

**FISCAL NOTE**  
**Requested by Legislative Council**  
**01/08/2015**

Amendment to: HB 1163

- 1 A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2013-2015 Biennium		2015-2017 Biennium		2017-2019 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues	\$0	\$0	\$0	\$0	\$0	\$0
Expenditures	\$0	\$0	\$0	\$0	\$0	\$0
Appropriations	\$0	\$0	\$0	\$0	\$0	\$0

- 1 B. **County, city, school district and township fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

	2013-2015 Biennium	2015-2017 Biennium	2017-2019 Biennium
Counties	\$0	\$0	\$0
Cities	\$0	\$0	\$0
School Districts	\$0	\$0	\$0
Townships	\$0	\$0	\$0

- 2 A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

This bill defines and prohibits patent trolling lawsuit threats and abuses.

- B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

There is no anticipated fiscal impact associated with this bill.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

- A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

There is no anticipated fiscal impact associated with this bill.

- B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

There is no anticipated fiscal impact associated with this bill.

- C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation or a part of the appropriation is included in the executive budget or relates to a continuing appropriation.*

There is no anticipated fiscal impact associated with this bill.

**Name:** Kathy Roll

**Agency:** Office of Attorney General

**Telephone:** 701-328-3622

**Date Prepared:** 01/12/2015

**FISCAL NOTE**  
**Requested by Legislative Council**  
**01/08/2015**

Bill/Resolution No.: HB 1163

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There is no anticipated fiscal impact associated with this bill.

**Name:** Kathy Roll

**Agency:** Office of Attorney General

**Telephone:** 701-328-3622

**Date Prepared:** 01/12/2015

**2015 HOUSE INDUSTRY, BUSINESS AND LABOR**

**HB 1163**

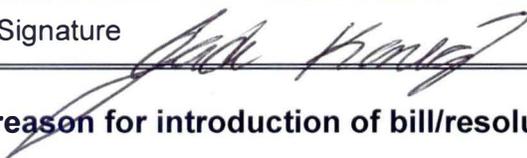
# 2015 HOUSE STANDING COMMITTEE MINUTES

## Industry, Business and Labor Committee Peace Garden Room, State Capitol

HB 1163  
1/26/2015  
22515

- Subcommittee  
 Conference Committee

Committee Clerk Signature



### Explanation or reason for introduction of bill/resolution:

Bad faith assertions of patent infringement & provide a penalty.

### Minutes:

Attachment #1 #2 #3

**Vice Chairman Sukut:** Opens the hearing on HB 1163.

**Chairman Keiser:** Introduces HB 1163 and it's basically about patent trolling.

**Parrell Grossman~Director, Consumer protection & Antitrust Division of the Office of Attorney General:** (Attachment 1)

**Chairman Keiser:** On page 5, line 7 there are three "the's"

**Grossman:** Use the last the. I'm sorry I should have clarified that. So it would be an owner of the patent which is using the patent in connection with the, and then we would insert the opposed amendment, substantial research, commercial development, etc.

**Chairman Keiser:** I understand that this prevents, it will help for these patent trolling companies, these bad operators that come in and attack our smaller companies that don't have all the resources. But does it have a negative impact on the little company in North Dakota that really does create something and then big corporation comes in and patents it before the smaller company can. In other words they created this and then a big corporation patents it before they get it patented, because it is a race to the patent office. But someone at the big corporation hears about it and gets a copy of the drawings and runs to the patent office because they have the resources to quickly do it. Does this create a problem for our small companies that might truly have intellectual property and can document it in terms of challenging the bigger player who does get the patent filed or is there no recourse once a patent is filed?

**Grossman:** I don't think it creates a new problem. I think if that problem exists and it does it will continue I mean there's a whole body of patent law and those kinds of things occur all the time and unfortunately the big companies win because they have the resources so this

won't stop that and I'm not sure we could even address that it's a very complicated area of the law.

**Marlyn Foss~General Counsel for the North Dakota Bankers Association:**  
(Attachment 2).

**Representative Ruby:** In your testimony you talked about when these accusations of infringement comments are costing the banks a considerable amount of money either to try and have to pay what they are demanding or to take it to court. Are you seeing this happening in North Dakota significantly and since it's somewhat of a scam are they willing to take it all the way to the court.

**Foss:** As far as I know I have not been informed that this is a general problem for our banks yet it has been a problem all across the country. One of the really issues is you don't know when someone is saying your ATM machine by being real time is using a technique or business method that I have patented, the bank a no way of know whether that is correct or not because the typical demand letter does not give you enough information to even take it to your vender and to even make that kind of evaluation with this kind of technology. If someone is saying I'll give you a license for 5,000 dollars it is often cheaper to pay the 5,000 dollar license fee then it is to hire a computer engineer to evaluate the claim and get the information necessary to evaluate it.

**Representative Ruby:** Are there legitimate situations that you are aware of where someone contacted the bank and the bank said ok well we realize we did and their council backs them up and then they pay it? If it's something that you wouldn't necessarily see, I would think they would go after whoevers creating the network or putting it into the hardware, something more of a higher level than the user. I'm just kind of wondering if you are seeing any of that, because if it's something that I'm getting accused of that all the sudden you get on legitimately and then all the sudden you get one and someone is scamming, what is normally a legitimate request that's a little harder to determine. If it never happens in any other incidents and all the sudden you get this and they are going after the end user, does it seem like it's an immediate red flag and you just ignore it? Like you said it's cheaper to pay the 5,000 dollars then go to court, but maybe you don't have to go to court it's just not a legitimate situation.

**Foss:** The patent acquisitions entities, the non-practicing entices there are entities out there that are buying real patents and seek to enforce them against the little guy for specifically the reason that the little guy is less likely to fight. Larger institutions have also received claims of this nature. Some of them have conclude as a matter of fact there may be a legitimate issue of patented enforcement which is why this bill does not try to stop anyone who ones and has patent rights from being able to enforce those rights. Some have been and when there is a determination that there is a real issue we have had banks throughout the country pay licensing fees. Some have been litigated and at least the one I'm most familiar with that was out of a Texas court it was against a larger institution they did litigate to conclusion that that institution won. What we are not trying to do here is we are not trying to stop people who own patents and own intellectual property rights from being able to enforce those right, we are trying so wait a minute most end users, who could be held liable under our patent laws for violating a patent for which they have not paid

somewhere along the line a license fee that in the interest of balance you have to give them enough information early on to assess the claim and determine whether licensing is appropriate, settlement of some other basis might be appropriate, or litigation is appropriate.

