

April 27, 2015

The Honorable Jan Schakowsky
Ranking Member, Subcommittee on Commerce, Manufacturing and Trade
Committee on Energy and Commerce
2125 Rayburn House Office Building
Washington, DC 20515

Dear Ms. Schakowsky,

Thank you for your question for the record following the hearing on the Targeting Rogue and Opaque Letters (TROL) Act held on April 16, 2015. A response as requested is provided below.

QUESTION: There have been some concerns raised that placing restrictions on the content of demand letters may be unconstitutional under the First Amendment and that the bad faith requirement in demand letter is a necessary constitutional protection. However, the standard for bad faith that would be imposed by the TROL Act is unprecedented in the consumer protection context.

a. Is the bad faith requirement, as currently defined in the TROL Act, a necessary first amendment protection?

b. Please explain why regulating the form and content of patent demand letters in legislation does not create a constitutional problem?

ANSWER: The bad faith requirement in the TROL Act is not mandated by the First Amendment. Furthermore, regulation of the form and content of patent demand letters, as would be done in the TROL Act and as is done by the states today, creates no constitutional problem. The arguments to the contrary are mistaken for at least the following three reasons:

- The analogous field of regulation of debt collection practices demonstrates that bad faith is not constitutionally required. The Fair Debt Collection Practices Act contains no bad faith requirement, and it has repeatedly been held to create no *prima facie* problem under the Constitution.
- The case law that supposedly supports a constitutionally-mandated bad faith requirement is easily and clearly distinguishable from laws, such as the TROL Act and the state laws, which only affect the form and content of patent demand letters. If regulation of the form and content of demand letters were deemed unconstitutional, then all of civil procedure—which regulates the form and content of lawsuits—would absurdly be deemed unconstitutional as well.
- Furthermore, the cited case law is poorly reasoned and on shaky ground in view of contradictory Supreme Court case law. Such unreliable jurisprudence should not form the basis of this Subcommittee’s decisionmaking.

These reasons are explained in detail below.

I. THE FAIR DEBT COLLECTION PRACTICES ACT DEMONSTRATES THAT A BAD FAITH REQUIREMENT IS NOT NECESSARY UNDER THE FIRST AMENDMENT

Some have suggested that the bad faith requirement currently in the TROL Act is required by the Constitution, under the *Noerr-Pennington* doctrine of the First Amendment.¹ This argument is easily refuted by reference to an analogous law, the Fair Debt Collection Practices Act (FDCPA), which contains no bad faith requirement but nevertheless has passed muster several times under the First Amendment.

Regulation of the debt collection industry is highly analogous to regulation of demand letters as is being contemplated here. Debt collectors hold legal rights that give rise to an ability to sue in court, just as patent holders have legal rights to sue for infringement. Debt collectors' contacts with debtors attempting to collect on debts are just like patent holders' demand letters attempting to collect royalties for infringement. And the FDCPA, by regulating the form and methods by which debt collectors may contact debtors, is precisely on par with the TROL Act and state laws that regulate the form and methods by which patent holders may contact potential infringers. Thus, there should be no jurisprudential difference between the constitutionality of the two.

The FDCPA contains no bad faith requirement. Instead, among other things, it disallows numerous types of false or misleading representations in debt collection² and requires debt collectors to make certain disclosures to consumers.³ The only exceptions to liability for such acts occur when the debt collector makes a "bona fide error notwithstanding the maintenance of procedures reasonably adapted to avoid any such error"⁴ or acts "in good faith in conformity with any advisory opinion" of the Bureau of Consumer Financial Protection.⁵ There is no general prerequisite to liability in the FDCPA that the debt collector act in bad faith.

And even without such a bad faith requirement, the FDCPA has repeatedly been held to raise no *prima facie* issues under the Constitution. The Sixth Circuit has several times now rejected the notion that the *Noerr-Pennington* doctrine implicates the FDCPA.⁶ Indeed, even the Supreme Court has found the FDCPA applicable to litigating lawyers, rejecting arguments that the statute could make lawyers liable for bringing cases against debtors.⁷ These cases all suggest that a bad faith requirement is not mandated by the First Amendment or the *Noerr-Pennington* doctrine.

Instructive is the scholarship of Professor Paul R. Gugliuzza, whom this Subcommittee called to testify on the issue of patent demand letters.⁸ He writes that the FDCPA is "much like state anti-

¹See, e.g., *H.R. ___: A Bill to Enhance Federal and State Enforcement of Fraudulent Patent Demand Letters: Hearing Before the Subcomm. on Commerce, Manufacturing and Trade of the H. Comm. on Energy and Commerce, 113th Cong. 5* (May 22, 2014) (testimony of Alex Rogers, Qualcomm), <http://docs.house.gov/meetings/IF/IF17/20140522/102255/HHRG-113-IF17-Wstate-RogersA-20140522.PDF>.

