March 10, 2015

The Honorable Chuck Grassley
Chairman
Committee on the Judiciary
United States Senate
Washington, D.C. 20510

The Honorable Patrick Leahy
Ranking Member
Committee on the Judiciary
United States Senate
Washington, D.C. 20510

The Honorable Bob Goodlatte
Chairman
Committee on the Judiciary
U.S. House of Representatives
Washington, DC 20515

The Honorable John Conyers
Ranking Member
Committee on the Judiciary
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Grassley, Ranking Member Leahy, Chairman Goodlatte, and Ranking Member Conyers:

As economists and law professors who conduct research in patent law and policy, we write to express our deep concerns with the many flawed, unreliable, or incomplete studies about the American patent system that have been provided to members of Congress. Unfortunately, much of the information surrounding the patent policy discussion, and in particular the discussion of so-called “patent trolls,” is either inaccurate or does not support the conclusions for which it is cited.

As Congress considers legislation to address abusive patent litigation, we believe it is imperative that your decisions be informed by reliable data that accurately reflect the real-world performance of the U.S. patent system. The claim that patent trolls bring the majority of patent lawsuits is profoundly incorrect. Recent studies further indicate that new patent infringement filings were down in 2014, with a significant decline in non-practicing entity (NPE) case filings. Unfortunately, these facts have gone largely unnoticed. Instead, unreliable studies with highly exaggerated claims regarding patent trolls have stolen the spotlight after being heavily promoted by well-organized proponents of sweeping patent legislation.

Indeed, the bulk of the studies relied upon by advocates of broad patent legislation are infected by fundamental mistakes. For example, the claim that patent trolls cost U.S. businesses $29 billion a year in direct costs has been roundly criticized. Studies cited for the proposition that NPE litigation is harmful to startup firms, that it reduces R&D, and that it reduces venture capital investment are likewise deeply flawed. In the Appendix, we point to a body of research that calls into question many of these claims and provides some explanation as to the limitations of other studies.

Those bent on attacking “trolls” have engendered an alarmist reaction that threatens to gut the patent system as it existed in the Twentieth Century, a period of tremendous innovation and economic growth. Indeed, award-winning economists have linked the two trends tightly together, and others have noted that it is exactly during periods of massive innovation that litigation rates have risen. We are not opposed to sensible, targeted reforms that consider the costs created by...
both plaintiffs and defendants in patent litigation. Yet, tinkering with the engine of innovation—the U.S. patent system—on the basis of flawed and incomplete evidence threatens to impede this country’s economic growth. Many of the wide-ranging changes to the patent system currently under consideration by Congress raise serious concerns in this regard.

That these proposed changes to the patent system have not been supported by rigorous studies is an understatement. We are very concerned that reliance on flawed data will lead to legislation that goes well beyond what is needed to curb abusive litigation practices, causing unintended negative consequences for inventors, small businesses, and emerging entrepreneurs. It is important to remember that inventors and startups rely on the patent system to protect their most valuable assets. Legislation that substantially raises the costs of patent enforcement for small businesses risks emboldening large infringers and disrupting our startup-based innovation economy. If reducing patent litigation comes at the price of reducing inventors’ ability to protect their patents, the costs to American innovation may well outweigh the benefits.

As David Kappos, the Director of the Patent Office from 2009 to 2013, stated in 2013 testimony before the House Judiciary Committee, “we are not tinkering with just any system here; we are reworking the greatest innovation engine the world has ever known, almost instantly after it has just been significantly overhauled” by the America Invents Act in 2011. “If there were ever a case where caution is called for, this is it.” As Congress addresses this important issue, we hope you will demand empirically sound data on the state of the American patent system.

Sincerely,

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cc:   The Honorable Mitch McConnell  
       Majority Leader  
       United States Senate  
       Washington, DC 20510  

The Honorable John Cornyn  
Majority Whip  
United States Senate  
Washington, DC 20510  

The Honorable John Boehner  
Speaker  
United States House of Representatives  
Washington, DC 20515  

The Honorable Kevin McCarthy  
Majority Leader  
United States House of Representatives  
Washington, DC 20515  

The Honorable Harry Reid  
Minority Leader  
United States Senate  
Washington, DC 20510  

The Honorable Richard J. Durbin  
Minority Whip  
United States Senate  
Washington, DC 20510  

The Honorable Nancy Pelosi  
Minority Leader  
United States House of Representatives  
Washington, DC 20515  

The Honorable Steny Hoyer  
Minority Whip  
United States House of Representatives  
Washington, DC 20515  

Members of the United States Senate and United States House of Representatives
APPENDIX

Patent Litigation Studies and Related Articles


Haber, Stephen and Seth H. Werfel, *Why Do Inventors Sell to Trolls? Experimental Evidence for the Asymmetry Hypothesis* (March 5, 2015)


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**Some Significant Limitations of the Most Commonly Cited Studies by Advocates of Broad Patent Legislation**

- **Data Sources** – Many NPE studies rely on proprietary data sets from commercial entities with a financial stake in patent reform legislation that cannot be independently validated.

- **Inaccurate Proxies** – Some NPE studies use inaccurate proxies to determine whether a litigant is an NPE. Other patent litigation studies cited as supporting reform do not distinguish between NPEs and operating companies whatsoever.

- **Limited, Non-Generalizable Samples** – Most NPE survey studies rely on non-random samples that are not generalizable to the entire population and cannot support broader conclusions about NPE litigation statistics or behavior. Some NPE studies only examine the most litigious NPEs, which may not be indicative of NPEs as a whole.

- **Measuring Costs** – Some NPE studies attempt to estimate the total costs of NPE lawsuits but do little to nothing to quantify the benefits of these suits or NPE activity more generally. Some widely cited studies wrongly assume that payments in litigation are primarily “social costs” rather than mere economic “transfers” that do not decrease social welfare. Other studies relied upon by proponents of reform simply track NPE litigation and do not attempt to measure costs or benefits at all. Even when estimating costs, many NPE studies make unsupported assumptions about the nature or impact of NPE suits.

- **Ignoring the AIA and Other Factors** – Many studies fail to sufficiently explain that the so-called rise in NPE patent litigation in 2011 and 2012 was due to changes in the joinder provisions in the America Invents Act. Moreover, previous rises in NPE litigation may be attributable, at least in significant part, to other factors, such as the rise in patenting and overall innovation.