fee to continue using the patent. This presents a lose-lose situation. Either hire an expensive patent attorney to research the validity of the claim, or pay the fee.

Fighting these claims in court is a costly, time-consuming process. I'm told Harley-Davidson, a company that's been in Milwaukee for over a century, has done it successfully, but also spent millions of dollars in the process. Quad Graphics, which is headquartered in the district I represent and one of the largest employers in the county, is finding the amount of ominously worded letters related to patent ownership to increase over time. As more companies get away with it, more will emerge.

As new technology develops, this type of predatory behavior will persist unless something is done to level the playing field. We must protect the innovation leading to job creation, without overregulating the process, so companies or institutions making a legitimate claim will be protected.

I urge my colleagues to join us in the fight against a new type of criminal known as the patent troll. With a proactive approach to addressing the issues of tomorrow, we show an ability to adapt to the times and protect innovation and economic prosperity in the state of Wisconsin now and into the future.

Thank you for your time, and the opportunity to testify before you today.

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Senate Committee
Government Operations, Public Works, & Telecommunications

Quad/Graphics, Inc: Testimony on Senate Bill 498
Relating to notifications concerning the assertion of rights under a patent or pending patent

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Chairman Farrow and committee members, thank you for holding this public hearing and giving consideration to a growing problem that, if left unchecked, will have a significant impact on Wisconsin's economy. That problem is how to curb companies from sending unfair and harassing patent demand letters to Wisconsin companies.

As you may know, Quad/Graphics is a Wisconsin company headquartered in Sussex, Wisconsin. We are the second largest printing company in the United States with over 20,000 employees across 28 states. This includes eight facilities here in the great State of Wisconsin, providing over 7,000 of our citizens with family supporting jobs. Like most industries today, the printing industry faces a myriad of challenges resulting from the Great Recession and technology shifts. But these economic and technology driven hurdles are not the only challenges Wisconsin businesses face. Of particular concern today is the challenge of dealing with sophisticated, shell companies that are abusing otherwise legitimate resources to unfairly tax Wisconsin companies. We are talking about Patent Assertion Entities (PAEs), also known as "patent trolls."

Patent Assertion Entities do not produce any actual products or provide services themselves. Instead, their "business model" is to buy patents and collect license fees from companies that use those patents. Although this business model is not objectionable on its face, many of these Patent Assertion Entities use objectionable tactics to extract these licenses. In short, they cast a broad net, sending demand letters to many companies at once, threatening to file litigation against them and alleging very large, unsupported damages claims, without any explanation of how their patents are used by Wisconsin companies. Many of these letters are sent by shell companies, making it difficult to even know who is actually behind the claims.

This "trolling" is done for only one reason—to make it so costly and difficult to understand, and create as much business risk as possible, to force Wisconsin companies to settle early for licensing fees that are less than the cost to defend against these claims, regardless of whether any actual infringement has occurred. It is these tactics that rise to level of unfair competition and harassment, as they are solely designed to intimidate, obfuscate, and threaten Wisconsin companies.

This activity is not limited to Wisconsin companies. As reported in the 2013 Patent Assertion and U.S. Innovation Report issued by the Executive office of the President, over the past two years suits brought by Patent Assertion Entities have tripled – rising from 29 percent of all infringement suits to 62 percent during that time frame. These suits and demands are being made against start-up companies and large multi-national corporations; against technology companies and manufacturing companies. It has been commonly reported that start-up companies, already facing strong headwinds to establish their business, risk loss of funding as investors hesitate to devote resources to these new businesses that are under a threat of patent infringement. Large companies also face real damage from these aggressive tactics. Because these demand letters rarely identify the actual patent and do not offer any analysis or explanation of the theory behind the allegations, the targeted company must engage in an expensive legal and factual investigation to determine what the claims actually are, and whether a meritorious claim even exists. Large or small, companies must divert resources

from the business to deal with these claims, severely limiting the ability to invest in and grow the business. The result is lost sales and lost jobs.

