

**Questions Of Senator Patrick Leahy (D-Vt.),
Chairman, Senate Judiciary Committee
Hearing on “Protecting Small Businesses and Promoting Innovation by Limiting Patent
Troll Abuse”
December 17, 2013**

Questions for Michael Makin, CEO of Printing Industries of America

An increasing number of small businesses are being targeted for patent infringement based on products they simply use or sell, but did not manufacture. What obstacles confront a small business trying to defend a patent claim when they simply purchased the product that is at issue in the suit? Do you agree that a product’s manufacturer is often best situated to address the issues of validity and infringement in a patent suit, and if so, why?

When a small business faces a demand letter or lawsuit claiming infringement based on their use of a product they have purchased, there are a number of problems that they encounter when seeking to defend themselves. At the highest level, the most significant problem that we face centers around the lack of information, both about the patent being infringed and the allegedly infringing product. In the case of the patent being infringed, most demand letters contain little to no information about what the patent covers. Should we find ourselves in litigation, the initial pleading is no more helpful in determining the scope and breadth of the patent in question. In fact, most patent pleadings that we have experienced in the printing industry do little more than provide us notice of the suit. To that end, we believe that any reforms that the Senate Judiciary Committee considers should include provisions requiring the disclosure of additional information both demand letters and in patent legal filings. We believe that requiring this sort of information is consistent with both the spirit and intent of patent system. Namely, a patent holder is granted a limited exclusive right to invention on the condition of disclosing the metes and bounds of their invention so that the public is put on notice as to the nature of their invention. The obligation, though, to define the parameters of an invention should not end at the Patent and Trademark Office’s door, but should carry on throughout the life of the patent, including the submission of demand letters and in legal pleadings. This information is vital to a party facing potential litigation to allow them to make an informed decision as to whether to defend or settle.

Additionally, it is imperative for a business facing a suit of this sort to know of any licensing agreements. Some of the most egregious cases currently pending in the judicial system are based on patents that have already been properly licensed by the manufacturer or distributor of a product. It is imperative for any business, but in particular small businesses with limited legal resources, to know this information at the outset so that we know to whom to turn and ascertain whether we are liable for any wrongdoing.

With regard to questions of validity and infringement, we do believe that a manufacturer is best situated to handle these matters. The manufacturer has the greatest familiarity with any given product’s supply chain, including component parts of partners incorporated into the final product, and should have the relevant information necessary to address the legal and factual questions that arise as to the nature of infringement in many of these cases. That said, we do think that it is important for any proposed reforms that the Committee considers to account for

established bodies of law, including the value of contractual agreements and implications with collateral estoppel.

**Hearing: “Protecting Small Businesses and Promoting Innovation
by Limiting Patent Troll Abuse”
Question for the Record of Sen. Sheldon Whitehouse**

Question for All Witnesses

Proactive Action by Corporate Defendants

Many Rhode Island businesses have been the victims of patent troll abuse, receiving bad-faith demand letters and being forced to settle lawsuits or engage in costly litigation based on dubious patent claims. Small and medium-sized companies, many of whom do not have an attorney on staff, often do not have the resources to effectively fight patent troll abuse, which is why reforms such as prohibiting bad-faith demand letters and allowing manufacturers to stay suits against customers are necessary and appropriate.

Large corporate defendants, on the other hand, may have additional resources at their disposal that could allow them to take proactive steps to combat abuses by patent trolls. Consideration of such steps should be included in the discussion of how to address patent troll abuses.

Independent of legislation to reform the patent litigation system, what are some proactive steps that large corporations that are frequently defendants in patent suits could take to better defend themselves against patent troll abuses? In particular, please address the positive and negative aspects of the following potential actions:

- Referring patent trolls and their attorneys who initiate frivolous lawsuits and fraudulent and harassing conduct to the appropriate law enforcement authorities and disciplinary bodies, including, in the case of attorneys, state bar disciplinary boards;
- Pursuing equitable remedies, such as injunctions against future suits by trolls with a demonstrated record of frivolous litigation, fraud, and harassment;
- Pursuing Rule 11 sanctions against attorneys bringing frivolous suits;
- Increased use of joint defense agreements;
- Purchase of patent litigation insurance;
- Increased licensing and purchase of relevant patents; and
- Simply refusing to pay unjustified claims.

The printing industry is primarily composed of small and medium sized businesses. On average, each printing plant employs 27 workers and ships \$5 million worth of product annually. Rhode Island is a good example of this. There are just over 170 printing facilities in your state that employ a total of 3,300 workers.

