

BAD-FAITH PATENT INFRINGEMENT CLAIMS ACT

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Senate Bill 289 (reported from House committee as H-1)

Sponsor: Sen. Margaret E. O'Brien

House Committee: Judiciary

Senate Committee: Judiciary

Complete to 12-12-16

Analysis available at

<http://www.legislature.mi.gov>

(Enacted as Public Act 550 of 2016)

SUMMARY:

The bill addresses the issue known as "patent trolling" in which a company that purchases patents brings a patent infringement suit, or threatens such a suit, against another business claiming that the business is using a product, technology, or invention without proper payment of a license to do so. In patent trolling, however, the company generally does not actually "practice" the invention and the claim is often baseless. Because defending against a patent infringement claim is expensive and time consuming, many companies choose to settle the claim, often at great expense. Patent infringement claims are typically a federal issue; however, at least 27 states have enacted some form of an anti-trolling law since 2013.

Briefly, Senate Bill 289 will create the Bad-Faith Patent Infringement Claims Act. Among other things, the bill will do the following:

- ❖ Specify that it will be an unlawful practice, in connection with the assertion of a United States patent, to send a written (including an electronic) communication to a person stating in bad faith that the target infringed a patent and is liable or owes compensation to another person, if the communication made certain false statements or other conditions applied.
- ❖ Define "target" to mean a person that purchases, rents, leases, or otherwise obtains a product or service in the commercial market that is not for resale and that is, or later becomes, the subject of the patent infringement allegation.
- ❖ Allow a person aggrieved by a violation of the act to bring an action in circuit court, and if the person prevailed, allow the court to order injunctive relief and award costs and fees, actual damages, and exemplary damages equal to three times the actual damages.
- ❖ Authorize the attorney general to conduct a civil investigation, enter into an assurance of discontinuance, bring a civil action to restrain the person (patent troll) by temporary or permanent injunction from engaging in the practice, and/or promulgate rules under the Administrative Procedures Act.
- ❖ Allow a court to impose civil fines for various conduct. These include, for a violation of the bill's prohibition on patent trolling, a civil fine of not more than \$50,000; for knowingly failing to appear when subpoenaed, concealing relevant information, and avoiding or preventing compliance with an investigation, a civil fine of not more than \$10,000; and, for knowingly violating the terms of an injunction or judgment issued under the bill, a civil fine of not more than \$5,000 for each violation.

- ❖ Require information obtained by the attorney general to be confidential and make it a misdemeanor punishable by not more than one year and/or a fine of not more than \$2,500 for knowingly disclosing confidential materials.
- ❖ Allow the circuit court, on petition by the attorney general, to enjoin a person from doing business in the state if the person persistently and knowingly evades or prevents compliance with an injunction issued under the bill.
- ❖ Protect the rights of a person that owns or has the right to license or enforce a patent to do any of the listed actions, such as advising others of that ownership or right of license or enforcement and seek compensation because of past or present infringement or for a license to the patent.
- ❖ Provide exemptions from the new act for written or electronic communication sent by certain entities, such as a person seeking relief under federal law; an institution of higher education; certain technology transfer organizations; and an owner or licensee of a patent that is using the patented invention in connection with research, development, production, manufacturing, processing, or delivery of products or materials.
- ❖ Establish an effective date of October 1, 2017.

FISCAL IMPACT:

The bill would have a minor fiscal impact to the Department of Attorney General by increasing its litigation costs by an indeterminate amount. The extent of the cost increase would depend on how many additional cases and investigations the department undertakes as a result of the bill and the time required for them. Should the department be required to hire additional staff to fulfil its duties under the bill, the annual FTE cost for a full time investigator is \$110,000 and for an attorney is \$180,000.

The bill would have an indeterminate fiscal impact on the state and on local units of government. Information is not available on the number of persons that might be convicted under the provisions of the bill. New misdemeanor convictions would increase costs related to county jails and/or local misdemeanor probation supervision. The costs of local incarceration in a county jail and local misdemeanor probation supervision vary by jurisdiction. Civil infraction penalties would increase revenues going to the state Justice System Fund, which supports various justice-related endeavors in the judicial branch, and the Departments of State Police, Corrections, and Health and Human Services. Any increase in penal fine revenues would increase funding for local libraries, which are the constitutionally-designated recipients of those revenues. Also, the bill would have an indeterminate fiscal impact on the judiciary and local court funding units. The fiscal impact would depend on how the provisions of the bill affected court caseloads and related administrative costs.

POSITIONS:

Michigan Bankers Association supports the bill. (12-8-16)

Michigan Realtors supports the bill. (12-8-12)

Michigan Credit Union League supports the bill. (9-20-16)

Michigan Manufacturers Association supports the bill. (9-20-16)

Michigan Department of Attorney General is neutral on the bill. (9-20-16)

University of Michigan is neutral on the bill. (9-20-16)

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■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.