Quad/Graphics believes in a strong patent system and appreciates the value patents have to Wisconsin companies. The patent laws stem from the U.S. Constitution to "promote the useful arts" and spur innovation through the sharing of ideas so that they can be improved upon for the greater good. It is important that our laws continue to encourage this activity and provide for a reasonable process to protect patents from actual cases of infringement. We should encourage transparent discussions between patent holders and potential users of that technology, rather than encourage the unfair tactics of those patent trolls that send vague and threatening demand letters, containing unsupported accusations.

This is why Quad/Graphics supports Senate Bill 498. SB 498 accomplishes this goal by requiring basic information at the time of the demand letter.

1. What patent is potentially being infringed
2. A copy of the patent of pending patent
3. Who is the actual owner of the patent
4. Identify each claim of infringement and what product, service, process or technology that is causing the infringement
5. Provide factual allegations and an analysis setting forth in detail why each claim covers the target's product, service, process or technology
6. Identify each pending or completed court or administrative proceeding concerning the patent or pending patent

By requiring transparency of this most basic information, a quick, less-expensive determination can be made on whether a license is required or may be desired to grow Wisconsin business. The result is a more widespread adoption of the innovations being created, without the need for as many lawsuits and unnecessary costs that stifle innovation and slow economic growth and job creation. SB 498 ensures a level playing field for all patent holders, including legitimate Patent Assertion Entities, and the potential users of those patents.

Quad/Graphics believes SB 498 encourages parties to act in good faith and deal fairly with Wisconsin businesses, whether they are a Patent Assertion Entity or any other patent owner. Indeed, Quad/Graphics is a Wisconsin corporation that will be subject to the requirements of SB 498. Quad/Graphics has a large, wide-ranging patent portfolio. It has licensed its patents and enforced its patents against others.. Quad/Graphics believes Senate Bill 498 strikes a fair balance between what is required in a demand letter and its ability to enforce its patents. We believe the process is better served through transparency to ensure an open and productive discussion that will ultimately benefit all Wisconsin businesses.

We are encouraged by the bipartisan support this bill has already received, and we thank you for your consideration of this common sense solution. We look forward to working with you to continue to create a business climate in Wisconsin that encourages economic development and job creation.

BIOforward
wisconsin's independent voice for bioscience

MEMORANDUM

TO: Senator Paul Farrow, Chairman, and Members of the Senate Committee on Government Operations, Public Works and Telecommunications

FROM: Jordan Lamb, on behalf of BioForward and our Member Companies Listed Below

DATE: February 6, 2014

RE: Opposition to Senate Bill 498, Patent Trolls

Mr. Chairman and Members of the Committee, please accept the following comments related to SB 498 on behalf of BioForward, Inc., and our member companies including the Pharmaceutical Research and Manufacturers of America (PhRMA), NeoClone, WARF and Takeda Pharmaceuticals.

BioForward represents 250 Wisconsin companies in the biotechnology and medical device fields. Lifescience businesses now have a presence in 53 of Wisconsin's 72 counties and produce an annual economic impact of over $7 Billion dollars. Combined with job growth of 5% during the period from 2007 – 2010, Wisconsin bioscience impacts close to 100,000 jobs, causing Wisconsin to be ranked in the top 15 Bio-clusters in the United States, the top 10 for the Medical Device sector, and in the top 5 for Medical Imaging.

Patents Incent Innovation and Investment

Most of our member companies started with an idea hatched by researchers who spent countless hours in the lab perfecting their product with the clear understanding that their work, if deserving, would be protected by a patent. In addition, Wisconsin's research institutions strive to foster the transfer of technology from academia into the private sector where it can be applied to support the development of lifesaving cures.

Developing medical breakthroughs often requires patience and the willingness to invest millions, and even billions, of dollars. But, patents provide investors with the assurances they need to commit those significant resources. Patents provide incentives to innovate and to invest in innovation. To the extent that patent trolls are abusing the system, modest legislative changes should be carefully tailored to address a proven problem.

