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Testimony before Senate Judiciary Committee
SB 38 – Patent infringement demand letters
Presented by Mike O'Neal, CEO

Tuesday, Jan, 27, 2015

Mr. Chairman and members of the Committee:

On behalf of the Kansas Chamber and its hundreds of industry members, I appear today in support of legislation addressing the practice of bad faith patent infringement demand letters. We support the Kansas Bankers Association's efforts to crack down on this practice, but respectfully suggest that the Vermont language, upon which SB 38 is based, is not the ideal solution.

This is an issue that is being looked into on the Congressional level as well and while many of our member organizations would prefer a federal solution to this interstate issue, we appreciate that several states have determined that they should provide state protections and therefore we are prepared to support a Kansas solution that addresses the problem, on the one hand, while protecting legitimate business-to-business communications in the regular course of business, on the other.

I have attached to my testimony a memo from The Coalition For 21st Century Patent Reform and a letter from IPO, the Intellectual Property Owners Association, on this subject and would request that you consider the views expressed therein to be supplemental to our testimony. Of importance to The Kansas Chamber and hopefully this Committee, is the large number of IPO Association members who are members of ours and who have a significant business presence in Kansas.

I have also attached to my testimony the patent reform legislation passed in Illinois. This would be our less cumbersome preference, rather than the Vermont language. We have shared this language previously with the KBA. It is my understanding that the Illinois Bankers did not object to the Illinois bill. We have an excellent working relationship with the KBA and desire a mutually agreeable bill version since we have a mutual interest in cracking down on the harmful practice of patent trolling.

Specifically, our concerns involve the overbroad definition of "demand letter", the creation of a separate private cause of action rather than utilizing K.S.A. Ch. 50, the emphasis on litigation to address questions where non-litigation options through the A.G.'s Ch. 50 powers may well suffice, and the need for adequate safe harbor provisions protecting legitimate business-to-business communications in the ordinary course of business. We respectfully suggest the Illinois language addresses our concerns, and the Committee might also look at the Tennessee and Oklahoma provisions of this law. We have time to get this right and we look forward to working with this Committee toward the end of enacting a mutually agreeable solution to this problem.

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"...to continually strive to improve the economic climate for the benefit of every business and citizen and to safeguard our system of free, competitive enterprise".

THE COALITION FOR 21ST CENTURY PATENT REFORM

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State Legislation of Patent Demand Letters Should Target Widespread, Bad Faith Assertions of Patents Against Consumers and Protect Legitimate Patent Licensing Communications

Background:

The impact of patent demand letters sent by so-called patent assertion entities or “patent trolls” on small businesses, consumers and innovators has increased over the past several years. Several state legislatures are considering whether legislation is needed to provide protection against such practices and to empower Attorney Generals (“AGs”) with authority to take action.

The Coalition for 21st Century Patent Reform (“21C”) supports legislation providing AGs the authority to target bad-faith patent demand letters that, especially when sent on a widespread basis to multiple recipients, may constitute unfair or deceptive trade practices.

21C urges caution and balance, however, to ensure that efforts to address what may be a small subset of egregious patent demand letter abuses do not inadvertently chill legitimate patent licensing communications. The patent system is designed to encourage notice and communication of patent rights to foster licensing and technology dissemination.

Guiding Principles:

- The patent troll business model is based on sending hundreds, or thousands, of demand letters to consumers and end users. Legislation should target this practice, to direct AG resources to protecting small businesses and consumers, and to avoid unintended consequences to legitimate patent licensing communications.
- AGs are in the best position to accomplish this consumer protection mission by identifying widespread communications targeting consumers and taking action against patent trolls who send such communications. Empowering AGs will relieve small business of burdensome legal costs. Creating a new cause of action for private parties could actually create a second order of “trolls” hindering legitimate technology exchange as an unintended consequence.
- To ensure consistency across the country, and protect legitimate patent holders, the adoption of model language that defines deceptive acts or practices is needed.
- To mitigate the risk of chilling effects on legitimate patent licensing communications, safe harbor language is necessary to ensure that patent holder rights are not infringed.

The Coalition for 21st Century Patent Reform has approximately 50 members from 18 diverse industry sectors, and includes many of the nation's leading manufacturers and researchers. The Coalition's Steering Committee includes 3M, Caterpillar, General Electric, Johnson & Johnson, Eli Lilly and Procter & Gamble.



Intellectual®
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September 3, 2014

The Honorable Lance Kinzer, Chair
Kansas House of Representatives
Standing Committee on Judiciary
Kansas State Capitol, Room 165-W
300 SW 10th Street
Topeka, KS 66612

Dear Chairman Kinzer:

I am writing on behalf of Intellectual Property Owners Association (IPO) regarding the problem of bad faith patent demand letters. IPO is a national trade association representing companies and individuals in all industries and fields of technology who own, or are interested in, intellectual property rights. IPO's membership includes more than 200 companies and more than 12,500 individuals who are involved in the association through their companies or as inventor, author, law firm, or attorney members.