²See Fair Debt Collection Practices Act, 15 U.S.C. § 1692e (2014).

³See 15 U.S.C. § 1692g(a).

⁴15 U.S.C. § 1692k(c).

⁵15 U.S.C. § 1692k(e).

⁶See *Wise v. Zwicker & Assocs., P.C.*, 780 F.3d 710, slip op. at 12 n.5 (6th Cir. 2015) ("The defendants present no cases in which a court has applied the *Noerr-Pennington* doctrine to FDCPA claims. In fact, this circuit has already rejected *Noerr-Pennington* protection for false statements in a debt-collector's complaint . . ."); *Hartman v. Great Seneca Fin. Corp.*, 569 F.3d 606, 616–17 (6th Cir. 2009).

⁷See *Heintz v. Jenkins*, 514 U.S. 291, 295 (1995).

⁸See *Update: Patent Demand Letter Practices and Solutions: Hearing Before the Subcomm. on Commerce, Manufactur-*

patent-troll laws,”⁹ and then identifies several cases in which courts have rejected First Amendment and *Noerr-Pennington* challenges to the FDCPA.¹⁰

That the First Amendment does not outright prohibit such types of consumer protection legislation is further evident from the legislative record of the FDCPA. During the Senate hearings for the FDCPA, witnesses appear to have raised First Amendment concerns only on 2 pages of 773 pages of the hearing record. In the first instance, a representative of a debt collection trade group argued that freedom of speech should protect debt collectors who used strong language over the phone.¹¹ In response, the chair of the Senate subcommittee disagreed, finding that “where things are said over the phone, especially to somebody that has never dealt with this situation before, where someone is misrepresenting himself as a public official, or some other type of threat,” Congress could reasonably take action.¹²

In the second instance, another representative of a debt collector trade group testified that “the restrictions on communications as proposed in [the bill] would be unconstitutional violations of the 1st. Amendment right of free speech.”¹³ The witness omitted the argument from his oral testimony, and it never was discussed during the hearing. Both of these examples suggest that the First Amendment argument was seen as sufficiently weak so as to merit no serious discussion during the hearing.

Accordingly, the FDCPA demonstrates that laws governing the form and content of debt collection notices do not raise First Amendment concerns, even absent a bad faith requirement. Patent demand letters are no different in relevant part from debt collection notices, and so laws such as the TROL Act and the state demand letter laws do not need to have a bad faith requirement to pass muster under the First Amendment.

II. THE CITED CASE LAW IS NOT RELEVANT TO LEGISLATION LIKE THE TROL ACT THAT REGULATES FORM AND CONTENT OF DEMAND LETTERS

Several parties have suggested that current case law could affect the constitutionality of the TROL Act and state demand letter laws. This is not so for two reasons.

First, the case law being cited only holds that outright *prohibitions* on sending of demand letters implicates constitutional concerns. By contrast, the TROL Act and state laws do not prohibit any demand letters from being sent, but only regulate the *form and content* of those letters. The case law is thus crucially distinguishable from the demand letter laws.

The case most often cited with regard to the constitutionality of patent demand letter legislation is *Globetrotter Software, Inc. v. Elan Computer Group, Inc.*¹⁴ In that case, the patentee was

ing and Trade of the H. Comm. on Energy and Commerce, 114th Cong. (Feb. 26, 2015) (testimony of Paul R. Gugliuzza), <http://docs.house.gov/meetings/IF/IF17/20150226/103029/HHRG-114-IF17-Wstate-GugliuzzaP-20150226.pdf>.

⁹See Paul R. Gugliuzza, *Patent Trolls and Preemption*, 101 VA. L. REV. (forthcoming 2015) (manuscript at 32), <http://ssrn.com/abstract=2539280>.

¹⁰See *id.* at 32 & nn.208–209.

¹¹See *S. 656, S. 918, S. 1130, and H.R. 5294: Fair Debt Collection Practices Act: Hearing Before the Subcomm. on Consumer Affairs of the S. Comm. on Banking, Housing and Urban Affairs*, Ninety-Fifth Cong. 156 (1977) (testimony of William F. Hearne, Jr., Treasurer, American Collectors Association).

¹²*Id.* (Sen. Riegle).

¹³*Id.* at 227 (statement of Philip Rosenthal, President, Virginia Collector’s Association).

