



# Senate

General Assembly

**File No. 118**

February Session, 2014

Substitute Senate Bill No. 258

*Senate, March 25, 2014*

The Committee on Judiciary reported through SEN. COLEMAN of the 2nd Dist., Chairperson of the Committee on the part of the Senate, that the substitute bill ought to pass.

***AN ACT CONCERNING BAD FAITH CLAIMS OR ASSERTIONS OF PATENT INFRINGEMENT.***

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. (NEW) (*Effective October 1, 2014*) (a) As used in this  
2 section:

3 (1) "Demand letter" means a written communication, including an  
4 electronic communication, asserting or claiming that the target has  
5 engaged in patent infringement;

6 (2) "Institution of higher education" means "institution of higher  
7 education", as defined in Title IV, Part B of the Higher Education Act  
8 of 1965;

9 (3) "Person" means a natural person, corporation, limited liability  
10 company, trust, partnership, incorporated or unincorporated  
11 association, or any other legal entity;

12 (4) "Target" means a person (A) who has received a demand letter,

13 (B) who has been named as a defendant in a civil action alleging patent  
14 infringement, or (C) whose customers have received a demand letter;  
15 and

16 (5) "Technology transfer organization" means an organization  
17 owned by or affiliated with an institution of higher education whose  
18 primary purpose is to facilitate the commercialization of technologies  
19 developed by one or more institutions of higher education.

20 (b) No person shall make a bad faith claim or assertion of patent  
21 infringement.

22 (c) A target of conduct involving a bad faith claim or assertion of  
23 patent infringement may bring an action in the superior court for the  
24 judicial district in which a violation of any provision of this section  
25 occurs to enforce the provisions of this section.

26 (d) In determining whether a person has made a bad faith claim or  
27 assertion of patent infringement, a court may consider factors that  
28 include, but are not limited to, the following:

29 (1) Whether a demand letter contained: (A) The patent number, (B)  
30 the name and address of the patent owner and assignee, if any, and (C)  
31 factual allegations concerning the specific areas in which a target's  
32 products, services and technology infringe upon the terms of the  
33 patent;

34 (2) Whether the person sending a demand letter: (A) Prior to  
35 sending such demand letter, conducted an analysis of the terms of the  
36 patent relative to the target's products, services and technology, and  
37 (B) if such an analysis was conducted, included the results of any such  
38 analysis in the demand letter and specifically identified the ways in  
39 which a target's products, services and technology infringe upon the  
40 terms of the patent;

41 (3) If a demand letter does not contain the information specified in  
42 subdivisions (1) and (2) of this subsection and the target requested that  
43 such information be provided, whether the sender of the demand letter

44 provided such information not later than thirty days following the  
45 date on which the target requested that the information be provided;

46 (4) Whether a demand letter included a demand for a response or  
47 the payment of a license fee within an unreasonable period of time;

48 (5) Whether a person alleging patent infringement offered to license  
49 the patent for a sum of money that is not based on a reasonable  
50 estimate of the value of the license;

51 (6) Whether the claim or assertion of patent infringement is  
52 meritless and the person making such claim or assertion knew or  
53 should have known that such claim or assertion is meritless;

54 (7) Whether the claim or assertion of patent infringement is  
55 deceptive; and

56 (8) Whether a person making the claim or assertion of patent  
57 infringement, or a subsidiary or an affiliate of such person, has  
58 previously filed or threatened to file one or more civil actions based on  
59 the same or a similar claim of patent infringement and (A) such civil  
60 action or threatened civil action failed to include the information  
61 specified in subdivision (1) of this subsection, or (B) such civil action  
62 was found to be without merit by the court.

63 (e) In determining whether a person has made a good faith claim or  
64 assertion of patent infringement, the court may consider factors that  
65 include, but are not limited to, the following:

66 (1) Whether a demand letter contained the information specified in  
67 subdivision (1) of subsection (d) of this section;

68 (2) If a demand letter did not contain the information specified in  
69 subdivision (1) of subsection (d) of this section and the target  
70 requested that the person sending the demand letter provide such  
71 information, whether the person provided such information not later  
72 than thirty days following the date on which the target requested that  
73 the information be provided;

74 (3) Whether the person engaged in a good faith effort to establish  
75 that the target has infringed the patent and to negotiate an appropriate  
76 remedy;

77 (4) Whether the person has made a substantial investment in the use  
78 of the patent or in the production or sale of a product or item covered  
79 by the patent;

80 (5) Whether the person is: (A) The sole or a joint inventor of a  
81 patent, or in the case of a patent filed by and awarded to an assignee,  
82 the original assignee, or (B) an institution of higher education or a  
83 technology transfer organization; and

84 (6) Whether the person has: (A) Demonstrated good faith business  
85 practices in previous efforts to enforce the patent, or a substantially  
86 similar patent, or (B) successfully enforced the patent or a substantially  
87 similar patent through a civil action.

