

The Florida Senate
BILL ANALYSIS AND FISCAL IMPACT STATEMENT

(This document is based on the provisions contained in the legislation as of the latest date listed below.)

Prepared By: The Professional Staff of the Committee on Judiciary

BILL: SB 1084

INTRODUCER: Senator Brandes

SUBJECT: Patent Infringement

DATE: March 30, 2015

REVISED: _____

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	Wiehle	Cibula	JU	Pre-meeting
2.			ACJ	
3.			AP	

I. Summary:

SB 1084 prohibits a person from making a bad faith assertion of patent infringement. It allows a defendant in a patent infringement proceeding to move that the proceeding involves a bad faith assertion of patent infringement and request that the court issue a protective order. If, based on factors set out in the bill, the court finds that the defendant has established a reasonable likelihood that the plaintiff has made a bad faith assertion of patent infringement, the court must require the plaintiff to post a bond in an amount equal to the lesser of \$250,000 or a good faith estimate of the target's expense of litigation, including an estimate of reasonable attorney fees, conditioned on payment of any amount finally determined to be due to the target. A court may waive the bond requirement for good cause shown or if it finds the plaintiff has available assets equal to the amount of the proposed bond.

A person against whom a bad faith assertion of patent infringement is made also may bring an action in a court of competent jurisdiction for relief. If successful, the court may award a plaintiff equitable relief; damages; costs and fees, including reasonable attorney fees; and punitive damages in an amount equal to \$50,000 or three times the total damages, costs, and fees, whichever is greater.

A violation of the prohibition against making a bad faith assertion of patent infringement also constitutes an unfair or deceptive trade practice and the Department of Legal Affairs (department) may bring an enforcement for an injunction and to recover actual damages.

A demand letter or assertion of patent infringement that includes a claim for relief relating to patents for pharmaceutical or biological products is exempt from the bill's provisions.

II. Present Situation:

Under the U.S. Constitution,¹ patent law is generally a matter of federal law. Federal law² does not expressly provide for federal preemption of state laws relating to patents, but the supremacy clause functions to prohibit all conflicting state laws.³ The states can regulate patents if their regulations do not conflict with the operation of federal patent laws.⁴

The National Conference of State Legislatures (NCSL) defines “patent trolling” as:

“Patent trolling” is the process of filing a claim of patent infringement against an entity, despite the fact that the claimant does not manufacture or supply the product or service in question. Patent trolls often file claims in bad faith, hoping that the company being sued decides to settle in order to avoid expensive litigation costs.⁵

The patent trolling business model has been described as:

Two key ingredients of the patent troll's business model are: 1) a litigation process that is very costly for defendants, and, 2) patents that are overly broad or vague so that they can be interpreted to cover commonly used technologies and hence snare many defendants. Given the cost, many defendants are willing to pay the troll to avoid a lawsuit even if the suit is not justified.⁶

According to NCSL, 18 states have enacted legislation on patent trolling since 2013, beginning with Vermont in May 2013.⁷ These 18 states are: Alabama, Georgia, Idaho, Illinois, Louisiana, Maine, Maryland, Missouri, New Hampshire, North Carolina, Oklahoma, Oregon, South Dakota, Tennessee, Utah, Vermont, Virginia, and Wisconsin.

The Council of State Governments developed model legislation based on the Vermont bill.⁸

III. Effect of Proposed Changes:

The bill creates Part VII of ch. 501, F.S., consisting of ss. 501.991-501.997, F.S., and entitled it the “Patent Troll Prevention Act.” It sets forth legislative intent. The bill also establishes the following definitions:

¹ U.S. CONST. art. 1, s. 8, cl. 8.

² 35 U.S.C. ss. 1-376.

³ U.S. CONST. art. 6.

⁴ *Kewanee Oil Company v. Bicron Corporation et. al.*, 416 U.S. 470 (1974).

⁵ Jonathan Griffin, *Patent Trolling Legislation*, <http://www.ncsl.org/research/financial-services-and-commerce/patent-trolling-legislation.aspx> (last visited Mar. 17, 2015).

