

HOUSE OF REPRESENTATIVES STAFF ANALYSIS

BILL #: CS/CS/HB 1103 Patent Infringement

SPONSOR(S): Judiciary Committee; Civil Justice Subcommittee; Stone and others

TIED BILLS: None **IDEN./SIM. BILLS:** CS/SB 1084

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR or BUDGET/POLICY CHIEF
1) Civil Justice Subcommittee	13 Y, 0 N, As CS	Malcolm	Bond
2) Judiciary Committee	18 Y, 0 N, As CS	Malcolm	Havlicak

SUMMARY ANALYSIS

The bill creates the "Patent Troll Prevention Act" (Act) regarding bad faith patent infringement claims. In determining whether an assertion of patent infringement violates the Act, a court may consider a number of factors, including whether:

- The demand letter contained basic information regarding the patent, the patent owner, and the specific infringing conduct;
- The demand letter requested payment of a license fee or a response within an unreasonable period of time or requested an unreasonable license fee;
- The assertion of patent infringement is deceptive or unenforceable, and the person knew, or should have known, that the claim or assertion was unenforceable; and
- The person has previously sued to enforce the claim and a court found the claim to be meritless.

A defendant subject to a patent infringement claim that violates the Act may seek a court order requiring the plaintiff to post a bond equal to the lesser of \$250,000 or the defendant's estimated litigation expenses.

The bill creates a private right of action for a person who has received a bad faith assertion of patent infringement.

The bill exempts universities and technology transfer companies affiliated with universities.

The bill does not appear to have a fiscal impact on state or local government.

The bill provides an effective date of July 1, 2015.

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. EFFECT OF PROPOSED CHANGES:

Current Situation

Patent Law

A patent is the grant of a property right in an invention to its inventor, issued by the United States Patent and Trademark Office generally for a term of 20 years.¹ A patent confers the right to exclude others from making, using, or selling the invention in the United States or importing the invention into the United States.²

Article I, s. 8, cl 8, of the United States Constitution gives Congress the power to enact laws relating to patents.³ Based on this grant of power, Congress enacted a number of patent statutes, most significantly, the Patent Act of 1952.⁴ Congress, in turn, has vested the federal courts with exclusive jurisdiction to determine patent validity and infringement.⁵

Enforcement of Patents

A patent holder may enforce its rights by filing infringement suits in federal court.⁶ The patent holder bears the burden of establishing infringement by each alleged infringer.⁷ Patent litigation is generally very expensive: the average suit in which \$1 million to \$25 million is at stake costs \$1.6 million through discovery and \$2.8 million through trial.⁸

Although Congress has not expressly preempted state law in all areas of patent law, federal courts have generally held that most patent litigation is implicitly preempted by Congress.⁹ Accordingly, the Federal Circuit, which has exclusive appellate jurisdiction over patent cases, has held that state law claims against abusive patent infringement practices are mostly preempted by the federal Patent Act.¹⁰ To avoid preemption, an accused infringer must prove not only the elements of its state-law claim, it must also prove, (1) that the infringement allegations were "objectively baseless," meaning that no reasonable litigant could have expected to succeed, and (2) that the patent holder made its infringement allegations with knowledge of their inaccuracy or with reckless disregard for their accuracy.¹¹

Patent Trolls

"Patent assertion entities," commonly referred to as "patent trolls," describes a business that focuses on purchasing and asserting patents against companies that already use the patented technology in their business operations (after infringement and lock-in have occurred), rather than developing and

¹ United States Patent and Trademark Office, *General Information Concerning Patents* (Oct. 2014) <http://www.uspto.gov/patents-getting-started/general-information-concerning-patents#heading-2> (last visited March 10, 2015).

² 35 U.S.C. §154 (2012).

³ "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." Art. I, §8, cl. 8, U.S. Const.

⁴ P.L. 82-593, 66 Stat. 792 (codified at 35 U.S.C.).

⁵ 28 U.S.C. §1338(a) ("No State court shall have jurisdiction over any claim for relief arising under any Act of Congress relating to patents . . .").

⁶ See *id.*; 35 U.S.C. §271 (2012).

⁷ 35 U.S.C. §101 (2012).

⁸ Brian Yeh, *An Overview of the "Patent Trolls" Debate*, Congressional Research Service (April 16, 2013).

⁹ See *Globetrotter Software, Inc. v. Elan Computer Grp., Inc.*, 362 F.3d 1367, 1374 (Fed. Cir. 2004).

¹⁰ *Id.* at 1377.

