



Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536



Telephone: (517) 373-5383
Fax: (517) 373-1986

Senate Bill 289 (as introduced 4-22-15)
Sponsor: Senator Margaret E. O'Brien
Committee: Judiciary

Date Completed: 5-12-15

CONTENT

The bill would create the "Bad-Faith Patent Infringement Claims Act" to do the following:

- **Prohibit a person from making a bad faith assertion of patent infringement.**
- **Allow a court to consider certain factors as evidence that a person did or did not make bad-faith assertion of patent infringement, including whether a demand letter sent by a person contained certain information.**
- **Require a court to order a person alleged to have made a bad-faith assertion of patent infringement to post a bond equal to a good-faith estimate of a target's cost to litigate the claim, and an amount reasonably likely to be recovered, up to \$250,000.**
- **Allow a court to waive the bond requirement if person alleged to have made the bad-faith assertion had available assets equal to the amount of the proposed bond.**
- **Specify that the Attorney General would have the same authority under the proposed Act to make rules, conduct investigations, and bring civil actions as provided under the Michigan Consumer Protection Act.**
- **Allow a person aggrieved by a violation of the proposed Act to bring an action in circuit court, and if the person prevailed, allow the court to impose equitable relief, costs and fees, damages, and exemplary damages of up to \$50,000 or treble damages, whichever were greater.**
- **State legislative findings pertaining to patents, and patent infringement litigation and its effects on business in this State.**

Definitions

"Demand letter" would mean a letter, electronic mail, or other communication that asserts or claims that the target has engaged in patent infringement.

"Person" would mean any individual, partnership, corporation, association, governmental entity, or other legal entity.

"Target" would be defined as a person to which one or more of the following apply: a) the person has received a demand letter or an assertion or allegation of patent infringement has been made against the person, b) the person has been threatened with litigation or a lawsuit has been filed against the person alleging the patent infringement, or c) the person's customers have received a demand letter asserting that the person's product, service, or technology has infringed a patent.

Prohibition; Factors for Consideration

The bill would prohibit a person from making a bad-faith assertion of patent infringement. A court could consider the following factors as evidence that a person had made a bad-faith assertion of patent infringement:

- A demand letter sent by the person did not contain all of the following information: a) the patent number, b) the name and address of the patent owner or owners and assignee or assignees, if any, and c) factual allegations concerning the specific areas in which the target's products, services, and technology infringed the patent or were covered by the claims in the patent.
- Before sending a demand letter, the person failed to conduct an analysis comparing the claims in the patent to the target's products, services, and technology, or such an analysis was done but did not identify specific areas in which the products, services, and technology were covered by the claims in the patent.
- A demand letter sent by the person lacked the information described above, the target requested the information, and the person failed to provide it within a reasonable time.
- A demand letter sent by the person demanded payment of a license fee or response within an unreasonably short period of time.
- The person offered to license the patent for an amount that was not based on a reasonable estimate of the value of the license.
- The claim or assertion of patent infringement was meritless, and the person knew, or should have known, that the claim or assertion was meritless.
- The claim or assertion of patent infringement was deceptive.
- The person, or any of its subsidiaries or affiliates, had previously filed or threatened to file one or more lawsuits based on the same or similar claim of patent infringement and at least one of the following applied: a) the threats or lawsuits lacked the information described above, or b) the person attempted to enforce the claim of patent infringement in litigation and a court found the claim to be meritless.
- Any other factor the court found relevant.

A court could consider the following factors as evidence that a person had not made a bad-faith assertion of patent infringement:

- A demand letter sent by the person contained all of the following information: a) the patent number, b) the name and address of the patent owner or owners and assignee or assignees, if any, and c) factual allegations concerning the specific areas in which the target's products, services, and technology infringed the patent or were covered by the claims in the patent.
- A demand letter sent by the person lacked the information described above, the target requested the information, and the person provided it within a reasonable time.
- The person engaged in a good-faith effort to establish that the target infringed the patent and to negotiate an appropriate remedy.
- The person made a substantial investment in the use of the patent or in the production or sale of a product or item covered by the patent.
- The person was one of the following: a) the inventor or joint inventor of the patent or, for a patent filed by and awarded to an assignee of the original inventor or joint inventor, the original assignee, or b) an institution of higher education or a technology transfer organization owned by or affiliated with an institution of higher education.
- The person had done either of the following: a) demonstrated good-faith business practices in previous efforts to enforce the patent, or a substantially similar patent; or b) successfully enforced the patent, or a substantially similar patent, through litigation.
- Any other factor the court found relevant.

Bond Requirement

On motion by a target and a finding by the court that the target had established a reasonable likelihood that a person had made a bad-faith assertion of patent infringement, the court would have to require the person to post a bond in an amount equal to a good-faith estimate of the target's cost to litigate the claim and an amount reasonably likely to be recovered as damages, costs, and fees, conditioned on payment of any amount finally determined to be due to the target. The court could not order a bond that exceeded \$250,000 to be posted.

