

Client Alert

May 2014

States Attempt to Prohibit Bad-Faith Patent Infringement Claims

In addition to some states fighting patent assertion entities through consumer protection laws (see our previous Alert on this topic [here](#)), an increasing number of states are taking steps to legislate against what they believe is an abusive and unfair business practice by introducing legislation to prohibit the bad-faith assertion of a patent infringement claim without first conducting appropriate due diligence. The following briefly describes the current status of various states' legislation efforts.

Alabama

SB 121 – Bill passed Senate and House: March 18, 2014, waiting for Governor's signature. An act relating to patents; to prohibit a person from asserting a claim of patent infringement in bad faith:

This bill prohibits the assertion of a claim of patent infringement in bad faith. It authorizes the attorney general to investigate and initiate enforcement actions. The bill also authorizes the targets of bad-faith assertions to initiate a civil action for certain damages, including the filing of bonds under certain conditions.

Connecticut

SB 258 – Passed Senate, waiting on House vote: April 23, 2014. An act concerning bad faith claims or assertions of patent infringement:

This bill prohibits anyone from making a bad-faith claim or assertion of patent infringement and gives the accused (i.e., the "target") the right to file a civil action seeking relief. Under the bill, a "target" is a person or a legal entity who (1) has, or whose customers have, received a written communication asserting or claiming patent infringement (i.e., a "demand letter") or (2) is a defendant in a patent infringement action. The bill also allows the attorney general to file an independent enforcement action.

Georgia

House Bill 809 – Signed into law: April 15, 2014; effective date: July 1, 2014. An act relating to commerce and trade; bad faith assertions of patent infringement:

The bill makes it a violation for a person to make a bad-faith assertion of patent infringement. The measure lists a number of bad-faith factors, such as: (1) the demand letter's not identifying the patent number, name and address of the patent owner, or factual allegations concerning the specific areas in which the target infringes; (2) prior to sending the demand letter, the person fails to conduct an analysis comparing the claims in the patent to the target's products, services and technology; (3) the demand letter demands payment of a license fee or response within an unreasonably short period of time; and others. This bill authorizes the attorney general to issue civil investigative demands. The bill also creates a private cause of action.

Idaho

SB1354 – Signed into law: March 26, 2014; effective date: July 1, 2014. An act relating to bad faith assertions of patent infringement:

The bill adds to existing law and makes it unlawful to bring bad-faith assertions of patent infringement against others. It also provides provisions relating to personal jurisdiction and grants certain authority to the attorney general and district courts to create a private cause of action. The bill provides for remedies and damages, and establishes provisions relating to bonds.

Illinois

Senate Bill 3405 – Passed Senate, waiting on House vote: May 22, 2014. An act relating to consumer fraud-patent demand:

The bill prohibits anyone from sending unfair or deceptive patent demand letters and defines what constitutes deceptive or unfair.

Kansas

HB 2663 – Bill introduced: February 27, 2014. An act concerning consumer protection; relating to bad faith assertions of patent infringement:

This bill authorizes a person against whom a bad-faith assertion of patent infringement has been made to bring a civil action in court for equitable relief, damages, court costs, fees and punitive damages. It authorizes the attorney general to bring an action against the person who has made a bad-faith assertion of patent.

Kentucky

SB 116 – Bill introduced: February 3, 2014. An act relating to intellectual property:

This bill creates a new section of KRS Chapter 367 by establishing a bad-faith assertion of patent infringement as a violation of Kentucky's consumer protection chapter. It authorizes the utilization of the remedies available for those violations in addition to private remedies established in the bill.