¹¹ *Id.*; *Dominant Semiconductors Sdn. Bhd. v. OSRAM GmbH*, 524 F.3d 1254 (Fed. Cir. 2008).

transferring technology to licensees.¹² Patent trolls frequently operate by sending notices of alleged patent infringement to large numbers of businesses to threaten litigation if the business does not pay a licensing fee.¹³ Often defendants, especially smaller companies and startups, will choose to settle to avoid expending time and resources on costly litigation. Patent trolls simply transfer a legal right not to be sued for the transfer of money.¹⁴

State Attempts to Limit Bad Faith Patent Infringement Claims

Eighteen states have passed statutes outlawing certain acts of patent enforcement;¹⁵ the majority of statutes are modeled after a Vermont statute, which prohibits “bad faith” assertions of patent infringement.¹⁶ Other states have outlawed assertions that “contain false, misleading, or deceptive information”¹⁷ or have defined specific acts as illegal, such as threatening litigation and not filing suit or making infringement assertions that “lack a reasonable basis in fact or law.”¹⁸ Most of the new statutes create a private right of action for the targets of unlawful infringement assertions, and all of the statutes provide for enforcement by state officials, such as the state attorney general.¹⁹ However, whether such state law attempts to curb bad faith patent claims are preempted by federal law is unknown.²⁰

Effect of the Bill

The bill creates Part VII of ch. 501, F.S., consisting of ss. 501.991-501.997, F.S., the "Patent Troll Prevention Act," to prohibit bad faith patent infringement claims.

Newly-created s. 501.991, F.S., provides a statement of legislative intent that acknowledges the state is preempted from passing laws that conflict with federal patent law. However, the Legislature recognizes the need to protect businesses and consumers from bad faith patent infringement claims and litigation that lead to expensive litigation, are a significant burden to companies, and hamper the state's economic development efforts.

Prohibition on Bad Faith Assertions of Patent Infringement

The bill creates s. 501.993, F.S., to prohibit a person from making a bad faith assertion of patent infringement.

In determining that a person has made a bad faith assertion of patent infringement, a court may consider a number of factors, including whether:

- The demand letter contains the patent number, the name and address of the patent owner, and the facts concerning the specific infringing conduct, and if not, did the person provide such information after being requested to do so;
- The person failed to conduct an analysis to determine whether the target's conduct was covered by the claim of the patent;

¹² Thomas A. Hemphill, *The Paradox of Patent Assertion Entities*, American Enterprise Institute (Aug. 12, 2013) <http://www.aei.org/publication/the-paradox-of-patent-assertion-entities/> (last visited March 10, 2015).

¹³ See Paul R. Gugliuzza, *Patent Trolls and Preemption*, Boston University School of Law Public Law & Legal Theory Paper No. 15-03, 1-4 (Jan. 20, 2015), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2539280 (last visited March 10, 2015).

¹⁴ Hemphill, *supra* Note 12.

¹⁵ Gugliuzza, *supra* Note 13 at 4-5; Patent Progress's Guide to State Patent Legislation (March 9, 2015) <http://www.patentprogress.org/patent-progress-legislation-guides/patent-progresss-guide-state-patent-legislation/> (last visited March 11, 2015).

¹⁶ VT. STAT. ANN., tit. 9, § 4197(a) (2014).

¹⁷ WIS. STAT. § 100.197(2)(b) (2014).

¹⁸ *E.g.*, 815 ILL. COMP. STAT. 505/2RRR(b)(1), (3) (2014).

¹⁹ *E.g.*, VT. STAT. ANN., tit. 9, § 4199(a); WIS. STAT. § 100.197(3)(b); TENN. CODE ANN. § 29-40-103 to -104; 815 ILL. COMP. STAT. 505/7, 505/10a.

²⁰ See Gugliuzza, *supra* Note 13.

- The demand letter requested payment of a license fee or a response within an unreasonable period of time or requested an license fee for an amount that is not based on a reasonable estimate of the value of the license;
- The assertion of patent infringement is unenforceable, and the person knew, or should have known, that the claim or assertion was unenforceable;
- The claim or assertion of patent infringement is deceptive; and
- The person has previously filed or threatened to file suit based on the same or a similar claim of patent infringement and the threats or lawsuits lacked the required identifying and contact information, or the person sued to enforce the claim and a court found the claim to be meritless.

Alternatively, a court may consider a number of factors as evidence that a person has not made a bad faith assertion of patent infringement, including whether:

- The demand letter contained the required identifying and contract information, or if not, whether it was provided upon request;
- The person engaged in a good faith effort to establish that the target has infringed the patent and negotiated an appropriate remedy;
- The person made a substantial investment in the use of the patent or in a product or sale of a product covered by the patent;
- The person is the inventor of the patented product or is the original assignee;
- The person has demonstrated good faith business practices in previous efforts to enforce, including successfully enforcing through litigation, the patent or substantially similar patent.