The court could waive the bond requirement if it found that the person alleged to have made a bad-faith assertion of patent infringement had available assets equal to the amount of the proposed bond or for other good cause shown.

Enforcement & Remedies

The Attorney General would have the same authority under the proposed Act to make rules, conduct civil investigations, bring civil actions, and enter into assurances of discontinuance as provided under the Michigan Consumer Protection Act. In an action brought by the Attorney General under the proposed Act, the court could award or impose any relief available under the Michigan Consumer Protection Act.

A target or person aggrieved by a violation of the proposed Act or rules promulgated under it, could bring an action in the circuit court. The court could award the following remedies to a prevailing plaintiff: a) equitable relief, b) damages, c) costs and fees, including reasonable attorney fees, and d) exemplary damages in an amount equal to \$50,000 or three times the total of actual damages, costs, and fees, whichever was greater.

The Act would not limit rights and remedies available to this State or to any person under any other law and would not alter or restrict the Attorney General's authority under the Michigan Consumer Protection Act with regard to conduct involving assertions of patent infringement.

Exclusion

The proposed Act would not apply to a demand letter or assertion of a patent infringement that included a claim for relief arising out of 35 U.S.C. § 271(e)(2).

(That section of the U.S. Code specifies that it is an act of infringement to submit the following, if the purpose of the submission is to obtain approval to engage in the commercial manufacture, use, or sale of a drug, veterinary biological product, or biological product claimed in a patent, or the use of which is claimed in a patent, before the expiration of the patent: a) an abbreviated new drug application, or an application for a new drug in which the investigations regarding the safety and effectiveness of the drug were not conducted by or for the applicant, for a drug, or use of a drug, claimed in a patent, b) an application for new animal drugs under the Federal Food, Drug, and Cosmetic Act, or the Virus-Serum-Toxin Act, for a drug or veterinary biological product that is not manufactured with site-specific gene manipulation techniques, and the product or use of the product is claimed in a patent, or c) an application seeking approval of a biological product.)

BACKGROUND

A patent is a right granted by a government to an inventor to exclude others from making, using, or selling an invention for a defined period of time. Patents are generally perceived to be a net social good in that the rights granted by a patent are a limited-time monopoly in exchange for a disclosure of the invention to the public. This exchange is believed to function as an incentive for inventors and entrepreneurs to allocate resources to developing new technology in hopes that they will be able to patent the invention and derive the benefits from

the patent, while disclosing to society the way the invention works. In the United States, the patent system is provided for in the U.S. Constitution, and is regulated under Federal law.¹

Many entities that hold patents do not ultimately practice the invention that they disclose. These entities are called nonpracticing entities (NPEs). There are a variety of reasons why an entity may choose not to practice a patented technology. Many universities are considered NPEs, as are some large companies.² Another group of NPEs is known as "patent assertion entities" (PAEs). These companies operate by purchasing patents and holding them in a portfolio. The patents might come from a variety of sources, e.g., a failed business or a small-scale inventor. A PAE will not practice the art and generally will not grant a license preemptively. Instead, the PAE will monitor the market for products or processes that could infringe on a patent in its portfolio. When infringement activity is suspected, the entity issues a demand letter requesting that the suspected infringer take a license to avoid being sued. Occasionally, a demand letter might express only a vague statement or assertion that the party to whom the letter is addressed might be infringing an unnamed patent, or patents.³ This practice is often referred to as patent trolling.

Legislative Analyst: Jeff Mann

FISCAL IMPACT

The bill would have an indeterminate fiscal impact on the Department of Attorney General. According to the Attorney General's office, the bill would increase its litigation costs; however, an estimate of the amount of those additional costs is indeterminate and dependent on the number of actual cases the Office would have to litigate. The costs also could be offset by any awards received by the Department as a result of any court ruling. Some of the damages that could be awarded to the Department include reasonable attorney fees as described in the proposed legislation.

Fiscal Analyst: Joe Carrasco

¹ Specifically, Congress has the power to "promote the progress of science and useful arts, by securing for limited times to...inventors the exclusive right to their...discoveries", U.S. Constitution Art. I, § 8, cl.8. See also, Title 35 of the United States Code.

² See Mark A. Lemley, "Are Universities Patent Trolls?", 18 Fordham Intellectual Property, Media and Entertainment Law Journal 611 (2008) for an in-depth discussion of university patent licensing and technology transfer activities and the resulting issues. One strategy employed by large industrial entities has been to purchase large numbers of patents related to the technology they research, manufacture, and sell. These patents might be used to develop new technology or conduct research, but they also can be asserted in a counterclaim against a party who has claimed infringement, often with the idea of settling litigation before trial.

³ For a more detailed explanation of patents, patent law, and PAEs, please see the Senate Fiscal Agency article, "A Summary of Patent Troll Activity and State Law", *State Notes* Fall 2014: <http://www.senate.michigan.gov/sfa/Publications/Notes/2014Notes/NotesFal14jem.pdf>.