Louisiana

HB 564 – Bill introduced: February 27, 2014. An act that makes it an unfair trade practice to engage in bad faith assertions of patent infringement:

The bill makes it a violation for a person to make a bad-faith assertion of patent infringement. The bill lists a number of bad-faith factors such as: (1) the demand letter's not identifying the patent number, name and address of the patent owner, or factual allegations concerning the specific areas in which the target infringes; (2) prior to sending the demand letter, the person fails to conduct an analysis comparing the claims in the patent to the target's products, services and technology; (3) the demand letter demands payment of a license fee or response within an unreasonably short period of time; and others. Any violation of the proposed law would be an unfair or deceptive trade practice or act declared unlawful by the Unfair Trade Practices and Consumer Protection Law. The violation would subject the violator to potential penalties, remedies, actions and relief.

Maine

LD 1660 – Enacted into law: April 14, 2014. An act regarding bad faith assertions of patent infringement:

This bill authorizes a person against whom a bad-faith assertion of patent infringement has been made to bring a civil action in Superior Court for equitable relief, damages, court costs, fees and punitive damages. It authorizes the attorney general to bring an action and it provides that a bad-faith assertion of patent infringement is a violation of the Maine Unfair Trade Practices Act.

Maryland

SB 585 – Signed into law: May 5, 2014. An act concerning Commercial Law – Patent Infringement and Assertions Made in Bad Faith:

The act prohibits a person from making certain assertions of patent infringement in bad faith; authorizes a court to consider certain factors as evidence of whether a person has made an assertion of patent infringement in bad faith or in good faith and provides that the Attorney General and the Division of Consumer Protection of the Office of the Attorney General have the same authority to take certain actions as the Attorney General and the Division have under the Maryland Consumer Protection Act. The act also authorizes certain individuals to bring a civil action in court to recover for injuries or losses sustained as a result of a violation of this Act, and authorizes a court to award certain damages and remedies under certain circumstances.

Mississippi

HB 521 – passed the House, but has not passed the Senate: March 4, 2014. An act to prohibit bad faith assertions of patent infringement.

The bill defines terms, provides factors that a court may consider in determining whether a bad faith assertion of patent infringement has been made and provides procedures for actions under this act. It further creates a cause of action, requires the posting of a bond; and provides for enforcement, remedies and damages.

Missouri

SB 706 – Passed both houses: May 5, 2014, waiting to be signed by the Governor. An act to amend chapter 416, RSMo, by adding five new sections relating to bad faith assertions of patent infringement:

The bill makes it a violation for a person to make a bad-faith assertion of patent infringement. The measure lists a number of bad-faith factors such as: (1) the demand letter's not identifying the patent number, name and address of the patent owner, or factual allegations concerning the specific areas in which the target infringes; (2) the person offers to license the patent for an amount that is not based on a reasonable estimate of the value of the license; (3) the demand letter demands payment of a license fee or response within an unreasonably short period of time; and many others. This bill authorizes the attorney general to investigate, restrain and prosecute civil actions under the Missouri antitrust law. The bill also creates a private cause of action.

Nebraska

LB 677 – Indefinitely postponed: April 17, 2014. The Nebraska Patent Abuse Prevention Act:

The proposed legislation would prohibit any person from making in bad faith an assertion of patent infringement. The remedies available under the Uniform Deceptive Trade Practices Act will be available for violations of this act.

New Hampshire

SB303 – Passed both houses on May 8, 2014, waiting for Governor's signature. An act relative to bad faith assertions of patent infringement.

This bill prohibits a person from making bad faith assertions of patent infringement. The bill establishes a private right of action for violations of the chapter and provides for enforcement by the attorney general.

New Jersey

A 2462 – Bill introduced: February 10, 2014. An act that prohibits bad faith assertion of patent infringement:

This bill prohibits a person from making a bad-faith assertion of patent infringement. The bill identifies a list of factors that a court may consider as evidence of bad faith such as: (1) the demand letter's not identifying the patent number, name and address of the patent owner, or factual allegations concerning the specific areas in which the target infringes; (2) prior to sending the demand letter, the

person fails to conduct an analysis comparing the claims in the patent to the target's products, services and technology; (3) the demand letter demands payment of a license fee or response within an unreasonably short period of time; and others. The legislation authorizes the attorney general to make rules, conduct civil investigations, bring civil actions and obtain injunctions as provided under the consumer fraud act. The bill also creates a private cause of action.