Bond Requirement

Section 501.994, F.S., created by the bill provides that the target of a lawsuit involving a bad faith assertion of patent infringement may move that the court issue a protective order. 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 that the plaintiff 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. The court must hold a hearing at either party's request. 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.

Private Right of Action for Bad Faith Assertions of Patent Infringement

Newly created s. 501.995, F.S., provides that a person who has received a bad faith assertion of patent infringement may bring a civil action. A court may award the following remedies to a prevailing plaintiff in such an action: equitable relief, damages, costs and fees, including attorney fees, and punitive damages in an amount equal to \$50,000 or three times the total damages, costs, and fees, whichever is greater.

Exemption for Certain Demand Letters Pursuant to Federal Pharmaceutical Laws

Section 501.997, F.S., created by the bill exempts from the Act an institution of higher learning, a technology transfer organization owner or affiliated with an institution of higher education, and any demand letter or assertion of patent infringement that includes a claim for relief arising under federal law related to pharmaceutical and biologic licensing and patents.

The bill provides that it will take effect upon becoming law.

B. SECTION DIRECTORY:

Section 1 creates Part VII of ch. 501, F.S., consisting of ss. 501.991-501.997, F.S., entitled the "Patent Troll Prevention Act."

Section 2 creates s. 501.991, F.S., relating to legislative intent.

Section 3 creates s. 501.992, F.S., relating to definitions.

Section 4 creates s. 501.993, F.S., relating to bad faith assertions of patent infringement.

Section 5 creates s. 501.994, F.S., relating to bonds.

Section 6 creates s. 501.995, F.S., relating to private rights of action.

Section 7 creates s. 501.997, F.S., relating to exemptions.

Section 8 provides that the bill takes effect upon becoming law.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

The bill does not appear to have any impact on state revenues.

2. Expenditures:

The bill does not appear to have any impact on state expenditures.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

The bill does not appear to have any impact on local government revenues.

2. Expenditures:

The bill does not appear to have any impact on local government expenditures.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

The bill does not appear to have any direct economic impact on the private sector.

D. FISCAL COMMENTS:

None.

III. COMMENTS

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

The bill does not appear to require counties or municipalities to take an action requiring the expenditure of funds, reduce the authority that counties or municipalities have to raise revenue in the aggregate, nor reduce the percentage of state tax shared with counties or municipalities.

2. Other:

As explained above, Congress has not expressly preempted state law in all areas of patent law; however, federal courts have generally held that most patent litigation has been implicitly preempted by Congress.²¹ Accordingly, state law claims against abusive patent infringement practices are mostly preempted by the federal Patent Act.²² To avoid preemption, an accused infringer must prove not only the elements of its state-law claim, it must also prove, (1) that the infringement allegations

²¹ See *Globetrotter*, 362 F.3d at 1374.

²² *Id.* at 1377.

were “objectively baseless,” meaning that no reasonable litigant could have expected to succeed, and (2) that the patent holder made its infringement allegations with knowledge of their inaccuracy or with reckless disregard for their accuracy.²³ To the extent that the bill does not require proof of these two elements to prevail on a claim of bad faith assertion of patent infringement, the bill may be partially preempted by federal law.

Additionally, the Florida Supreme Court has generally held that statutes that require all plaintiffs to post a bond before proceeding with their claim violate art. 1, s. 21 of the Florida Constitution, related to access to the courts.²⁴ The bond provision in the Act does not apply to all plaintiffs; rather, it only applies if a defendant establishes a reasonable likelihood that the plaintiff has made a bad faith assertion of patent infringement.

B. RULE-MAKING AUTHORITY:

The bill does not appear to create a need for rulemaking or rulemaking authority.

C. DRAFTING ISSUES OR OTHER COMMENTS:

The use of the phrase "good faith business practices" at line 140 of the bill is vague and does not provide guidance to a court as to what types of business practices related to the enforcement of a patent are considered "good faith" practices.

IV. AMENDMENTS/ COMMITTEE SUBSTITUTE CHANGES

On March 17, 2015, the Civil Justice Subcommittee adopted one amendment and reported the bill favorably as a committee substitute. The amendment:

- Confirms the bill with the Florida Deceptive and Unfair Trade Practices Act;
- Provides that institutions of higher education and technology transfer organizations affiliated with such institutions are exempt from the bill.

On April 8, 2015, the Judiciary Committee adopted one amendment and reported the bill favorably as a committee substitute. The amendment removes the section of the bill that made a violation of the act an unfair and deceptive trade practice subject to enforcement by the Department of Legal Affairs. This analysis is drafted to the committee substitute as passed by the Judiciary Committee.

²³ *Id.*; *Dominant Semiconductors*, 524 F.3d 1254.

²⁴ *Psychiatric Assoc. v. Siegel*, 610 So. 2d 419 (Fla. 1992).