



Amendment to Senate Bill 258

February 28, 2014

Position: PhRMA respectfully requests an amendment to Senate Bill 258 (SB 258). PhRMA believes that SB 258 admirably seeking to prohibit “patent trolls” from abusing the patent system, but as written, prevents demand letters sent in good faith to marketplace competitors that are required to defend patents per federal patent laws.

Please accept the following comments on behalf of the Pharmaceutical Research and Manufacturers of America (PhRMA). PhRMA is a voluntary, non-profit organization representing the nation’s leading research-based pharmaceutical and biotechnology companies, which are devoted to inventing medicines that allow patients to lead longer, healthier, and more productive lives.

The US Intellectual Property system serves as the backbone of our investment and innovation infrastructure, and our collective member companies thrive on the protections established under US patent law. We recognize that the broad protections afforded by the US patent laws may have enabled certain individuals – so called “patent trolls” – to take advantage of the system and to assert patent demands in bad faith. PhRMA opposes these abuses and applauds the Connecticut legislature for their attempts to curb these practices. We are concerned, however, that the broad conduct outlined in Connecticut SB 258 strays too far into the realm of federal patent enforcement and thus could unintentionally interfere with federal patent enforcement rights. Moreover, because of the significant federal oversight surrounding patent rights in the United States, we are concerned that certain aspects of SB 258 could be preempted. Accordingly, PhRMA must oppose SB 258.

Initially, SB 258 would amend Connecticut 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. While these abuses of the patent system are problematic, we believe the solution proposed in SB 258 would do more harm than good. Broadly outlining what is, and is not, acceptable for patent enforcement practices in a single state ignores the very fragile and fractured nature of the innovation ecosystem in the US. 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/her patent; likewise, notification has certain benefits for eventually obtaining remedies for actual infringement. The Supremacy Clause of the US 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 notifications¹. This potential for preemption is amplified, moreover, by the possibility of multiple state standards, which would be the case if several of the more than 10 state bills like SB 258 that have been introduced this year become 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 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. One initial option, by way of suggestion, would be to look at the activities undertaken by New York’s Attorney General to reach a broad-based settlement with MPHJ Technology Investments, LLC to cease alleged patent trolling activities in that state.

For these reasons, we urge Connecticut legislators to amend SB 258 to protect needed communications to marketplace competitors.

A suggested amendment, which has passed in other states, includes safe harbor language:

SAFE HARBOR:

It shall not be an unfair or deceptive trade practice for any person who owns or has the right to license or enforce a patent to notify another of that ownership or right of license or enforcement, to notify another that the patent is available for license or sale, to notify another of the infringement of that patent pursuant to the provisions of Title 35 of the United States Code, or to seek compensation on account of a past or present infringement, or for a license, when it is reasonable to believe that the person from whom compensation is sought may owe such compensation.

¹We note that the very broad definition of “patent notification” contained in SB 258 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 258 under Connecticut law.