**Representative Kasper:** As you know I'm not an attorney but this bill it appears to me to sort of outline everything that is already in law? Or are these remedies and these courses of action and talking about the demand letter, whether it does this or that or the other thing, are they not already in law and outlawed?

**Foss:** I would say no, the demand letter phase of these activities is outside the court system. If we are going to get into court and litigate this we're going to look at what information you provided before we filed the summons and complaints and actually got into court. I guess I would say it's almost comparable to setting up systems for prejudicial mediation. Its saying no you got to be giving information before we got to court so people could look at this and decide if we should settle outside of the judicial system, because as we all know once you are in court you are already spending money on counsel and in this case you have already spent money on computer engineers and people who can evaluate the technology and whether what you are doing actually uses it or not.

**Representative Kasper:** So what his is doing is putting in statue that if theses trollers out there make a claim statute says ok prove it. Give us your documentation send us what you are saying you have the right to the patent for and then we have the opportunity to decide as oppose to them threatening court action and so on where it would stop a court action until they provide this information and then you make a determination. Is that the way it might work?

**Foss:** It doesn't stop them from bringing the court action, and it doesn't say if you haven't done all this you can't go to court. It says if you haven't given us this information and you do go to court as part of that proceeding the court may determine whether or not you brought the action in good faith or if you did it as an effort to sort of press somebody unfairly.

**Representative Kasper:** On the penalty under the private right of action to me that's a small number if this could happen and cause huge problems for financial institutions or anyone else in North Dakota and you're limiting to 50,000 dollars or three times the total in damages is that to small?

**Foss:** We took this draft from legislation that had been adopted from South Dakota, which was also based on legislation in a number of other states. In those states manufacturing interest patent holders had their say. 50,000 dollars might be small, three times the amount of damages you can establish is not so small it is actually kind of a standard formula in our consumer protection statutes and as I said the point here is not to disable or impede the holder of legitimate piece of intellectual property and patent from going forth to the courts if they feel strongly about it. That went into the determination of what the damages might be as well.

**Chairman Keiser:** Patent trolling is throwing out a net, if you have access to people using a particular piece of software or something else. If you can find the list that 10,000 people using it you can send out a letter in the patent trolling world and say by the way you are in violation of this patent that we hold we want 5,000 dollars or 10,000. Companies in North Dakota or saying oh I didn't know that here's 5,000 dollars or 10,000 because we aren't going to litigate it. What this is putting into statute is if you if you can send out a letter that says I am infringing you have to provide the justification why that's happened not just a letter and that's how we will pick up the trollers, because it has to be a legitimate case and you have to document it when you send it out verses just spray the market and you don't need a lot of people to send you 5,000 dollar checks to make it worthwhile.

**Foss:** That is correct and in the bill one of the factors to assess the good faith nature of the demand or the bad faith nature of demand is whether you sent it out in bulk or not.

**Jeff Olson:** Credit Association of North Dakota: We are in support of HB 1163. For a number of years credit unions across the country have been getting these letters and it has impacted them and to answer some of your earlier questions if you want to challenge these as I understand it you have to go the office of patent and trade mark and to appeal your filing fee alone is 30,000 dollars and as end users are easy targets. A lot of these credit unions are small and don't have legal counsel so what happens a lot of the times is they are going to pay that fee. So there are four bills currently on the dock in congress that deal with this until that gets done we need to fix this on the state level. We were also active at getting this bill passed in South Dakota last session and in fact we were hoping to get it done two years ago here but it's been on our radar for a while too.

**Representative Hanson:** Do you have any stats in North Dakota?

**Olson:** This has not happened in North Dakota to my knowledge for credit unions, but it is a national problem and has been in our radar for about four years and we have credit unions in the country that have been impacted by it.

**Bill Gilbertson~Biotechnology Industry Organization:** (Attachment 3).

Opposition, neutral

Chairman Keiser closes

A motion to amend page 5 line 7 made by Rep. Devlin. Seconded by Rep. Lefor.  
Voice vote amendment Passed.

A motion to Do Pass as amended by Rep. Boschee. Seconded by Rep. Ruby.

Total 13 yes. 0 no. 2 absent.

Floor assignment Rep. Beadle.

15.0397.01001  
Title.02000

Adopted by the Industry, Business and Labor  
Committee

January 26, 2015

*Jan-20-15*

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1163

Page 5, line 7, after the third "the" insert "substantial research, commercial development,"

Renumber accordingly

Date: Jan 26, 2015

Roll Call Vote: 1

2015 HOUSE STANDING COMMITTEE  
ROLL CALL VOTES  
BILL/RESOLUTION NO. 1163

House Industry, Business & Labor Committee

Subcommittee  Conference Committee

Amendment LC# or Description: 15.0397.01001

Recommendation:  Adopt Amendment  
 Do Pass  Do Not Pass  Without Committee Recommendation  
 As Amended  Rerefer to Appropriations  
Other Actions:  Reconsider  \_\_\_\_\_

Motion Made By Devlin Seconded By Lefor

Representatives	Yes	No	Representatives	Yes	No
Chairman Keiser			Representative Lefor		
Vice Chairman Sukut			Representative Louser		
Representative Beadle			Representative Ruby		
Representative Becker			Representative Amerman		
Representative Devlin			Representative Boschee		
Representative Frantsvog			Representative Hanson		
Representative Kasper			Representative M Nelson		
Representative Laning					

Total (Yes) \_\_\_\_\_ No \_\_\_\_\_

Absent \_\_\_\_\_

Floor Assignment \_\_\_\_\_

If the vote is on an amendment, briefly indicate intent:

