1120 Connecticut Avenue, NW
Washington, DC 20036

1-800-BANKERS
www.aba.com

Memo

World-Class Solutions, Leadership & Advocacy Since 1875

Date: September 6, 2007

To: Members of the U.S. House of Representatives

From: Floyd Stoner, Executive Director, Congressional Relations and Public Policy, ABA

RE: Support for H.R. 1908, the Patent Reform Act of 2007

I am writing to you on behalf of the members of the American Bankers Association (ABA) to express our strong support of the Patent Reform Act of 2007 (H.R. 1908), which is scheduled to come to the House floor tomorrow. We urge you to vote for this important legislation.

Banks are threatened by a large and growing number of dubious claims of patent infringement. In 1998, the Supreme Court decided a pivotal case, *State Street Bank & Trust vs. Signature Financial Group*, by ruling that "business method patents" are patentable. This opened the door for the creation of patent-holding companies that merely hold patents and demand licenses instead of using those patents to create real products or services.

Last year, one of these companies filed suit in the U.S. District Court for the Eastern District of Texas, alleging that 60 banks, bank holding companies, providers of check image-exchange services, and other technology vendors are infringing on several patents that the company acquired. The patents cover technologies used for the electronic transmission of payment information from banks to clearing houses. This includes digital check imaging systems and automated clearing house transactions, such as the accounts-receivable process used to convert paper checks into automated clearing house (ACH) files.

One of the problems facing banks in this and other, similar cases is that current patent law provides little opportunity, outside of litigation, to challenge a patent once it has been awarded. Once granted, a patent provides essentially a monopoly to the holder for the use of the product or service covered by the patent. Banks are being forced to settle infringement claims by paying enormous licensing fees rather than challenging the validity of the patent in court. They settle because those who "intentionally" infringe on a patent are subject to treble damage awards, and the standard for this is very broad. Therefore, banks settle even dubious claims rather than risk court action and these potential damages. This problem is exacerbated when patent holders "forum-shop" and file infringement cases in friendly jurisdictions.

It is no wonder that most banks choose to settle rather than fighting things out in court. As a result, the banking industry has paid millions of dollars to settle the cases through "licensing" fees, and there is more to come as more infringement suits are brought against financial institutions.

H.R. 1908 is bipartisan legislation that puts in place important reforms. It clarifies that treble damages can be imposed only when a defendant intentionally infringes upon the patent, and makes it harder for plaintiffs to "forum shop" for a more favorable court by ensuring that patent disputes are resolved in courts that have a reasonable connection to the underlying claim. It also provides a more meaningful way to challenge the validity of a patent without going to court by bringing an administrative action before the Patent and Trademark Office (PTO) during a one-year period immediately after a patent is granted, and through an enhanced *inter partes* reexamination proceeding that allows third parties to challenge the validity of a patent after it is issued.

We urge you to support H.R. 1908 when it comes to the House floor and to oppose any amendments that undermine these important reforms to patent law.