¹⁴See, e.g., *H.R. ___: A Bill to Enhance Federal and State Enforcement of Fraudulent Patent Demand Letters: Hearing*

accused of tortious interference and unfair competition on the basis of sending allegations of patent infringement.¹⁵ Had these claims been successful, then the patentee would have been liable for a tort on the basis of sending demand letters, regardless of how truthful or non-deceptive those letters may have been. Thus, applying the *Noerr-Pennington* doctrine, the Federal Circuit held that such claims were preempted, because “a patentee must be allowed to make its rights known to a potential infringer.”¹⁶ Thus, the Federal Circuit held to be preempted a tort law that would have made illegal, in the particular situation, the sending of any demand letter at all.

By contrast, neither the TROL Act nor any of the state laws would outlaw the sending of demand letters in any situation. They would simply require the demand letters to include certain content and to be sent only after an appropriate investigation of the infringement allegations had been conducted. Such requirements never act to prevent demand letters from being sent. Accordingly, *Globetrotter*’s holding does not mandate a bad faith requirement for either the TROL Act or the state laws, because none of those laws would outright prohibit demand letters, making *Globetrotter* distinguishable.

Other cases cited are similarly distinguishable. The Nebraska case, cited in the Subcommittee chair’s opening statement, applied the *Noerr-Pennington* doctrine to the state attorney general’s order to a law firm to cease and desist sending any demand letters, “prior to any negative findings, prior to any hearings, and prior to permitting submission of documents and evidence” by the defendant.¹⁷ It was this outright prohibition of demand letters, again, that prompted the Nebraska court to find the attorney general’s order to be “akin to a prior restraint” and thus unconstitutional.¹⁸ Similarly, *Sosa v. DirecTV, Inc.* has been cited for the proposition that *Noerr-Pennington* can apply to the sending of demand letters.¹⁹ But that case involved a RICO suit against the sender of such demand letters—yet again, an attempt to completely block the sending of those letters. All of these cases deal with attempts to fully suppress the sending of demand letters, and thus none is applicable to a law that only specifies the form and content of such letters.

Second, if it were the case that the *Noerr-Pennington* doctrine prohibited all restrictions on the form and content of petitions for redress, as the proponents of the bad faith requirement would suggest is the case, then *Noerr-Pennington* would effectively invalidate all of civil procedure. For example, a federal complaint may only be filed after sufficient investigation to overcome Rule 11,²⁰ and the complaint must contain “enough factual matter (taken as true) to suggest that” the

Before the Subcomm. on Commerce, Manufacturing and Trade of the H. Comm. on Energy and Commerce, 113th Cong. 28 (May 22, 2014) (testimony of Adam Mossoff), <http://docs.house.gov/meetings/IF/IF17/20140522/102255/HHRG-113-IF17-Wstate-MossoffA-20140522.PDF>.

¹⁵See *Globetrotter Software, Inc. v. Elan Computer Group, Inc.*, 362 F.3d 1367, 1374 (Fed. Cir. 2004).

¹⁶See *id.* (quoting *Va. Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 869 (Fed. Cir. 1997)).

¹⁷*Activision TV, Inc. v. Pinnacle Bancorp, Inc.*, 976 F. Supp. 2d 1157, 1166 (D. Neb. 2013).

¹⁸*Id.* at 1167.

¹⁹See H.R. ___: *A Bill to Enhance Federal and State Enforcement of Fraudulent Patent Demand Letters*, *supra* note 14, at 6 & n.25. *But cf. Sosa v. DirecTV, Inc.*, 437 F.3d 923, 936 (9th Cir. 2006) (“We conclude that restrictions on presuit demand letters may therefore raise substantial Petition Clause issues *if, on examination, such restrictions could impair the right of access to the courts* protected by the First Amendment.” (emphasis added)).

²⁰FED. R. CIV. P. 11(b)(3) (“By presenting to the court a pleading, written motion, or other paper . . . an attorney or unrepresented party certifies that . . . the factual contentions have evidentiary support or, if specifically so identified, will likely have evidentiary support after a reasonable opportunity for further investigation or discovery . . .”).

plaintiff is entitled to relief.²¹ Thus, the Federal Rules of Civil Procedure impose restrictions on the form and content of lawsuit filings, the quintessential First Amendment petition for redress.

