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**Testimony in Support of Substitute for Senate Bill 38
An Act concerning bad faith assertions of patent infringement**

**Presented to the House Committee on Judiciary
By Assistant Attorney General Adrian Serene**

March 11, 2015

Chairman Barker and Members of the Committee:

Thank you for the opportunity to speak in support of Substitute for Senate Bill 38, a bill concerning bad faith assertions of patent infringement.

The United States Constitution authorizes Congress to regulate what today is known as intellectual property, including patents. The Framers expressed the constitutional interest in granting Congress this power in this way: "To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive right to their respective Writings and Discoveries..." See Article I, Section 8.

As the constitutional language states, the purpose in granting this power to Congress is "[t]o promote the Progress of Science and useful Arts..." In this modern age of scientific discovery, we all understand more than ever the extraordinary foresight of the Framers in providing for constitutional protection for innovation, creation, and discovery.

Consequently, patents are matters rarely discussed in this Statehouse because they are, as a matter of constitutional law, a federal issue—not a state issue. The bill before you today, however, does not attempt to regulate patents *per se*. Rather, it attempts to regulate related conduct that happens to involve patents but that is squarely in the realm of state authority: fraud and financial misconduct.

We are not aware that this particular misconduct has become a problem in Kansas. However, other states have brought enforcement actions against "patent trolls" that engage in this sort of misconduct, and it likely is just a matter of time before this sort of fraud reaches our state.

The type of misconduct at which this bill aims is the bad-faith assertion of a patent infringement. There are different forms, but essentially the concept is this: a fraudster sends a demand-for-payment letter to the user of some particular technology, asserts the fraudster has a valid patent

on the technology, and demands the recipient of the letter make payment to the fraudster for using that “patented” technology without permission.

The core of this misconduct is really no different from the classic scams in which a fraudster contacts a Kansas and demands payment for “overdue” fees (that never existed), for unsolicited goods or services delivered (a type of false claim), or for missing jury duty (when the person never was actually called to jury duty). What makes this misconduct involving patents different from those other classic frauds, however, is that the federal law relating to patents—in an effort to make the obtaining of a patent relatively easy in order to “promote the Progress of Science and Useful Arts”—does make it difficult for a person receiving such a bogus demand for payment to determine the underlying claim is false.

So the idea behind this proposed legislation is to make the test for the lawfulness of such a demand whether the assertion of a patent is made in bad faith. That concept strikes us as a reasonable test.

Substitute for Senate Bill 38 would prohibit any person from making a “bad faith assertion of patent infringement” in Kansas. The bill defines the terms “demand letter,” “person,” and “target” in such a way as to explain the scope of the bill. The bill sets forth several factors a court may consider when determining whether a person has violated the act. The bill also sets forth several factors a court may consider when determining a person has not violated the act.

The attorney general may enforce the bill through a civil action. To that end the attorney general is granted the same authority under this bill as is granted to the attorney general under the Kansas consumer protection act, K.S.A. 50-623, *et seq.* The attorney general could adopt rules and regulations, conduct civil investigations, bring civil actions and enter into consent judgments pursuant to the bill. The attorney general could seek injunctions and civil penalties of not more than \$10,000 per violation under the bill.

The purpose of Substitute for Senate Bill 38 has little to do with patents – rather, it has to do with preventing fraudsters from exploiting our vitally important patent system in order to bilk Kansas companies or consumers out of money they do not, in fact, owe. Indeed, a protection such as that embodied in Substitute for Senate Bill 38 would tend to protect the purposes of our national patent system by shunning its misuse by fraudsters, thereby strengthening patent protection for legitimate users of the system.

Substitute for Senate Bill 38, as amended, represents a compromise between the major stakeholders interested in bad faith assertions of patent infringement. Specifically, the Kansas Bankers Association, the Kansas Chamber of Commerce, the Kansas Association of Realtors and the attorney general have met and conferred regarding various provisions of the bill. The bill before you represents a reasoned approach toward protecting Kansas consumers and businesses.

Thank you for your consideration.

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