A  
voice voice

Date: Jun 26, 2015

Roll Call Vote: 2

2015 HOUSE STANDING COMMITTEE  
ROLL CALL VOTES  
BILL/RESOLUTION NO. 1163

House Industry, Business & Labor Committee

Subcommittee  Conference Committee

Amendment LC# or Description: \_\_\_\_\_

Recommendation:  Adopt Amendment  
 Do Pass  Do Not Pass  Without Committee Recommendation  
 As Amended  Rerefer to Appropriations  
Other Actions:  Reconsider  \_\_\_\_\_

Motion Made By Boschee Seconded By Ruby

Representatives	Yes	No	Representatives	Yes	No
Chairman Keiser	X		Representative Lefor	X	
Vice Chairman Sukut	X		Representative Louser	X	
Representative Beadle	X		Representative Ruby	X	
Representative Becker	X		Representative Amerman	X	
Representative Devlin	X		Representative Boschee	X	
Representative Frantsvog	Ab		Representative Hanson	X	
Representative Kasper	X		Representative M Nelson	Ab	
Representative Laning	X				

Total (Yes) 13 No 0

Absent 2

Floor Assignment Rep Beadle

If the vote is on an amendment, briefly indicate intent:

**REPORT OF STANDING COMMITTEE**

**HB 1163: Industry, Business and Labor Committee (Rep. Keiser, Chairman)** recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (13 YEAS, 0 NAYS, 2 ABSENT AND NOT VOTING). HB 1163 was placed on the Sixth order on the calendar.

Page 5, line 7, after the third "the" insert "substantial research, commercial development,"

Re-number accordingly

**2015 SENATE INDUSTRY, BUSINESS AND LABOR**

**HB 1163**

# 2015 SENATE STANDING COMMITTEE MINUTES

## Industry, Business and Labor Committee Roosevelt Park Room, State Capitol

HB 1163 Engrossed  
3/16/2015  
Job Number 24847

- Subcommittee  
 Conference Committee

Committee Clerk Signature

*Eva Libelt*

### Explanation or reason for introduction of bill/resolution:

Relating to bad faith assertions of patent infringement

### Minutes:

Attachments

**Chairman Klein:** Called the hearing to order.

**Representative Keiser:** Nationally there has been a developing pattern of behavior that is absolutely not expectable and that is relative to bad faith assertions of patent infringement, sending out written or using the telephone or other methods of communication and telling people in affect that they have violated a patent and will be taken to court if they don't pay some money. A lot of firms will say they will look at the path of least resistant on some of these things. If they go to court it will cost this much and they want five thousand dollars, send me a release and I will send you the five thousand. What this bill simply does is try to set into code what we are not allowing in terms of this bad faith patent infringement claims that some of these firms, organizations and sometimes back room operations are engaging in. (:27-2:48)

**Parrell Grossman, Director of Consumer Protection and Antitrust Division of the Office of Attorney General:** "Patent Trolling" Law. Written Testimony Attached (1). (2:58-9:15)

**Senator Miller:** Asked if these law firms that are patent trolling actually represent a company, is someone hiring them or are they waiting in murky waters?

**Parrell Grossman:** Said they are waiting in murky water. It is probably possible on occasion that they have a specific client but for the most part it is the term trolling that applies here. They are looking for these kinds of opportunities and then they can go to one of these entities that have this particular functionality and say we will send some letters out on your behalf. We believe it is a combination of the two.

**Senator Miller:** Is there any other kind of law you can prosecute someone like this under or order them to stop doing business?

**Parrell Grossman:** Yes we probably could generally apply the Attorney General's consumer fraud statute which prohibits deceptive practices but again we have to establish that something is deceptive and these patents actually exist. This place is clearly a defined set of rules which says this is what bad faith is and so it makes it easy for everyone to look at it and ask what conduct is permitted and what is prohibited. We would argue under our current statute we could probably bring a case on occasion if it was particularly egregious, we just thought it was better to follow suit with the other states and adopt some new rules to make sure we have some enforcement authority when these patent trolls are abusing the process. (10:40-11:25)

**Rick Clayburgh, President and CEO of the North Dakota Bankers Association:** In support of 1163. They have been working with Representative Keiser prior to the session and the Attorney General's office was interested in this particular issue as well. This is an issue that the North Dakota Bankers Association has been working on for a couple of years. (12:44-16:27)

**Chairman Klein:** If you were solicited for the five or fifteen thousand dollars, under this new law, what would your plan be as an institution?

**Rick Clayburgh:** There has been enough communication now on patent trolling within our industry that if we start seeing it in North Dakota, I am sure the association will become involved and our banks will reach out to the associations, the independent or the credit unions or NDBA. We would communicate with our members and our members would be in contact with the Attorney General's office if it looks like this is starting to permeate into North Dakota.

**Senator Murphy:** Asked if they ever file a lawsuit.

**Rick Clayburgh:** In our particular case involving financial institutions a suit has not been filed, it is the claim. The bank would still have to hire an attorney and go through the process. It may cost you fifteen thousand dollars just to start the process and it gets thrown out of court and it is less expensive just to write a check. It is an economic decision that the institution makes.

**Jeff Olson, Representing the Credit Union Association of the Dakotas:** In support of the bill. Credit Unions are vulnerable for a number of reasons, one is that they are a lot smaller and don't have legal staff. This is an issue across the country. Written Testimony Attached (2). (21:50-23:17)

**Shane Goettle, MDU Resources:** In support of the bill. Said that MDU resources has also been a victim of the patent trolling, not in the state of North Dakota but in relation to the use and deployment of some GPS technology in other states. The demand letter was for about five thousand dollars. (23:25-24:16)

**Barry Haugen, President of the Independent Community Banks of North Dakota:** In support of the bill.

**Chairman Klein:** Closed the hearing.

Senate Industry, Business and Labor Committee  
HB 1163 Engrossed  
March 16, 2015  
Page 3