As such, I cannot speak to how multinational corporations are handling patent litigation, but I can tell you how we as a trade association have focused to better arm and educate our members as to the resources available to them to combat these sorts of cases. In so doing, we have had to adapt as an association and provide services to our members that until now they haven't needed, including challenging the validity of one patent infringement case regarding Computer-to-Plate (CTP) technology. To challenge this validity at the US Patent Trademark Office (PTO), we first

had to allocate reserve resources as the association does not maintain a legal defense fund. From these reserves, the association spent approximately \$100,000 to conduct all activities needed to petition the US Patent Trademark Office (PTO) as well as to provide guidance to affected printing companies. If a trial had been ordered, our legal bill would have skyrocketed. We also expended approximately 250 hours of in-house staff work. For an association our size, this caused a serious disruption, as some projects were left largely unattended while we worked on it. For example, we took a three-month hiatus from publishing our “Tech Alert” newsletter, an important method of communicating technology and research information to the industry.

I am disappointed to report that on December 31, 2013, the Patent Trial and Appeal Board (PTAB) denied our petitions to review the validity of the two patents owned by CTP Innovations. There is no appeal available to us. CTP will undoubtedly request that the court lift the stays on the court cases. Companies could still seek a summary judgment against CTP based on patent invalidity using the prior art we uncovered supplemented with additional prior art. The Patent Office interprets patents broadly whereas courts are more likely to interpret them narrowly, thus the PTAB rulings don’t preclude success in court. Any company that can prove they were using a computer-to-plate workflow prior to the 1999 patent filing dates should have a strong case. We are making all of the prior art we collected (including art not referenced in the petitions) will be made available, but we are back to square one: small businesses being forced to divert resources away from job creation, facility improvements, new equipment and other activities that contribute positively to the manufacturing economy. And, in the end, patent trolls have not been deterred from sending demand letters to even more of our member companies.

In the limited time that we have been exposed to the inner workings of the patent litigation system, I have connected with a number of large companies who frequently partner with our industry or otherwise have decades of experience with the patent litigation system. It is my understanding that the call for patent litigation reform legislation was a last resort for many of these large corporations. They were facing mounting legal costs and limited to little success with the potential alternative defenses, including those listed. I understand that it was well over a decade ago in 2003, when the National Academy of Sciences issued a report on the state of the patent system and series of legislative and administrative recommendations, that many of these large corporations thought that reform was even a possibility. Despite this and a series of other studies and reports that have followed since then reiterating the need for reform to the patent litigation system, these large companies often engaged in intellectual property issues, and now small businesses – like commercial printers, have sought any creative and alternative avenue possible to fight these suits. Most recently, this has included filing RICO actions, which is a path Cisco attempted within the past year, to expose the true nature of these businesses and keep them from going after end-users. All of these efforts, though, have seen limited success, primarily because the current laws do not provide the courts with sufficient flexibility to find against trolls. This may seem obvious to say but to disincentivize abusive patent litigation, you have to remove the current systematic incentives to abuse. These are ingrained in the very words of the current patent law, which ironically now run counter to the patent system’s spirit. Taking into consideration that all previous efforts to use existing mechanisms has seen limited success, we believe that legislative action directed at the systematic abuses is the only way that we can effectively address this problem.

Senator Grassley's Written Questions for Senate Judiciary Committee Hearing, "Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse," December 17, 2013

Questions for Mr. Makin

1. Over the past two years, there have been a number of studies seeking to approximate the economic impact of abusive patent suits. I know that you can't disclose numbers, but could you share with the Committee an approximation of how much patent litigation makes up of your total litigation budget and whether that is primarily devoted to initiating or defending suits?

Printing Industries of America does not have a standing legal defense fund for patent litigation. In fact, our association has been in the same boat as many of our member companies essentially as we have spent time and money learning about the abusive patent litigation process over the past year. As I stated in my testimony there are at several known patent infringement actions targeting our industry. As a national association, we believed it was important to lead the battle in defense our members – but we were only able to afford to target one of these cases (Computer-to-Plate or CTP technology). In taking action against patent trolls in just one instance, we as an association we spent approximately \$100,000 to conduct all activities needed to petition the US Patent Trademark Office (PTO) as well as to provide guidance to affected printing companies. If a trial had been ordered, our legal bill would have skyrocketed.

