

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 Assembly Bill 656, 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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Assembly Committee Jobs, Economy and Mining

Quad/Graphics, Inc: Testimony on Assembly Bill 656 Relating to notifications concerning the assertion of rights under a patent or pending patent

Chairwoman Williams 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 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 shifting technology. 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 burden 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 manufacturers. 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.

As a owner of well over 100 patents, 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.

Quad/Graphics supports Assembly Bill 656 because it encourages a fair and transparent discussion 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. AB 656 ensures a level playing field for all patent holders, including legitimate Patent Assertion Entities, and the potential users of those patents.

Quad/Graphics believes AB 656 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. Quad/Graphics has a large, wide-ranging patent portfolio and therefore will be subject to the provisions of this bill as well. It has licensed its patents and enforced its patents against others. Assembly Bill 656 strikes a fair balance between what is required in a demand letter and the ability to enforce patents. Clearly, 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.

MEMORANDUM

TO: Chairperson Representative Mary Williams and Members of the Assembly
Committee on Jobs, Economy and Mining

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

DATE: February 6, 2014

RE: Patent Trolls: Testimony for **Information Only** on AB 656, *as amended by AA1*

Madam Chair and Members of the Committee, please accept the following comments related to AB 656 on behalf of BioForward, Inc., and our member companies including the Pharmaceutical Research and Manufacturers of America (PhRMA), NeoClone, WARF and Takeda Pharmaceuticals. **BioForward is neutral on Assembly Bill 656, related to patent trolls, as long as the bill is amended in accordance with Assembly Amendment 1 offered by the author, Representative Neylon.**

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.

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.

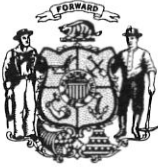
However, we are concerned that the broad conduct outlined in Wisconsin Assembly Bill 656 strays too far into the realm of federal patent enforcement and, thus, could unintentionally interfere with federal patent enforcement rights. In addition, our companies did not wish to be subject to the state-specific notification requirements created in this legislation. We are working with Congress to address this issue federally and uniformly across the U.S. Accordingly, we worked with the authors on an amendment that alleviates our companies' concerns with AB 656.

Assembly Amendment 1 Removes Our Companies from AB 656

Assembly Bill 656 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 AB 656 could do more harm than good for our companies. Assembly Amendment 1 to AB 656 exempts our member research institutions, medical device, drug development, biologic development and other bioscience companies from the bill's notification requirements. (*See attached*, AA1 to AB 656.)

Our companies do not believe that AB 656 is helpful to protecting our patent rights. In contrast, it could be burdensome for us. In addition, our companies are known "good actors" – not trolls – and therefore, the authors determined that they could safely be exempted from this legislation. **Therefore, BioForward takes a neutral position on AB 656, as long as it is amended by AA1.**

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



State of Wisconsin
2013 - 2014 LEGISLATURE



LRBa1814/1
MPG:jld:jf

**ASSEMBLY AMENDMENT 1,
TO ASSEMBLY BILL 656**

February 14, 2014 - Offered by Representative NEYLON.

1 At the locations indicated, amend the bill as follows:

2 **1.** Page 3, line 21: on lines 21 and 23, substitute "sub. (2)" for "this section".

3 **2.** Page 4, line 4: substitute "sub. (2)" for "this".

4 **3.** Page 4, line 5: delete "section".

5 **4.** Page 4, line 6: on lines 6 and 8, substitute "sub. (2)" for "this section".

6 **5.** Page 4, line 15: after that line insert:

7 **"(4) EXEMPTIONS.** Subsection (2) does not apply to any of the following:

8 (a) A patent notification of an institution of higher education or of a technology
9 transfer organization that is owned, controlled, or operated by, or associated with,
10 an institution of higher education.

11 (b) A patent notification attempting to enforce or assert a right in connection
12 with a patent or pending patent on a device, or a component of that device, that is

1 subject to approval by the federal food and drug administration or the federal
2 department of agriculture.

3 (c) A patent notification attempting to enforce or assert a right arising under
4 35 USC 271 (e) (2) or 42 USC 262.”.

5 (END)