**Senator Miller:** Move a do pass.

**Senator Burckhard:** Seconded the motion.

Roll Call Vote: Yes-7 No-0 Absent-0

**Senator Miller will carry the bill.**

**2015 SENATE STANDING COMMITTEE  
 ROLL CALL VOTES  
 HB 1163 Engrossed**

Senate Industry, Business and Labor Committee

Subcommittee

Amendment LC# or Description: \_\_\_\_\_

Recommendation:  Adopt Amendment  
 Do Pass     Do Not Pass     Without Committee Recommendation  
 As Amended     Rerefer to Appropriations  
 Place on Consent Calendar  
 Other Actions:  Reconsider     \_\_\_\_\_

Motion Made By Senator Miller Seconded By Senator Burckhard

Senators	Yes	No	Senators	Yes	No
Chairman Klein	x		Senator Murphy	x	
Vice Chairman Campbell	x		Senator Sinner	x	
Senator Burckhard	x				
Senator Miller	x				
Senator Poolman	x				

Total (Yes) 7 No 0

Absent 0

Floor Assignment Senator Miller

If the vote is on an amendment, briefly indicate intent:

**REPORT OF STANDING COMMITTEE**

**HB 1163, as engrossed: Industry, Business and Labor Committee (Sen. Klein, Chairman) recommends DO PASS (7 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). Engrossed HB 1163 was placed on the Fourteenth order on the calendar.**

**2015 TESTIMONY**

**HB 1163**

Attachment 1 HB 1163  
1-26-2015

HOUSE INDUSTRY, BUSINESS AND LABOR COMMITTEE  
GEORGE KEISER, CHAIRMAN  
JANUARY 26, 2015

TESTIMONY BY  
PARRELL D. GROSSMAN  
DIRECTOR, CONSUMER PROTECTION AND ANTITRUST DIVISION  
OFFICE OF ATTORNEY GENERAL  
IN SUPPORT OF  
HOUSE BILL NO. 1163

Mr. Chairman and members of the House Industry, Business, and Labor Committee. I am Parrell Grossman, and it is my privilege to be the Director of the Attorney General's Consumer Protection and Antitrust Division. I appear on behalf of the Attorney General in support of House Bill 1163.

The Attorney General is very pleased that the sponsors of this legislation have agreed to bring forward this new "patent trolling" law that will help protect our small businesses, nonprofits, schools and churches in North Dakota when bad faith assertions of patent infringement are occurring. The "patent trolling" practice can be expensive for small businesses targeted by this practice, in terms of claims, attorney's fees incurred in challenging the patent assertions, etc.

Attorney General Stenehjem recognizes the growth of scams targeted at small businesses. He continues to strongly emphasize the ongoing need to adopt new laws and strengthen enforcement to protect our small North Dakota businesses and organizations. Many of you might be familiar with some of the scams like the office "copier toner scams" and the "business invoice scams." In 2007, this Legislature enacted section 51-15-02.2, one of the first laws in this nation, giving the Attorney General the authority to specifically address deceptive business directory and invoice scams. Since then, the Consumer Protection Division has used that statute very effectively. As referenced, the patent trolling practices present the opportunity for more costly harm to our businesses. It is time to put some rules in place to ensure patent claims are not being abused,

The proposed "patent trolling" legislation relates to unfair and deceptive communications made in the context of patent assertion and licensing. The legislation creates a new law that makes it unlawful to make a bad faith assertion of patent infringement, and defines what factors should be considered by the court in determining whether a person has made a bad faith assertion of patent infringement.

Similar statutes have been enacted, or are in the process of being enacted, in many other states, including Alabama, Georgia, Idaho, Illinois, Louisiana, Maine, Maryland, Missouri, New Hampshire, Oklahoma, Oregon, South Dakota, Tennessee, Utah, Vermont, Virginia, and Wisconsin.

This new law seeks to address the conduct presented by so-called "patent trolls." The term "patent troll" describes businesses that don't invent or manufacture anything and,

instead, acquire patents with the aim of making money by asserting claims of patent infringement. Patent trolls target small businesses, retailers, and non-profit organizations with demands for licensing fees for the use of common, everyday technology, such as scanners and Wi-Fi networks. The demand letters threaten patent infringement claims and insist that the businesses pay licensing fees for alleged patents in order to avoid lawsuits. The patent troll business model works because defending patent infringement lawsuits is disastrously expensive, particularly for small businesses.

The classic example would be a target that owns a product from a manufacturer and the patent trolls assert themselves on a component or technology of the main product. For instance, the business buys a Canon copier and the patent troll claims the business owes money, if the business uses the scan functionality of the copier, without any proof the copier owner is using that functionality.

The Attorney General has received some complaints regarding patent trolling. I have attached one of the complaints as an Exhibit. We also have received numerous telephone complaints.

The law would prevent the practice of sending out vague, confusing and misleading patent demand letters. The legislation respects the rights of patent holders at the same time as it protects consumers and end users who are targeted with deceptive, misleading, and unfair patent demand letters. The law targets the bad actors in the industry without interfering with the important rights of patent holders to assert their patents honestly and in good faith.

The patent tolling law would supplement the remedies available under existing consumer protection law. In addition to giving enforcement authority to the Attorney General, the law also provides a private cause of action for businesses that receive a demand letter. Under the law, the court would consider several factors, focused primarily on the transparency and disclosure of information made by the sender, when determining whether a sender acted in bad faith.

The Attorney General will not be representing private parties in these patent claims. This office acts when there is a pattern of illegal conduct. Therefore, if there is a pattern of bad faith claims by an actor, the Attorney General could become involved in an investigation and/or legal action, if the Attorney General reasonably believes the conduct is unlawful.

The Attorney General has been informed of a proposed amendment on behalf of the Biotechnology Industry Association (BIO) and the Bioscience Association of North Dakota (Bio ND). The proposed changes are on page 5, line 7, after "the," and would insert "substantial research, commercial development." For convenience, I have attached a copy of that proposed amendment. These patents already should be covered by the exemptions in this chapter in the current language on page 5, line 7. Furthermore, these are entities that would be protecting legitimate patents and would never engage in patent trolling and would not be negatively impacted by this statute.