⁶ James Bessen, *What the Courts Did to Curb Patent Trolling—for Now*, THE ATLANTIC, (Dec. 2014) <http://www.theatlantic.com/business/archive/2014/12/what-the-courts-did-to-curb-patent-trollingfor-now/383138/> (last visited Mar. 17, 2015).

⁷ Jonathan Griffin, *2015 Patent Trolling Legislation*, <http://www.ncsl.org/research/financial-services-and-commerce/2015-patent-trolling-legislation.aspx> (last visited Mar. 17, 2015).

⁸ Counsel of State Governments, *Bad Faith Assertions of Patent Infringement*, <http://knowledgecenter.csg.org/kc/system/files/Bad%20Faith%20Assertions%20of%20Patent%20Infringement.pdf>.

- “Demand letter” means a letter, e-mail, or other communication asserting or claiming that a person has engaged in patent infringement.
- “Institution of higher education” means an educational institution as defined in 20 U.S.C. s. 1001(a).
- “Target” means a person, including the person’s customers, distributors, or agents, residing in, incorporated in, or organized under the laws of this state which:
 - Has received a demand letter or against whom an assertion or allegation of patent infringement has been made;
 - Has been threatened with litigation or against whom a lawsuit has been filed alleging patent infringement; or
 - Whose customers have received a demand letter asserting that the person’s product, service, or technology has infringed upon a patent.

The bill prohibits a person from making a bad faith assertion of patent infringement. If a patent infringement proceeding is instituted, the target may move that the proceeding involves a bad faith assertion of patent infringement and request that the court issue a protective order. The bill sets out two lists of factors the court may consider as evidence, one for evidence that that a person has made a bad faith assertion of patent infringement and one for evidence that a person has *not* made a bad faith assertion of patent infringement.

If the court finds that the target has established a reasonable likelihood that the plaintiff has made a bad faith assertion of patent infringement, the court must require the plaintiff to post a bond in an amount equal to the lesser of \$250,000 or a good faith estimate of the target’s expense of litigation, including an estimate of reasonable attorney fees, conditioned on payment of any amount finally determined to be due to the target. A court may waive the bond requirement for good cause shown or if it finds the plaintiff has available assets equal to the amount of the proposed bond.

A person aggrieved by a violation of the prohibition making a bad faith assertion of patent infringement may bring an action in a court of competent jurisdiction, and the court may award a prevailing plaintiff the following remedies:

- Equitable relief;
- Damages;
- Costs and fees, including reasonable attorney fees; and
- Punitive damages in an amount equal to \$50,000 or three times the total damages, costs, and fees, whichever is greater.

A violation also constitutes an unfair or deceptive trade practice and the department may bring an enforcement pursuant to s. 501.207, F.S. This section authorizes the department to bring:

- An action to obtain a declaratory judgment that an act or practice constitutes a violation;
- An action to enjoin any person who has violated, is violating, or is otherwise likely to violate, the Act; or
- An action on behalf of one or more consumers or governmental entities for the actual damages caused by a violative act or practice.

A demand letter or assertion of patent infringement that includes a claim for relief arising under 35 U.S.C. s. 271(e)(2) (pharmaceutical patents) or 42 U.S.C. s. 262 (biological products) is not subject to the bill's provisions.

The bill takes effect upon becoming a law.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

V. Fiscal Impact Statement:

A. Tax/Fee Issues:

None.

B. Private Sector Impact:

The bill may shield some companies from costs associated with bad faith assertions of patent infringement.

C. Government Sector Impact:

None.

VI. Technical Deficiencies:

None.

VII. Related Issues:

None.

VIII. Statutes Affected:

This bill creates the following sections of the Florida Statutes: 501.991, 501.992, 501.993, 501.994, 501.995, 501.996, and 501.997.

IX. Additional Information:

- A. **Committee Substitute – Statement of Changes:**
(Summarizing differences between the Committee Substitute and the prior version of the bill.)

None.

- B. **Amendments:**

None.

This Senate Bill Analysis does not reflect the intent or official position of the bill's introducer or the Florida Senate.