Patent Trolls Pose a Risk But SB 498 May Jeopardize Federal Patent Rights

We recognize that the broad protections afforded by the federal patent laws may have enabled certain individuals – so called "patent trolls" – to take advantage of the patent litigation system and to assert patent demands in bad faith. We oppose these abuses and applaud the Wisconsin legislature for their attempts to curb these practices.

However, we are concerned that the broad conduct outlined in Wisconsin Senate Bill 498 strays too far into the realm of federal patent enforcement and, thus, could unintentionally interfere with federal patent enforcement rights.

The right to patent one's intellectual property is provided in the U.S. Constitution. Pursuant to this federal right, patents are issued through the U.S. Patent and Trademark Office. As such, patent litigation is a federal cause of action that is brought in federal court. With the increased attention to patent trolls, Congress has been working on federal legislation to address the issue.

Moreover, because of the significant federal oversight surrounding patent rights in the United States, we are concerned that certain aspects of SB 498 could be preempted by federal law. Accordingly, we must oppose SB 498.

Specific Concerns with SB 498

Senate Bill 498 would amend Wisconsin Law to provide specific authority to the State to seek redress from entities deemed to have sent a patent notification letter, claiming to be enforcing a potentially infringed patent, in bad faith (*i.e.*, a "patent troll.") While these abuses of the patent system are problematic, we believe the solution proposed in SB 498 could do more harm than good.

Broadly outlining what is, and what is not, acceptable for patent enforcement practices in a single state ignores the very fragile and fractured nature of the innovation ecosystem in the United States. With respect to the biopharmaceutical industry, specifically, there are many small and emerging companies with patents, licenses, and other IP-related rights that need to utilize patent notifications to protect their fragile business interests. And, while this legislation would not seem to impact that legitimate right directly, the fact that a patchwork of multiple state oversight mechanisms may emerge on the outskirts of the federal regulation of intellectual property could chill the ability of small companies to utilize the patent system to flourish.

Further, bills like this appear to present serious conflicts with federal law. Specifically, under federal law a patent holder has a right to inform a potential infringer of the existence and validity of his patent. Likewise, notification has certain benefits for eventually obtaining remedies for actual infringement. The Supremacy Clause of the U.S. Constitution forbids states from second-guessing the balance of rights and duties struck by Congress with respect to patent holders and alleged patent infringers, by setting their own state-level policies to regulate patent notifications.[1] This potential for preemption is amplified by the possibility of multiple state standards, which would be the case if several of the more than 10 state bills like SB 498 that have been introduced this year become law.

[1] We note that the very broad definition of "patent notification" contained in SB 498 could arguably encompass a complaint filed in federal court to enforce a patent right. As such, conflict with the Federal Rules of Civil Procedure and other litigation-related laws could also exist in the practical application of SB 498 under Wisconsin law.

In addition, targeted patent notification legislation risks encroaching on rights of petition and speech protected by the First Amendment. Patent enforcement letters, or, as used under federal law "Demand Letters," are a form of protected petitioning activity under the First Amendment, and, generally, states may only regulate protected petitioning activity that is a "sham." This legislation, however, functionally imposes content requirements on patent notifications by requiring these communications to include certain information.

We are also concerned that the bill defines "patent notification" in such a broad sense that any letter or e-mail sent by a patent owner or licensing agent asking a third party to take a license could be considered a violation of the law. Requiring patent owners to do the type of investigation required by this bill every time would not be practical, many times not possible, and prohibitively expensive.

The climate of discovery in this state is bolstered by the patents talented researchers who turn their ideas into practice. The intellectual property that the patent system was designed to protect must be managed in a way that does not over regulate the administration of those ideas. Unfortunately, this bill goes the other direction.

We hope you will see that the unintended consequences of this legislation outweigh any potential new enforcement authority achieved by its passage. Accordingly, we ask that you oppose SB 498 and we urge the State to look at other approaches to regulating the scourge of patent trolls that stop short of regulating legitimate good faith patent enforcement activity. We would be more than happy to work with the legislature to this end.

If you have any questions about our comments, please contact Jordan Lamb at (608) 252-9358 or jkl@dewittross.com.