The Attorney General, however, favors measures that protect smaller companies that do a lot of research and development. The Attorney General only wants to prevent bad actors and would not want to negatively impact these legitimate entities, including many of them in North Dakota. Out of "an abundance of caution," the Attorney General supports these proposed amendments.

The Attorney General respectfully asks the House Industry, Business, and Labor Committee give House Bill 1163 a "Do Pass" recommendation, with the amendments proposed on behalf of BIO and Bio North Dakota.

Thank you for your time and consideration. I would be pleased to try and answer any questions.

Grossman, Parrell D.

*addition to attachment #1B  
from same presenter*

**From:** Jaeger, Al A.  
**Sent:** Tuesday, February 19, 2013 5:54 PM  
**To:** Grossman, Parrell D.  
**Subject:** Patent scams being sent out to ND companies?  
**Attachments:** SCAN5023\_000.pdf

Parrell, is this something for your department?

**From:** Dustin Nitschke [<mailto:dnitschke@NETRIXIT.COM>]  
**Sent:** Tuesday, February 19, 2013 5:38 PM  
**To:** -Info-Secretary of State  
**Subject:** Patent scams being sent out to ND companies?

Dear Secretary of State Office:

It has come to my attention as an IT provider for companies in ND that a law firm in Texas is potentially targeting ND companies for infringing on a Patent of "Scanning a document to a PDF and sending it via email". I have attached a document that was sent to the client of mine, and my concern is that this is going to become more wide spread and potentially targeting consumers directly. I would like some insight on this as I believe this document and patent to be completely legitimate however the process is so mainstream that every company, govt., and education entity would be infringing on this at some point. I believe this to basically be the work of Patent Trolls trying to make a quick buck on "licensing" the process to a company.

Any advice or assistance in this matter would be appreciated.

Sincerely,

**Dustin Nitschke | Division Manager | Netrix IT**  
4733 Amber Valley Parkway Fargo, ND 58104  
Phone (701) 298-0175 X 412  
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# FARNEY DANIELS PC

800 South Austin Ave., Suite 200  
Georgetown, Texas 78626-5845

Delaware

Silicon Valley

Dallas

[www.farneydaniels.com](http://www.farneydaniels.com)

Austin/Georgetown

February 8, 2013

Ms. Christina Dockter  
International Certification Svcs Inc  
301 5th Ave SE  
Medina, ND 58467-7135

FEB 19 2013

Re: HeaPle, LLC Patent Licensing

We are writing on behalf of our client, HeaPle, LLC ("HeaPle"). Several weeks ago, they wrote you a letter regarding their licensing program with respect to certain U.S. patents. The patents related to systems that, among other things, can permit scanning a document and have it automatically sent over a local area network to an email account. These patents included U.S. Pat. Nos. 7,986,426; 7,477,410; 6,771,381; 6,185,590. In their letter, our client described these patents, the technology, and infringement. They then asked you either to respond by entering into discussions to take a license, or, if appropriate, to provide confirmation that your company does not have an infringing system. Having not heard from you, our client reasonably assumes you do have an infringing system and need a license. Accordingly, they have referred the matter to us to determine whether we may be able to work out a license with you, or whether additional steps might be required.

As background, our firm practices nationally and specializes solely in patent litigation and licensing. While our representation of HeaPle can involve litigation, it is our client's preference here that we first make all reasonable efforts to reach agreement on a license. To that end, we do need to hear from you within the next two weeks.

We also wish to reiterate the position of our client in its first letter that they have no interest in seeking a license from someone who does not infringe. If your company does not use a system covered by the patents, or does not have a system that would perform any of the Scenarios A through C mentioned in the first letter, then we will discuss with you how your position can be confirmed so that we may discontinue further unnecessary correspondence. In the far more likely scenario that you do need a license, we are prepared to work with you to reach an agreement on reasonable terms.

We do encourage you to retain competent patent counsel to assist you in this matter, if you have not already done so. If you have already retained patent counsel, please forward this letter to them, and have them advise us of their representation (or you may so inform us directly) so that we may direct all future correspondence to them.

You may contact us at 866-658-6707.

Sincerely,



Rob Kiddie, Esq.

2

COMPLAINANT INFORMATION-----

File Type: IF Document#: 132502 Folder Label Printed: NO  
Open Date: 08/12/2013 Assigned To: GROSSMAN, PARRELL D  
Amount Lost: \$00.00 Primary Category: PT01 Secondary Category: Tele-Marketing:  
NO  
File Location:  
Description: ND BUSINESS CONTACTED SEC OF STATE RE: PATENT LICENSE LETTER RECEIVED FROM  
HEAPLE  
Related Mail: Document#: 132502 Mail Type: E-MAIL

BUSINESS INFORMATION-----

BusinessId: 130040 Business Type:  
Business Name: MPHJ TECHNOLOGY INVESTMENTS LLC  
Address: 1220 N MARKET ST STE 806  
Address 2:  
City: WILMINGTON St: DE Zip: 19801-2595 Country: US  
Phone 1: B (855)272-8644 Ext:  
Primary Contact:  
Email:

COMPLAINANT INFORMATION-----

Last Name: JAEGER First Name: AL MI: A Title: MR  
On Behalf Of: SECRETARY OF STATE  
Address:  
Address 2:  
City: St: Zip: Country:  
Email:  
Age: Sex: Race:

