

**HOUSE OF REPRESENTATIVES
FINAL BILL ANALYSIS**

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| BILL #: | CS/CS/HB 1181 | FINAL HOUSE FLOOR ACTION: | |
| SPONSOR(S): | Judiciary Committee; Civil Justice Subcommittee; Grant and others | 114 Y's | 0 N's |
| COMPANION BILLS: | CS/SB 1298 | GOVERNOR'S ACTION: | Approved |

SUMMARY ANALYSIS

CS/CS/HB 1181 passed the House on March 4, 2016, and subsequently passed the Senate on March 4, 2016.

In 2015, the Legislature enacted the "Patent Troll Prevention Act" (Act) to provide a private right of action for a person who has received a bad faith patent infringement demand letter. The bill amends the Act by revising when a party pursuing a private right of action under the bill may recover punitive damages and by revising the criteria by which a demand letter is deemed to be a bad faith assertion of patent infringement in violation of the Act.

The bill also repeals the provision in the Act that authorizes a target of a bad faith assertion of patent infringement to seek a protective order or a court order requiring the plaintiff to post a bond.

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

The bill was approved by the Governor on March 24, 2016, ch. 2016-101, L.O.F., and became effective on that date.

I. SUBSTANTIVE INFORMATION

A. EFFECT OF 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 because

a patentee must be allowed to make its rights [under the federal Patent Act] known to a potential infringer so that the latter can determine whether to cease its allegedly infringing activities, negotiate a license if one is offered, or decide to run the risk of liability and/or the imposition of an injunction. The federal patent laws thus bar state-law liability for communications concerning alleged infringement so long as those communications are not made in "bad faith."¹⁰

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 Jan. 23, 2016).

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 1374-75 (quoting *Va. Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 869 (Fed.Cir.1997)).

To avoid preemption, a person that raises a state law cause of action based on abusive patent infringement practices must prove that the infringement allegations were “objectively baseless,” meaning that no reasonable litigant could have expected to succeed.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 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

As of the beginning of 2016, 27 states, including Florida, have passed statutes outlawing certain acts of bad faith patent enforcement;¹⁵ the majority of statutes, including Florida's, 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

Florida's Patent Troll Prevention Act

In 2015, the Florida Legislature passed the Patent Troll Prevention Act (Act), Part VII of ch. 501, F.S.²¹ The Act creates a private right of action for a person who has received a bad faith assertion of patent infringement. 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, or whether such information was provided when requested;
- the demand letter requested payment of a license fee or a response within an unreasonable period of time or requested an unreasonable license fee;

¹¹ *Id.* at 1377; *Dominant Semiconductors Sdn. Bhd. v. OSRAM GmbH*, 524 F.3d 1254, 1260 (Fed. Cir. 2008).

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 Jan. 23, 2016).

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 Jan. 23, 2016).

¹⁴ Hemphill, *supra* Note 12.

¹⁵ Gugliuzza, *supra* Note 13 at 4-5; Patent Progress's Guide to State Patent Legislation (Jan. 4, 2016) <http://www.patentprogress.org/patent-progress-legislation-guides/patent-progresss-guide-state-patent-legislation/> (last visited Jan. 23, 2016).

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.

²¹ ss. 7-13, ch. 2015-92, Laws of Fla.

- 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 or threatened to sue to enforce the claim and a court found the claim to be meritless.²²

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 contact information;
- 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 patent;
- the person is the inventor of the patented product or is the original assignee; and
- the person has demonstrated good faith business practices in previous efforts to enforce.²³

A target of a patent infringement claim that violates the Act may seek a protective order or court order requiring the plaintiff to post a bond equal to the lesser of \$250,000 or the defendant's estimated litigation expenses.²⁴

A person who prevails on a claim of bad faith assertion of patent infringement pursuant to the Act may be awarded 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.²⁵

Universities, technology transfer companies affiliated with universities, and certain patent infringement assertions related to pharmaceutical and biologic licensing and patents are exempt from liability under the Act.²⁶

Effect of the Bill

The bill amends the Patent Troll Prevention Act (Act) to remove those portions of the Act that provide the factors that a court uses in determining whether an assertion of patent infringement violates the Act and replaces those portions with a description of attributes that qualify a demand letter as a bad faith assertion of patent infringement.

Pursuant to the bill, a demand letter constitutes a bad faith assertion of patent infringement if it includes a claim that the target, or a person affiliated with the target, has infringed a patent and that the target is legally liable for the infringement, and one or more of the following is met:

- The demand letter falsely asserts that the sender has filed a lawsuit in connection with the claim
- The demand letter asserts a claim that is objectively baseless because:
 - the sender, or a person the sender represents, lacks the right to license or enforce the patent against the target;
 - the patent is unenforceable pursuant to a final judgment or an administrative order; or
 - the infringing activity alleged in the letter occurred after the expiration of the patent
- The demand letter is likely to materially mislead a reasonable person because it does not contain sufficient information to inform the target of:
 - the identity of the person asserting the claim, including his or her name and address;
 - the patent alleged to have been infringed, including the patent number; and
 - at least one product, service, or technology of the target alleged to infringe the patent, or at least one activity of the end user which is alleged to infringe the patent

²² s. 501.993(1), F.S.

²³ s. 501.993(2), F.S.

²⁴ s. 501.994, F.S.

²⁵ s. 501.995, F.S.

²⁶ s. 501.997, F.S.

The bill provides that a court may award punitive damages up to \$75,000 for a prevailing plaintiff in a private cause of action pursuant to the Act only if the court determines that the person making the bad faith asserting has repeatedly violated the Act. The bill also repeals the provision in the Act that authorized a target of a bad faith assertion of patent infringement that violates the Act to seek a protective order or court order requiring the plaintiff to post a bond.

The bill also provides that the Act may not be construed: to limit the rights and remedies available to the state or a person under any other law; to alter or restrict the Attorney General's authority under any other law regarding patent infringement claims; or, to prohibit a person who owns a patent from notifying other parties of his or her ownership, offering to sell or license the patent, notifying other parties of such parties' infringement of the patent, or seeking compensation for infringement of, or license to, the patent.

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.