We appreciate your concern regarding this widespread, abusive behavior. However, IPO opposes patent demand letter legislation at the state level because we believe enacting a patchwork of state legislation will increase compliance costs for legitimate businesses, which will deter innovation. Further, our members are sure to encounter difficulty in attempting to comply with different state laws. The most efficient way to ensure uniformity, proper scope, and content of demand letter legislation is at the federal level. In order to provide uniformity and certainty, IPO supports federal legislation to regulate bad faith demand letters, but strongly believes such legislation should preempt legislation at the state level.

We oppose state legislation that creates a private right of action against patent holders based on insufficient information in a patent demand letter. Most states already have laws that prohibit deceptive trade practices. Demand letters should not generate a right of recovery for an infringer if a patent holder merely fails to include certain required disclosures but the letter's content is not otherwise false or misleading.

We also oppose state legislation that interferes with legitimate practices in business-to-business communications by requiring mandatory disclosures in patent demand letters. First communications from businesses are often very general and introductory in nature. This helps entities efficiently find business solutions. Mandatory disclosures could increase declaratory judgment litigation and potentially require disclosure of confidential information. Innovative businesses would be discouraged from protecting their inventions and licensing to others.

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Herbert C. Wamsley

INTELLECTUAL PROPERTY OWNERS ASSOCIATION

Again, IPO appreciates your attention to this growing problem. We would be happy to discuss our position with you in more detail.

Sincerely,



Herbert C. Wamsley
Executive Director

cc:

The Honorable Rob Bruchman, Vice Chair, Kansas House Standing Committee on Judiciary
The Honorable Janice Pauls, Ranking Minority Member, Kansas House Standing Committee on Judiciary
The Honorable Steve Alford, Kansas House Standing Committee on Judiciary
The Honorable John Barker, Kansas House Standing Committee on Judiciary
The Honorable Steven Becker, Kansas House Standing Committee on Judiciary
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The Honorable Annie Kuether, Kansas House Standing Committee on Judiciary
The Honorable Charles Macheers, Kansas House Standing Committee on Judiciary
The Honorable Craig McPherson, Kansas House Standing Committee on Judiciary
The Honorable Leslie Osterman, Kansas House Standing Committee on Judiciary
The Honorable Emily Perry, Kansas House Standing Committee on Judiciary
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SB3405 Enrolled

LRB098 19175 JLS 54327 b

Search By Number
(example: HB0001)

AN ACT concerning business.

Go

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Be it enacted by the People of the State of Illinois,
represented in the General Assembly:

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Section 5. The Consumer Fraud and Deceptive Business
Practices Act is amended by adding Section 2RRR as follows:

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(815 ILCS 505/2RRR new)

Sec. 2RRR. Unfair or deceptive patent infringement demand
letters.

(a) As used in this Section:

"Affiliated person" means a person affiliated with the
intended recipient of a written or electronic communication.

"Intended recipient" means a person who purchases, rents,
leases, or otherwise obtains a product or service in the
commercial market that is not for resale in the commercial
market and that is, or later becomes, the subject of a patent
infringement allegation.

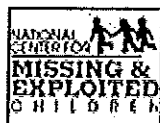
(b) It is an unlawful practice under this Act for a person,
in connection with the assertion of a United States patent, to
send or cause any person to send any written, including
electronic, communication that states that the intended
recipient or any affiliated person is infringing or has
infringed a patent and bears liability or owes compensation to
another person, if:

(1) the communication falsely threatens that
administrative or judicial relief will be sought if
compensation is not paid or the infringement issue is not
otherwise resolved;

(2) the communication falsely states that litigation
has been filed against the intended recipient or any
affiliated person;

(3) the assertions contained in the communication lack
a reasonable basis in fact or law because:

(A) the person asserting the patent is not a
person, or does not represent a person, with the
current right to license the patent to or enforce the
patent against the intended recipient or any



affiliated person;

(B) the communication seeks compensation for a patent that has been held to be invalid or unenforceable in a final, unappealable or unappealed, judicial or administrative decision; or

(C) the communication seeks compensation on account of activities undertaken after the patent has expired; or

(4) the content of the communication fails to include information necessary to inform an intended recipient or any affiliated person about the patent assertion by failing to include the following:

(A) the identity of the person asserting a right to license the patent to or enforce the patent against the intended recipient or any affiliated person;

(B) the patent issued by the United States Patent and Trademark Office alleged to have been infringed; and

(C) the factual allegations concerning the specific areas in which the intended recipient's or affiliated person's products, services, or technology infringed the patent or are covered by the claims in the patent.

(c) Nothing in this Section shall be construed to deem it an unlawful practice for any person who owns or has the right to license or enforce a patent to:

(1) advise others of that ownership or right of license or enforcement;

(2) communicate to others that the patent is available for license or sale;

(3) notify another of the infringement of the patent; or

(4) seek compensation on account of past or present infringement or for a license to the patent.

Section 99. Effective date. This Act takes effect January 1, 2015.

Effective Date: 1/1/2015

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