Oklahoma

HB 2837 – Signed into law, effective date: November 1, 2014. An act relating to patent infringement:

The measure prohibits the sending of written or electronic communication that would threaten the intended recipient with litigation unless compensation or a resolution is not provided to the complaining party of a patent infringement claim, if (1) the communication falsely states that litigation has been filed against the recipient, or threatens litigation if compensation is not paid or the infringement issue is not otherwise resolved and there is a consistent pattern of such threats having been issued and no litigation having been filed; (2) the communication falsely states that litigation has been filed against the intended recipient or any affiliated person; or (3) the assertions contained in the communication lack a reasonable basis in fact or law. The measure allows the Attorney General to investigate and bring civil actions against any person who violates the act and allows the court to award to a plaintiff damages, reasonable attorney fees and punitive damages.

Oregon

Senate Bill 1540 – Signed into law, effective date: March 3, 2014. An act relating to bad-faith assertions of patent infringement; declaring an emergency:

This legislation prohibits a person or the person's affiliate from sending a demand to a recipient if in the demand the person or affiliate alleges, asserts or claims in bad faith that the recipient has infringed or contributed to infringing the patent or rights that patentee, assignee or licensee has under patent. Upon receipt of an accusation, a prosecuting attorney may take action against that person or person's affiliate. The measure lists a number of bad-faith factors such as: (1) the demand letter's not identifying the patent number, name and address of the patent owner, or factual allegations concerning the specific areas in which the target infringes; (2) prior to sending the demand letter, the person fails to conduct an analysis comparing the claims in the patent to the target's products, services and technology; (3) the demand letter demands payment of a license fee or response within an unreasonably short period of time; and others.

Pennsylvania

SB 1222 – Bill introduced: February 4, 2014. An act prohibiting bad faith assertions of patent infringement:

The bill makes it a violation for a person to make a bad-faith assertion of patent infringement. The measure lists a number of bad-faith factors such as: (1) the demand letter's not identifying the patent number, name and address of the patent owner, or factual allegations concerning the specific areas in which the target infringes; (2) prior to sending the demand letter, the person fails to conduct an analysis comparing the claims in the patent to the target's products, services and technology; (3) the demand letter demands payment of a license fee or response within an unreasonably short period of time; and others. This bill authorizes the attorney general to make rules, conduct civil investigations, bring civil actions and enter into assurances of discontinuance as set forth under the Unfair Trade Practices and Consumer Protection Law. The bill also creates a private cause of action.

South Carolina

HB 4629 – Bill introduced: February 6, 2014. A bill to amend the code of laws of South Carolina, 1976, by adding Section 39-5-190 so as to provide that it is an unlawful trade practice for a person or entity to make a bad faith assertion of patent infringement:

The bill makes it a violation for a person to make a bad-faith assertion of patent infringement. The bill lists a number of bad-faith factors such as: (1) the demand letter's not identifying the patent number, name and address of the patent owner, or factual allegations concerning the specific areas in which the target infringes; (2) prior to sending the demand letter, the person fails to conduct an analysis comparing the claims in the patent to the target's products, services and technology; (3) the demand letter demands payment of a license fee or response within an unreasonably short period of time; and others. This bill authorizes the attorney general to issue civil investigative demands. The bill also creates a private cause of action.

South Dakota

SB 143 – Signed into law: March 31, 2014. An act to provide for a civil remedy for a bad faith assertion of patent infringement:

The bill makes it a violation for a person to make a bad-faith assertion of patent infringement. The measure lists a number of bad-faith factors such as: (1) the demand letter's not identifying the patent number, name and address of the patent owner, or factual allegations concerning the specific areas in which the target infringes; (2) prior to sending the demand letter, the person fails to conduct an analysis comparing the claims in the patent to the target's products, services and technology; (3) the demand letter demands payment of a license fee or response within an unreasonably short period of time; and others. This bill authorizes the attorney general to bring civil actions, and enter into assurances of discontinuance. The bill also creates a private cause of action.

