

SESSION OF 2015

**SUPPLEMENTAL NOTE ON SUBSTITUTE FOR SENATE
BILL NO. 38**

As Recommended by Senate Committee on
Judiciary

Brief*

Sub. for SB 38 would add provisions regarding bad faith assertions of patent infringement to the Kansas Consumer Protection Act, as follows.

The bill would make it an unconscionable act or practice under the Act to make a bad faith assertion of patent infringement by sending an electronic or written communication stating the intended recipient or affiliated person is infringing or has infringed on a patent if:

- The communication does not contain the following information and the information is not provided within a reasonable period of time upon request:
 - The name of the person asserting the patent license or enforcement right;
 - The patent number alleged to have been infringed; and
 - The factual allegations concerning the specific areas in which the intended recipient's or affiliated person's products, services, or technology infringe on or are covered by the patent;
- Prior to sending the communication, the person asserting patent infringement fails to conduct a reasonable analysis comparing the scope of the

*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at <http://www.kslegislature.org>

patent to the products, services, or technology at issue, or the communication does not identify specific areas in which the products, services, or technology fall within the scope of the patent;

- The communication falsely states litigation has been filed against the intended recipient or affiliated person;
- There is no reasonable basis for the assertion because the demand letter seeks compensation for a patent held to be invalid or unenforceable or an expired patent; or
- The communication is deceptive with regard to a material fact.

The bill would specify the provisions would not be construed to be an unconscionable act or practice if a person:

- Has made a substantial investment in the use of the patent or in the production or sale of a related product or item;
- Has engaged in a good faith effort to establish the intended recipient or affiliated person has infringed the patent;
- Is the owner of the patent and sought compensation or other remedy in good faith for patent infringement;
- Is an inventor or joint inventor of the patent or is the original assignee of the patent by the original inventor;
- Has demonstrated good faith business practices in previous enforcement efforts for the patent or a substantially similar patent;

- Has successfully enforced the same or a substantially similar patent through litigation; or
- Is the owner of the patent and has made a good faith communication to any person that the patent is available for license or sale.

Any person engaging in the conduct prohibited by the bill would be subject to the remedies and penalties under the Act and the investigatory and enforcement procedures and policies of the Attorney General's Office under the Act.

For the purposes of the Act, the person committing conduct prohibited by the bill would be deemed the supplier and the affiliated person or intended recipient who is the victim would be deemed the consumer, and proof of a consumer transaction would not be required.

The bill would specify that county or district attorneys do not have authority to file a civil action under the bill.

The bill would state it is not to apply to an assertion of patent infringement that includes a claim for relief arising under 35 U.S.C. § 271(e)(2) (certain drug and biological product patent infringement) or 42 U.S.C. § 262 (regulation of biological products).

The bill would define "person," "affiliated person," and "intended recipient."

Background

The bill was introduced by the Special Committee on Judiciary, which was charged during the 2014 interim to study enactments in other states regarding patent infringements, study and review 2014 HB 2663 (regarding patent infringement), and make recommendations for the Legislature to consider regarding patent infringement. (Further background information can be found in the *Report of the*

Special Committee on Judiciary to the 2015 Legislature.) As introduced, the bill would have allowed a target of a bad faith assertion of patent infringement to bring an action in district court for equitable relief, damages, costs and fees, and exemplary or punitive damages. The bill also would have included bond provisions and used somewhat different terminology than the substitute bill.

In the Senate Committee on Judiciary, an assistant attorney general and representatives of the Kansas Bankers Association, Kansas Association of REALTORS, Kansas Chamber, and Kansas Credit Union Association testified in support of the bill. Representatives of the Kansas Cooperative Council and Community Bankers Association of Kansas provided written proponent testimony. A representative of the Kansas Board of Regents provided neutral testimony. No opponent testimony was provided.

The Senate Committee recommended a substitute bill requested by several of the proponents. The Senate Committee removed an exemption in the proposed substitute bill for an institution of higher education or a technology transfer organization owned or affiliated with an institution of higher education.

According to the fiscal note prepared by the Division of the Budget on the bill, as introduced, the Office of Judicial Administration indicates the new cause of action (removed in the substitute bill) could result in additional filings, creating additional work for judges and non-judicial personnel, but an accurate estimate of the fiscal effect cannot be given.

The Office of the Attorney General indicates its expenditure under the original bill would be nominal, and the Office would be able to recover investigation expenses through fees levied against violators and litigation expenses through civil penalties and restitution. The Office cannot reasonably estimate revenues, but expects a net positive revenue to the State General Fund. Any fiscal effect is not reflected in *The FY 2016 Governor's Budget Report*.

There is no fiscal note available for the substitute bill.