It has never been suggested that these requirements overburden the First Amendment right to petition, and it is absurd to think that the Constitution precludes courts from managing their procedures. This demonstrates that the *Noerr-Pennington* doctrine does not reach to invalidate restrictions on the form and content of petitions for redress. Accordingly, it should also not reach the TROL Act or the existing state demand letter laws.²²

For the foregoing reasons, the TROL Act and state demand letter laws, which are directed to regulating the form and content of patent demand letters, do not raise constitutional issues under the First Amendment or the *Noerr-Pennington* doctrine.

III. THE CASE LAW SUPPORTING THE BAD FAITH REQUIREMENT IS POORLY REASONED AND UNRELIABLE

Further strengthening the view that the case law neither mandates a bad faith requirement nor precludes legislation on the form and content of demand letters is the fact that the leading case has been strongly criticized for simply getting the law wrong. The bad faith requirement derives from statements in *Globetrotter* that “to avoid preemption, bad faith must be alleged and ultimately proven.”²³ But that case is questionable for at least two reasons.

First, *Globetrotter* is clearly mistaken as to constitutional law. The ruling is purportedly based on federal preemption of state law, which is a doctrine of the Supremacy Clause of the Constitution, the clause that says that federal law is “the supreme law of the land.”²⁴ But in assessing the scope of that federal preemption, the Federal Circuit turned to the *Noerr-Pennington* doctrine, which is based on the First Amendment’s right “to petition the Government for a redress of grievances.”²⁵

As is obvious from the text of those two constitutional provisions, they are totally unrelated. Indeed, before this very Subcommittee, Professor Gugliuzza testified that “there is a strong argument based on law, policy, and historical practice that the Federal Circuit has erred” in its *Globetrotter* decision, calling that decision a “mistake.”²⁶ He has further criticized the decision as a “mischaracterization” creating “confusion as to the constitutional basis for limiting state authority.”²⁷ This constitutionally defective reasoning should not be the basis of Congressional legislation.

²¹See *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 555 (2007); accord *Ashcroft v. Iqbal*, 556 U.S. 662, 680 (2009).

²²Certainly one could imagine specific requirements that would be invalid under the First Amendment, such as a requirement that demand letters include some political or otherwise content-non-neutral statement. But these are not the situation that the TROL Act or the state laws present. All that is argued here is that the First Amendment does not impose a *per se* ban on restrictions on the form and content of demand letters.

²³*Globetrotter Software, Inc. v. Elan Computer Group, Inc.*, 362 F.3d 1367, 1374 (Fed. Cir. 2004) (internal quotations omitted).

²⁴U.S. CONST. art. IV, cl. 2; see *Globetrotter*, 362 F.3d at 1374 (“We have held that federal patent law preempts state-law tort liability . . .”).

²⁵U.S. CONST. amend. I; see *Globetrotter*, 362 F.3d at 1375 (citing as the “jurisprudential background of the bad faith standard” *E.R.R. Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127 (1961)).

²⁶*Update: Patent Demand Letter Practices and Solutions*, *supra* note 8, at 16–17.

²⁷Gugliuzza, *supra* note 9, at 33; see also *id.* at 42 (noting that “the Federal Circuit’s ‘preemption’ analysis . . . ignores the federalism concerns that a preemption analysis would normally engage”).

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Second, *Globetrotter* relies on case law interpretation that has been squarely rejected by the Supreme Court. In *Globetrotter*, the Federal Circuit arrived at its bad faith standard by reference to *Professional Real Estate Investors, Inc. v. Columbia Pictures Industries, Inc.*, contending that the Supreme Court's holding in that case could be applied to patent law.²⁸ But just last year, the Supreme Court held that the Federal Circuit's application of *PRE* in another patent context "makes little sense" because "the *PRE* standard finds no roots in the text" of the patent statutes.²⁹ In view of the reversal of the Federal Circuit's use of *PRE* there, it is highly questionable whether *Globetrotter*'s reasoning remains standing.

Accordingly, the case law that supports the bad faith requirement is weak. It should not be determinative of the scope of any patent demand letter legislation that this Subcommittee contemplates.

IV. CONCLUSION

For at least the foregoing reasons, the Constitution neither requires a bad faith element for regulation of patent demand letters, nor preempts state laws that would regulate the form and content of such demand letters. This Subcommittee should reject arguments to the contrary, and instead favor strong protection of consumer rights and interests by drafting a bill that does not impose an unnecessary and burdensome bad faith requirement and that does not preempt the states from protecting their consumers.

Sincerely,



Charles Duan
Director, Patent Reform Project
Public Knowledge

²⁸ See *Prof'l Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49, 57 (1993); *Globetrotter*, 362 F.3d at 1375–76.

²⁹ *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, 134 S. Ct. 1749, 1757 (2014).