Tennessee

SB 1967 – Signed into law, effective date: May 1, 2014. An act to amend Tennessee Code Annotated, Title 29, relative to remedies and special proceedings:

The bill makes it a violation for a person to make a bad-faith assertion of patent infringement. The bill lists a number of bad-faith factors such as: (1) the demand letter's not identifying the patent number, name and address of the patent owner, or factual allegations concerning the specific areas in which the target infringes; (2) prior to sending the demand letter, the person fails to conduct an analysis comparing the claims in the patent to the target's products, services and technology; (3) the demand letter demands payment of a license fee or response within an unreasonably short period of time; and others. This bill authorizes the attorney general to issue civil investigative demands. The bill also creates a private cause of action.

Utah

HB 117 – Signed into law, effective date: May 13, 2014. This bill creates a cause of action for the distribution of bad faith demand letters asserting patent infringement.

This bill prohibits the distribution of bad faith demand letters asserting patent infringement and allows a person who has been the recipient of a demand letter asserting patent infringement to file an action. It also allows the court to require the filing of a bond to cover costs of the action. The bill provides remedies and sets limits on punitive damages.

Vermont

H.299 (ACT 0044) – Signed into law, effective date: July 1, 2013. An act relating to amending consumer protection provisions for propane refunds, unsolicited demands for payment, bad faith assertions of patent infringement and failure to comply with civil investigations:

Section 6, adds Chapter 120 to Title 9, concerning bad-faith assertions of patent infringement. The heart of the statute is contained in Section 4197, which prohibits a person from making a bad-faith assertion of patent infringement, and lays out a list of factors a court may consider as evidence of bad faith. Section 4198 authorizes a court, upon a showing of a reasonable likelihood that a person has made a bad-faith assertion of patent infringement, to require that a bond be posted. Section 4199 states that the

attorney general has the same enforcement powers as under the Consumer Protection Act, and that a private party can seek equitable relief, costs and fees, and actual and punitive damages.

Virginia

Senate Bill 150 / House Bill 375 – Bill passed Senate and House: March 6, 2014. The Governor made a recommendation for a change, which both the House and Senate rejected on April 23, 2014. An act relating to patent infringement; assertions made in bad faith, exemptions, penalties:

Prohibits any person from making in bad faith an assertion of patent infringement. The attorney general or an attorney for the commonwealth is empowered to accept assurances of voluntary compliance and seek injunctive relief. The attorney general is authorized to issue civil investigative demands. The measure does not create a private cause of action. The measure does not apply to a demand letter or assertion of patent infringement that includes a claim for relief arising under 35 U.S.C. § 271(e)(2) or 42 U.S.C. § 262.

Wisconsin

Senate Bill 498 – Enacted into law: April 23, 2014. Relating to: notifications concerning the assertion of rights under a patent or pending patent and providing a penalty:

This law prohibits any person from making in bad faith an assertion of patent infringement. The law specifies a number of patent notification requirements that must accompany any assertion letter. The law authorizes the attorney general to seek injunction or damages, and creates a private cause of action as well.

Summary

The passage and introduction of many of these laws against bad-faith assertions of patent infringement may necessitate construing the terms of the patent at issue. This in turn raises the question of whether these new laws are constitutional, or if they are preempted by federal patent law. Regardless, states are beginning to send a clear message that the current patent demand letter business model is insufficient to protect companies from unscrupulous patent holders. If you have received a patent demand letter and require assistance, Hunton & Williams LLP's intellectual property lawyers offer a wide array of patent services, including due diligence investigations, counseling and litigation.

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