



January 27, 2015

To: Senate Committee on Judiciary

From: Kathleen A. Taylor, Kansas Bankers Association

Re: 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 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. Specifically, this bill is modeled after successful legislation in Vermont, and would help a Kansas business that is the subject of a demand letter claiming a patent infringement (referred to as a "target"), determine the legitimacy of the claim prior to engaging in a patent infringement lawsuit.

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 letter 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 demand 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 demand 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 targeted 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 bill allows a district court or the Attorney General, to make a determination of whether a patent infringement claim in the form of a demand letter to a Kansas business, meets the criteria set forth in the bill indicating that it is a claim of a patent infringement made in good faith. The factors listed will require an examination of specific information regarding how the product, service, or technology may have infringed the patent at issue. Receiving such information at an early stage will facilitate the resolution of claims and lessen the burden of potential litigation on Kansas companies.

Should a district court, after examination of the demand letter according to the factors listed in the bill, determine that the patent infringement claim is in bad faith, the district court shall require a bond to be posted by the person or company making the claim in an amount equal to a good faith estimate of the target's costs to litigate the claim plus any damages and costs reasonably likely to be recovered, except that any bond ordered cannot exceed \$250,000.00.

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.

This topic received much scrutiny as the subject of hearings by the Special Joint Committee on Judiciary which Chairman King also chaired. The KBA worked with industries that presented concerns at that time, about the effect this legislation may have on their patent process. Subsection (h) was adopted by the Special Committee to address concerns of the pharmaceutical companies, in particular.

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 demand letters 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, as stated before, 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, which may very well fall under the federal patent laws.

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 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.