ACTIONS-----

Date	Staff	Action	Target/Diary	Canc
02/19/2013	ABIEBER	AL SENT EMAIL TO PDG ASKING IF THIS WAS OUR ISSUE. DUSTIN NITSCHKE OF NETRIX IT IN FARGO SENT AN EMAIL TO SEC OF STATE ABOUT A LETTER THAT INTERNATIONAL CERTIFICATION SVCS INC (MEDINA, ND) RECEIVED FROM A LAW FIRM (FARNEY DANIELS) REGARDING 'HEAPLE, LLC PATENT LICENSING' WHICH IS IN REFERENCE TO US PATENT INFRINGEMENTS. NETRIX IT IS CONCERNED THAT ITS A SCAM.		NO
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02/19/2013	ABIEBER	DUSTIN NITSCHKE RESPONDED VIA EMAIL (ATTACHED).		NO
02/20/2013	ABIEBER	ESA & TJH CALLED FARNEY DANIEL; SPOKE TO ROB KIDDIE (512-948-3098); SAYS THEY ARE LICENSING AGENTS. THEY FIND BUSINESSES TO CONTACT BASED ON RESEARCH REGARDING MARKET PENETRATION IN SCANNING EQUIPMENT IN OFFICES. ONLY A FEW PLACES ARE ACTUALLY LICENSED. HE WOULDN'T CALL IT "FISHING". REGARDING NETWORK SCANNER. THEY PAY \$1000/USER OR IT'S NEGOTIATED UNTIL PATENT EXPIRES IN 2028. MPHG - US PATENT & TRADEMARK WEBSITE. HOW MANY COMPANIES IS BASED ON REGIONS & FIELD OF COMMERCIAL USE. RESULTS = LAWSUITS MAY BE FILED. NOT A SCAM.		NO
07/30/2013	ABIEBER	ROUTED TO TJH		NO
08/02/2013	ABIEBER	SENT TO ARB FOR PINKSLIP		NO
08/12/2013	ABIEBER	FILED AT PT01		NO

RESOLUTION LIST-----

Resolution: COPY OF INFO ON FILE - ADVISED TO SEEK PRIVATE LEGAL COUNSEL  
Closing Date: 08/12/2013 Closing Code: IF  
Amount Recovered: \$00.00  
Judgements: \$00.00  
ICAFO: \$00.00  
Legal Restitution: \$00.00  
Civil Penalties: \$00.00

3

**PROPOSED AMENDMENT TO HOUSE BILL NO. 1163**

Page 5, line 7, after "the" insert "substantial research, commercial development,"  
And renumber accordingly.

HB 1163 # 2  
Jan 26, 2015

TESTIMONY OF MARILYN FOSS  
(NORTH DAKOTA BANKERS ASSOCIATION)

HB 1163

Mr. Chairman, Members of the IBL Committee, I am Marilyn Foss, General Counsel for the North Dakota Bankers Association. I am here this morning, to give HB 1163 an enthusiastic DO PASS.

NDBA worked with the AGs office to develop this piece of legislation. We did so because banks (in addition to being highly regulated and supervised) are BIG buyers and users of technology; it just takes lot of computers and software to offer ATM service, debit cards, credit cards, online banking, mobile banking, mobile deposit services, etc. and to process them in a timely manner through systems such as ACH, the automated clearing house. Access to funds isn't immediate in the literal sense, but because of technology it's much faster than it was in days past. Of course, banks also use computers and software in their lending operations -for UCC searches, soon, UCC filings, credit checks, document preparation, etc. Without technology, the loan approval process would be considerably delayed. Computers and software are critical to virtually every bank operation – those the public sees and those it does not see.

For the most part, banks buy their computers, ATMS, and software. When we buy it (like every business) we assume our seller and company that has made the product or developed the program owns or has the rights to use the intellectual property that is embedded into the product. We pay to license those rights, but we are not scientists and we do not have the capacity to evaluate the ownership or rights to every element that involves a patent. I dare to say, most non-technology companies would be in that same position.

Because of dependence on technology, banks have been big time targets of "patent assertion entities" (PAEs) aka "non-practicing entities (NPEs), aka "patent trolls" who claim patent violations by use of such

things as ATM processes that allow interaction between the machines and payment networks and are required for what have become ordinary financial transactions. Most banks that are accused of violating someone's patent have no capacity to evaluate the claim and are faced with either "caving" to the demand for payment of a license fee (in the range of \$5000 to \$99,000) or hiring patent counsel, trial counsel and engineers and other experts in an effort to 1) figure out whether it's possible the claim has merit and, 2) to defend. This can be overwhelmingly expensive. I participated in a conference that suggested there is no point in litigating a patent violation claim if it can be settled fast for any amount under six figures.

Legislation such as that in HB 1163 was developed to address this type of situation and care was taken not to create unwarranted impediments to patent enforcement. It is critical to note that it does not prohibit any holder of a patent from enforcing that patent. It simply sets out the process that must be followed, including early disclosure of the details of a claim and alleged violation, so that a target can better figure out if it is may actually be violating someone's patent rights and can act to resolve it expeditiously and economically.

Patent trolling is acknowledged to be a national problem and there is substantial support for federal legislation to address the situation. But, as we all know, even important, bipartisan federal legislation just isn't happening. That is why 18 other states have acted, why 9 more states (so far) are considering bills this year and why NDBA and its member banks are asking you to act by adopting HB 1163. Thank you.

HB 1163  
1-26-2015

#3



**Written Testimony Submitted  
By  
Biotechnology Industry Organization (BIO)  
HB 1163  
The North Dakota House Committee on Industry, Business and Labor**

**January 26, 2015**

The Biotechnology Industry Organization (BIO) appreciates this opportunity to provide the North Dakota House Committee on Industry, Business and Labor with testimony concerning House Bill 1163 and the issues involving patent litigation brought on by "patent assertion entities" or PAEs. BIO is the world's largest trade association representing biotechnology companies, academic institutions, state biotechnology centers and related organizations across the United States and in more than 30 other nations. BIO members are involved in the research and development of healthcare, agricultural, industrial and environmental biotechnology products. In North Dakota, BIO works closely with the Bioscience Association of North Dakota (Bio ND), the state's leading voice for the life sciences community.

BIO commends the North Dakota House Committee of Industry, Business and Labor for calling today's hearing as we believe that meritless and bad-faith patent assertions are an abusive practice that harms legitimate businesses and consumers. However, there are important issues to consider as North Dakota policymakers delve deeper into this issue. While addressing this abusive practice from a state-level is well-intended, a number of unintended consequences should be considered before enactment of any legislation.

