



March 11, 2015

To: House Committee on Judiciary

From: Kathleen A. Taylor, Kansas Bankers Association

Re: Sub for SB 38: Bad Faith Patent Infringement Claims

Mr. Chairman and Members of the Committee:

Thank you for the opportunity today to appear before you in support of Substitute for SB 38. You will recall that the Kansas Bankers Association, with the cooperation of the Kansas Attorney General, brought this idea to the legislature in 2014, to address a practice that we have witnessed in this and other states with regard to claims of patent infringement made in bad faith. That introduction led to a thorough study of the issue this fall, by the Special Joint Committee on Judiciary. After hearing testimony in the Senate Committee, a group of interested parties, including the Attorney General, met and agreed to some changes in the original bill which we believe give the Attorney General greater ability and guidance in prosecuting this type of fraud, and which give more assurance to some businesses that their good faith claims of patent infringement will not be caught up in this effort to deter bad faith claims.

We recognize that patents are essential to encouraging innovation, especially in the IT and knowledge-based fields. Patent holders have every right to enforce their patents when they are infringed, and patent enforcement litigation is necessary to protect intellectual property. The KBA does not wish to interfere with the good faith enforcement of patents however, we believe the assertion of bad faith infringement claims can harm Kansas companies. A business that receives a communication asserting such claims faces the threat of expensive and protracted litigation and may feel that it has no choice but to settle and to pay a licensing fee, even if the claim is meritless. This is especially so for small and medium sized companies and nonprofits that lack the resources to investigate and defend themselves against infringement claims.

As an example, I will describe a typical scenario of a bad faith patent infringement demand claim. This example is developed around a real case where the claimed patent was for the process of scanning a document and attaching it to an e-mail via a network. The business claiming the patent will typically send a barrage of letters to small and medium-sized businesses, using different subsidiary companies, claiming that the target business is using equipment that is infringing this patent. The letter states that the target business must pay a licensing fee of \$1,000 per employee, for example, or face lengthy and expensive patent litigation. These businesses are then faced with these questions – is it wise to ignore the demand? If the licensing fee is paid, will that make the threat of litigation go away? Or should resources be used to hire a patent attorney to fight the claim?

This bill is designed to help Kansas companies be able to respond promptly and efficiently to patent infringement assertions against them. The substitute bill sets up a parallel cause of action which allows the Attorney General and/or the target of such patent infringement claim, to use the tools found in the Kansas Consumer Protection Act in order to make a determination of whether a patent infringement claim is made in good faith. Because most of these cases involve a business and not a consumer, the bill could not simply refer to the KCPA, but required the parallel system.

The bill also contains factors listed that will most likely be pled in an action brought by the Attorney General or the target of the patent infringement claim, that indicate the claim has been made in bad faith. Also contained in the bill are specific actions which indicate good faith assertions. Sub SB 38 is drafted narrowly, to not interfere with the enforcement of good faith assertions of patent infringement. In crafting the factors that determine whether an infringement claim is made in good or bad faith, we believe it carefully preserves patent owners' rights to protect their patents, and preserves the transferability of patents.

As you may be aware, there are several bills addressing this same issue, but in a slightly different manner, in Congress. Patents are creatures of federal law authorized by the Constitution. We support the efforts of Congress to curtail the practice of fraudulent patent infringement claims, but believe that this bill is necessary to clarify and make explicit that those who issue communications claiming patent infringement in bad faith should be on notice that such practices run afoul of Kansas' public policy so as to deter this activity in this state. In addition, this bill will provide a less costly, more expeditious way to determine that the infringement claim is made in good faith prior to the need to enter into patent litigation by giving the Attorney General the tools needed to make this determination.

In conclusion, through this narrowly focused act, the KBA seeks to facilitate the efficient and prompt resolution of patent infringement claims, protect Kansas businesses from abusive and bad faith assertions of patent infringement, while at the same time respecting federal law and being careful to not interfere with legitimate patent enforcement actions.

We respectfully request that when you consider Sub for SB 38, you will consider its favorable recommendation for action in the 2015 Kansas Legislature. Thank you for your time and attention to this important matter.