We also expended approximately 250 hours of in-house staff work. For an association our size, this caused a serious disruption, as some projects were left largely unattended while we worked on it. For example, we took a three-month hiatus from publishing our "Tech Alert" newsletter, an important method of communicating technology and research information to the industry.

Understanding the process of petitioning the PTO to review the patent for validity was daunting, but ultimately we figured out the process and went through the proper steps. Unfortunately, both of our petitions were denied. It is not out of the question that our lack of expertise in filing petitions contributed to the denial. To that end, we are currently paying yet another law

firm specializing in patent issues to review our process and make recommendations on how we might be more successful in the future.

2. What do you believe are the most promising proposals currently being considered by Congress that would help deter abusive activity in the patent system?

The printing industry is in a unique position when answering this question given the nature of the suits we face. First, we think that it is important that any proposed reforms that the Senate Judiciary Committee and the Senate consider should address the growth of so-called “end user suits.” These provisions would include requiring more disclosure in demand letters and providing for a robust customer-stay provision to enable an original manufacturer to more easily intervene in a suit. We appreciate the work that the Chairman and Senator Lee have done thus far on these matters. That said, we do think that only considering the “end user” provisions would be like treating the flu with a tissue. We believe that any legislative package that the Committee takes up that purports to address the rise of abusive patent litigation must include reforms to the patent litigation system such as those included in S. 1013, the Patent Abuse Reduction Act. Specifically, we think it is imperative that legislation include strong pleading requirements to ensure that a party facing a suit knows who is bringing a suit and what is actually being infringed. Further, we think it is important to reduce the overall cost of abusive litigation by rebalancing the economic burden of discovery demands. Under the current system, there is nothing to disincentivize making exorbitant demands for information that serve no other purpose but to drive up the cost of litigation in an effort to compel settlement.

Finally, we think end users should have a robust defense against abusive patent claims through an expanded, permanent Covered Business Method (CBM) review, as Senator Schumer has called for in his legislation.

3. What are some examples of the costs to business and industry from abusive patent litigation and how would legislation help?

As I outlined in my testimony, there are numerous economic impact studies on how predatory and damaging patent trolling is to the economy at large. Data gleaned by a study commissioned by the US Government Accountability Office found trolls now account for almost 60 percent of patent infringement

lawsuits in America. In 2011, patent troll activity cost the US economy \$80 billion dollars and productive companies made \$29 billion in direct payouts. For our industry, the dollars add up fast. As you know, the average printing company employs just 27 workers – none of which I can virtually guarantee are in-house attorneys. So, the first reaction most of our members report is contacting a local attorney. Keep in mind, these are printers in small towns in Iowa and across the country – a local attorney is rarely a patent litigation expert. A common theme we heard when talking to our member companies is frustration with the outlay of upfront legal fees they were forced to spend just to understand a threatening demand letter. As a printer in Texas told us, “We paid our own attorney to review the letter. We then paid into a joint legal fund created by Printing Industries of America. We also joined a group defense through a law firm in Dallas.” It really exemplifies the protection small printers – or small business owners – feel they must pay for just to determine the validity of the claim against their companies.

There are also operational costs specific to the printing industry. For example, direct mailing is a bread-and-butter service offered by printing companies.

One patent infringement currently pursued by patent trolls relates to technology that produces “Intelligent Mail Barcodes” (IMB) on mail. This is the barcode on an envelope below the recipient address on postal mail. It contains the mail recipient’s address, zip code and the mailer ID; this information allows for more efficient processing and quality mail delivery by the United States Postal Service (USPS). It enhances the overall value of mail and mail volume, which is critical to a cash-strapped USPS. Beginning in January 2013 and through January 2015, printers/direct mailers have been able to earn automation price discounts through IMB compliance. Printers have invested in software necessary to produce this “intelligent mail” and to qualify for automation pricing. Should patent trolls successfully chill the move to IMB compliance, it will hurt our member companies seeking to innovate, their customers, and, ultimately, the nation’s postal system.

We believe that Section 5 of S. 1720 that is directed at fraudulent or misleading patent demand letters would be a huge help in eliminating much of these legal costs for our member companies. We also believe that legislative proposals addressing the issues of heightened pleading requirements, patent quality and more transparency of patent ownership would also help reduce these costs. Overall, deterring the patent troll behavior up front would protect small printers from having to divert resources that would be better spent on hiring workers, reinvesting in company facilities and equipment, and other behaviors that actually contribute positively to the manufacturing economy.