First, legitimate enterprises must maintain the ability to lawfully enforce their patents to protect intellectual property. This is of critical importance to innovation-focused industries like the biosciences. A number of state legislative bills unfortunately fail to discern between abusive patent enforcement practices and legitimate patent enforcement practices. Those legislative bills fail to contain provisions that require certain factors to be considered prior to determining a patent enforcement action is in bad-faith and therefore unlawful. The majority of BIO members companies are small to medium sized companies that currently do not yet have a product on the market. These companies must wait on average between twelve to fifteen years and invest hundreds of millions of dollars to bring a life-saving drug to market. The strength of their patent protection and their ability to enforce those patents remains a key asset in securing the financing required to sustain this level of innovation. State legislation that views legitimate research-based companies without a product on the market the same as a PAE could be detrimental to biotech innovation and erode bioscience innovation taking place in North Dakota.

In closing, BIO respectfully requests that the Committee carefully consider any legislative proposals intending to address this problem and seek input from a wide variety of legitimate businesses that require strong and enforceable patents to succeed.

Thank you.

Patrick Plues  
Senior Director, State Government Affairs  
BIO  
Washington, DC

pg 1

SENATE INDUSTRY, BUSINESS AND LABOR COMMITTEE

JERRY KLEIN, CHAIRMAN

MARCH 16, 2015

TESTIMONY BY

PARRELL D. GROSSMAN

DIRECTOR, CONSUMER PROTECTION AND ANTITRUST DIVISION

OFFICE OF ATTORNEY GENERAL

IN SUPPORT OF

ENGROSSED HOUSE BILL NO. 1163

Mr. Chairman and members of the Senate Industry, Business, and Labor Committee. I am Parrell Grossman, and it is my privilege to be the Director of the Attorney General's Consumer Protection and Antitrust Division. I appear on behalf of the Attorney General in support of Engrossed House Bill 1163.

The Attorney General is very pleased that the sponsors of this legislation have agreed to bring forward this new "patent trolling" law that will help protect our small businesses, nonprofits, schools and churches in North Dakota when bad faith assertions of patent infringement are occurring. The "patent trolling" practice can be expensive for small businesses targeted by this practice, in terms of claims, attorney's fees incurred in challenging the patent assertions, etc.

Attorney General Stenehjem recognizes the growth of scams targeted at small businesses. He continues to strongly emphasize the ongoing need to adopt new laws and strengthen enforcement to protect our small North Dakota businesses and organizations. Many of you might be familiar with some of the scams like the office "copier toner scams" and the "business invoice scams." In 2007, this Legislature enacted section 51-15-02.2, one of the first laws in this nation, giving the Attorney General the authority to specifically address deceptive business directory and invoice scams. Since then, the Consumer Protection Division has used that statute very effectively. As referenced, the patent trolling practices present the opportunity for more costly harm to our businesses. It is time to put some rules in place to ensure patent claims are not being abused,

The proposed "patent trolling" legislation relates to unfair and deceptive communications made in the context of patent assertion and licensing. The legislation creates a new law that makes it unlawful to make a bad faith assertion of patent infringement, and defines what factors should be considered by the court in determining whether a person has made a bad faith assertion of patent infringement.

Similar statutes have been enacted, or are in the process of being enacted, in many other states, including Alabama, Georgia, Idaho, Illinois, Louisiana, Maine, Maryland, Missouri, New Hampshire, Oklahoma, Oregon, South Dakota, Tennessee, Utah, Vermont, Virginia, and Wisconsin.

This new law seeks to address the conduct presented by so-called "patent trolls." The term "patent troll" describes businesses that don't invent or manufacture anything and, instead, acquire patents with the aim of making money by asserting claims of patent infringement. Patent trolls target small businesses, retailers, and non-profit organizations with demands for licensing fees for the use of common, everyday technology, such as scanners and Wi-Fi networks. The demand letters threaten patent infringement claims and insist that the businesses pay licensing fees for alleged patents in order to avoid lawsuits. The patent troll business model works because defending patent infringement lawsuits is disastrously expensive, particularly for small businesses.

The classic example would be a target that owns a product from a manufacturer and the patent trolls assert themselves on a component or technology of the main product. For instance, the business buys a Canon copier and the patent troll claims the business owes money, if the business uses the scan functionality of the copier, without any proof the copier owner is using that functionality.

The Attorney General has received some complaints regarding patent trolling. I have attached one of the complaints as an Exhibit. We also have received numerous telephone complaints.

The law would prevent the practice of sending out vague, confusing and misleading patent demand letters. The legislation respects the rights of patent holders at the same time as it protects consumers and end users who are targeted with deceptive, misleading, and unfair patent demand letters. The law targets the bad actors in the industry without interfering with the important rights of patent holders to assert their patents honestly and in good faith.

The patent tolling law would supplement the remedies available under existing consumer protection law. In addition to giving enforcement authority to the Attorney General, the law also provides a private cause of action for businesses that receive a demand letter. Under the law, the court would consider several factors, focused primarily on the transparency and disclosure of information made by the sender, when determining whether a sender acted in bad faith.

The Attorney General will not be representing private parties in these patent claims. This office acts when there is a pattern of illegal conduct. Therefore, if there is a pattern of bad faith claims by an actor, the Attorney General could become involved in an investigation and/or legal action, if the Attorney General reasonably believes the conduct is unlawful.

The Attorney General respectfully asks the Senate Industry, Business, and Labor Committee give Engrossed House Bill 1163 a "Do Pass" recommendation.

Thank you for your time and consideration. I would be pleased to try and answer any questions.

**Grossman, Parrell D.**

---

**From:** Jaeger, Al A.  
**Sent:** Tuesday, February 19, 2013 5:54 PM  
**To:** Grossman, Parrell D.  
**Subject:** Patent scams being sent out to ND companies?  
**Attachments:** SCAN5023\_000.pdf

Parrell, is this something for your department?

**From:** Dustin Nitschke [<mailto:dnitschke@NETRIXIT.COM>]  
**Sent:** Tuesday, February 19, 2013 5:38 PM  
**To:** -Info-Secretary of State  
**Subject:** Patent scams being sent out to ND companies?

