



Michigan Bankers Association

# Memo

**To:** Members of the Michigan State House Judiciary Committee

**From:** David Quinton Worthams, Policy Director  
Michigan Bankers Association

**Date:** September 20, 2016

**Subject:** SB 289(S-3) – Patent Troll Legislation

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The Michigan Bankers Association seek your support of Senate Bill 289(S-3) – a bill that would create an act that will help limit bad faith patent infringement claims in Michigan.

Abusive patent infringement claims impact almost every industry in Michigan, most especially community banks and other financial institutions. This type of “*patent trolling*” is a serious concern to banks of all sizes across the country. Curbing these actions will strengthen Michigan lenders and promote greater innovation and competition.

Historically, business methods and the system to implement those methods were not patentable. This view, however, was profoundly changed by the 1998 court decision *State Street v. Signature Financial Group*. In that case, the federal court held that the fact that an invention could be characterized as a “business method” was not a bar to patentability. As a result of this decision, the U.S. patent system has seen an explosion in application for business method patents (BMP).

Thanks in part to the *State Street* decision, banks are now barraged by the use by non-practicing entities (NPE’s) of overly broad patents, threats of litigation and licensing fee demands. As a result, resources and capital that could go towards lending or otherwise serve bank customers and communities have necessarily been re-allocated to defend against abusive patent claims.

Faced with threats of expensive patent litigation, many community banks find that their only option is to settle rather than face paying millions to defend against extortive claims of patent infringement. Well-funded and sophisticated NPE’s take advantage of community banks with limited resources and little patent experience, and have amassed significant “licensing” fees from banks literally for the cost of mailing a threatening letter.

Professor Josh Lerner of the Harvard Business School recently stated that the “risk of patent litigation is far greater than in other fields.” He continues, “... financial patents are being litigated at a rate 27 to 39 times greater than that of patents as a whole. Even relative to the most extensively litigated major category of patents (drugs and health), the rate is more than an order of magnitude higher.” The rates are also far greater than that in the early years of an emerging industry where the extent and breadth of patent protection was initially ambiguous, biotechnology.

A recent example of these types of claims involves an NPE known as Automated Transactions, LLC (ATL), which targeted more than 150 community banks in New England, New York, New Jersey and Georgia. ATL claimed that transactions facilitated by the use of the banks' ATMs infringe one or more of its patents. What ATL fails to mention, however, are that many ATL claims have been invalidated by the courts. In particular, the Supreme Court denied certiorari on ATL's appeal of an April 23, 2012 decision by the Federal Circuit to affirm a ruling by the Board of Patent Appeals invalidating several of ATL's patent claims. Despite this, the company continues to assert those patents and sue banks, including banks that do not even have ATMs.

These lawsuits have targeted every aspect of the financial services industry. The weapons of choice are BMPs due to their vagueness and the inability of the financial service industry to utilize evidence of prior use to invalidate dubious patents. To help fight back, we suggest that Michigan enact legislation similar to Vermont's "Bad Faith Assertion of Patent Infringement Act." The language in the Act doesn't define "bad faith patent assertion" but enumerates factors to help judges distinguish legitimate from illegitimate patent assertions. Factors that suggest a bad faith assertion include, but not limited to the following:

- Lack of patent number in a demand letter;
- Lack of name and address of patent owner;
- Lack of factual allegations concerning the specific areas in which the target's products, services, and technology infringe the patent or are covered by the claims in the patent;
- A failure to conduct an analysis comparing the claims in a patent infringement claim to the actual product, services, and technology covered by the patent.

To date, 32 states have enacted similar acts. In addition, 5 states (including Michigan) currently have bills before them, most of which appear to be headed towards enactment by their respective legislatures. A full list of the states with patent troll legislation is included with this memo.

We have worked with representatives of higher education institutions, Michigan's pharmaceutical industry, and the manufacturing industry to make sure that the bill does not inadvertently make it more difficult for legitimate patent holders to protect their intellectual property. The language in the Senate passed version of SB 289(S-3) reflects the best agreement reached and is what we believe is the best public policy for Michigan's version of this bill. We urge its enactment.

Abusive patent litigation is a serious problem for US banking institutions of all sizes. It is an issue for many small businesses throughout the state. It is a hindrance to success for Michigan companies. We strongly support efforts to end abusive patent litigation and look forward to working with you and your colleagues on this important issue. Thank you for your consideration of supporting this very necessary legislation.

As of 9/20/16

**States That Have Enacted Patent Troll Legislation (28)**

- 2013: (1) Vermont  
2014: (17) Alabama, Georgia, Idaho, Illinois, Louisiana, Maine, Maryland, Missouri, New Hampshire, North Carolina, Oklahoma, Oregon, South Dakota, Tennessee, Utah, Virginia, Wisconsin  
2015: (9) Colorado, Florida, Indiana, Kansas, Mississippi, Montana, North Dakota, Texas, Washington State  
2016: (6) Arizona, Florida, Minnesota, Rhode Island, South Carolina, Wyoming

**States with Pending Patent Troll Legislation (5)**

Iowa, Massachusetts, Michigan, New Jersey, Rhode Island