Dear Secretary of State Office:

It has come to my attention as an IT provider for companies in ND that a law firm in Texas is potentially targeting ND companies for infringing on a Patent of "Scanning a document to a PDF and sending it via email". I have attached a document that was sent to the client of mine, and my concern is that this is going to become more wide spread and potentially targeting consumers directly. I would like some insight on this as I believe this document and patent to be completely legitimate however the process is so mainstream that every company, govt., and education entity would be infringing on this at some point. I believe this to basically be the work of Patent Trolls trying to make a quick buck on "licensing" the process to a company.

Any advice or assistance in this matter would be appreciated.

Sincerely,

**Dustin Nitschke | Division Manager | Netrix IT**  
4733 Amber Valley Parkway Fargo, ND 58104  
Phone (701) 298-0175 X 412  
Cell (701) 298-0175 X 412  
[www.NetrixIT.com](http://www.NetrixIT.com)

  
MANAGED SERVICES

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February 8, 2013

Ms. Christina Dockter  
International Certification Svcs Inc  
301 5th Ave SE  
Medina, ND 58467-7135

FEB 10 2013

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We also wish to reiterate the position of our client in its first letter that they have no interest in seeking a license from someone who does not infringe. If your company does not use a system covered by the patents, or does not have a system that would perform any of the Scenarios A through C mentioned in the first letter, then we will discuss with you how your position can be confirmed so that we may discontinue further unnecessary correspondence. In the far more likely scenario that you do need a license, we are prepared to work with you to reach an agreement on reasonable terms.

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You may contact us at 866-658-6707.

Sincerely,



Rob Kiddie, Esq.

COMPLAINT INFORMATION-----

File Type: IF Document#: 132502 Folder Label Printed: NO  
Open Date: 08/12/2013 Assigned To: GROSSMAN, PARRELL D  
Amount Lost: \$00.00 Primary Category: PT01 Secondary Category: Tele-Marketing:  
NO  
File Location:  
Description: ND BUSINESS CONTACTED SEC OF STATE RE: PATENT LICENSE LETTER RECEIVED FROM  
HEAPLE  
Related Mail: Document#: 132502 Mail Type: E-MAIL

BUSINESS INFORMATION-----

BusinessId: 130040 Business Type:  
Business Name: MPHJ TECHNOLOGY INVESTMENTS LLC  
Address: 1220 N MARKET ST STE 806  
Address 2:  
City: WILMINGTON St: DE Zip: 19801-2595 Country: US  
Phone 1: B (855)272-8644 Ext:  
Primary Contact:  
Email:

COMPLAINANT INFORMATION-----

Last Name: JAEGER First Name: AL MI: A Title: MR  
On Behalf Of: SECRETARY OF STATE  
Address:  
Address 2:  
City: St: Zip: Country:  
Email:  
Age: Sex: Race:

TRANSACTIONS-----

Date	Staff	Action	Target/Diary Canc
02/19/2013	ABIEBER	AL SENT EMAIL TO PDG ASKING IF THIS WAS OUR ISSUE. DUSTIN NITSCHKE OF NETRIX IT IN FARGO SENT AN EMAIL TO SEC OF STATE ABOUT A LETTER THAT INTERNATIONAL CERTIFICATION SVCS INC (MEDINA, ND) RECEIVED FROM A LAW FIRM (FARNEY DANIELS) REGARDING 'HEAPLE, LLC PATENT LICENSING' WHICH IS IN REFERENCE TO US PATENT INFRINGEMENTS. NETRIX IT IS CONCERNED THAT ITS A SCAM.	NO
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02/19/2013	ABIEBER	DUSTIN NITSCHKE RESPONDED VIA EMAIL (ATTACHED).	NO
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08/02/2013	ABIEBER	SENT TO ARB FOR PINKSLIP	NO
08/12/2013	ABIEBER	FILED AT PT01	NO

RESOLUTION LIST-----

Resolution: COPY OF INFO ON FILE - ADVISED TO SEEK PRIVATE LEGAL COUNSEL  
Closing Date: 08/12/2013 Closing Code: IF  
Amount Recovered: \$00.00  
Judgements: \$00.00  
ICAFO: \$00.00  
Legal Restitution: \$00.00  
Civil Penalties: \$00.00

# TESTIMONY IN REGARDS TO HOUSE BILL NO. 1163

---

JEFF OLSON, CREDIT UNION ASSOCIATION  
OF THE DAKOTAS

Mr. Chairman and Members of the Senate Industry, Business and Labor  
Committee, I am Jeff Olson and I represent the Credit Union Association of the  
Dakotas.

**Action:**

- Support legislation to improve the patent system, promote innovation and discourage the assertion of low-quality patents as a legitimate business model.
  - The legislation should include demand letter reform. Demand letters should provide enough basic detail about the patent so that a credit union can understand the claim being asserted against it. Legislation should also contain provisions designed to limit the sending of the kind of abusive letters credit unions often receive.
  - The legislation should make the litigation process more efficient. There should be heightened requirements to bring a patent case, and reforms to the process to limit discovery and make it easier for a credit union to fight back.

**Background:**

- Vaguely-worded demand letters have been used by patent trolls to entice small financial institutions, including credit unions, to enter into unnecessary licensing agreements and royalty payments even though they have simply purchased a product from a legitimate vendor and used it as intended. The facts around infringement may not be compelling, but demand letters are often so vague a credit union cannot understand the claim being asserted against it. Demand letters should contain greater specificity. This enhanced transparency will help curb abusive patent claims. Further, demand letters should be filed (with regulators) and recorded in a public, searchable database.
- Credit unions in almost all cases are considered "end-users", meaning they purchase a product from a technology service provider and then conduct regular business with the use of this product. Yet credit unions are the ones who face demand letters. The result is that simply by purchasing a product, credit unions face legal action. End users should be protected from troll lawsuits based on patent infringement by a product's manufacturer. Trolls should be required to sue the party that is actually responsible for infringement, and end users should be protected by having their cases consistently stayed when the manufacturer is best positioned to fight the troll.
- If a credit union gets sued, complaints for patent infringement should specifically identify the accused product, the asserted claims and factual basis for infringement. Discovery should be limited beyond basic "core" documents, so that it doesn't cost millions to fight back against a fraudulent claim.