88 (f) Upon motion by a target and a finding by the court that a target  
89 has established a reasonable likelihood that a person has made a bad  
90 faith claim or assertion of patent infringement in violation of this  
91 section, the court shall require the person to post a bond in an amount  
92 equal to the target's good faith estimate of the costs to litigate the claim  
93 and amounts that are reasonably likely to be recovered under this  
94 section, conditioned upon payment of any amounts finally determined  
95 by the court to be due to the target. A hearing on the target's motion  
96 for the posting of a bond shall be held if requested by either party. Any  
97 bond ordered pursuant to this section shall not exceed the sum of two  
98 hundred fifty thousand dollars. The court may waive the bond if it  
99 finds the person has available assets equal to or in excess of the  
100 ordered bond or for good cause shown.

101 (g) In any civil action brought under this section in which the  
102 plaintiff prevails, the court may order: (1) Equitable relief, (2) actual  
103 damages, (3) reasonable costs and attorney's fees, and (4) punitive  
104 damages not to exceed an amount equal to five hundred thousand  
105 dollars or three times the total of actual damages and reasonable costs

106 and attorney's fees, whichever is greater.

107 (h) The Attorney General, acting on behalf of the state of  
 108 Connecticut, may bring an action in the superior court for the judicial  
 109 district in which a violation of any provision of this section occurs to  
 110 enforce the provisions of this section. In any such action, the Attorney  
 111 General may obtain, for the benefit of persons adversely affected by a  
 112 violation of this section, any relief to which such persons may be  
 113 entitled. The Attorney General may combine such action with any  
 114 other action within the Attorney General's power to maintain,  
 115 including an action under chapter 735a of the general statutes. Nothing  
 116 in this section shall limit the right of a person adversely affected by  
 117 violations of the law from bringing a private cause of action under this  
 118 section or any other law that may entitle such person to relief.

This act shall take effect as follows and shall amend the following sections:		
Section 1	October 1, 2014	New section

**Statement of Legislative Commissioners:**

In section 1(d)(2), the subparagraph designator "(B)" was moved to before, rather than after, the "if such an analysis was conducted" clause for clarity. In section 1(f), references to "a target's" and "a target" were changed to "the target's" and "the target" for consistency and clarity.

**JUD**      *Joint Favorable Subst. -LCO*

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and do not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

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**OFA Fiscal Note****State Impact:** None**Municipal Impact:** None**Explanation**

The bill has no fiscal impact on the Office of the Attorney General because the agency already has the authority to initiate an investigation or a lawsuit for the conduct covered in the bill under the Connecticut Unfair Trade Practices Act. The bill clarifies and eliminates any doubts or arguments to the contrary.

**The Out Years****State Impact:** None**Municipal Impact:** None*Sources: Office of the Attorney General*

**OLR Bill Analysis****sSB 258*****AN ACT CONCERNING BAD FAITH CLAIMS OR ASSERTIONS OF PATENT INFRINGEMENT.*****SUMMARY:**

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.

Under the bill, the court must require a person to post a bond of up to \$250,000 if the (1) target files a motion for the posting of such bond and (2) court finds that the target established a reasonable likelihood that the person made a bad faith claim or assertion. The court may waive the bond requirement under certain circumstances.

The bill specifies the factors a court may consider in differentiating between a bad faith or good faith claim or assertion of patent infringement. The factors generally concern the content of the demand letter, the actions of the person alleging infringement, and details of previously filed claims.

Lastly, the bill specifies the judicial remedies a prevailing plaintiff (i.e., the “target”) may receive, including attorney’s fees.

EFFECTIVE DATE: October 1, 2014

**RIGHT TO FILE A LAWSUIT**

Under the bill, a target may file a civil action against a person who makes a bad faith claim or assertion of patent infringement in the superior court for the judicial district where the violation occurred.

The bill also allows the attorney general to bring an independent action in such a court to enforce the bill's provisions. Under the bill, he may (1) obtain any relief to which people adversely affected by a violation are entitled and (2) combine the action with any other action within his power, including those involving unfair trade practices.

The bill specifies that it imposes no limits on a person's or entity's right to bring a private cause of action under the bill or any other law entitling them to relief if they were adversely affected by a violation of the law.

**BOND REQUIREMENT**

Under the bill, the court must require a person to post a bond if a target (1) makes a motion for a bond posting and (2) establishes a reasonable likelihood that the person has made a bad faith claim or assertion of patent infringement. The court must hold a hearing on the target's motion for a bond posting if either party requests one.

The bond is conditioned on the payment of any final amount awarded to the target by the court. Under the bill, the bond amount must equal the target's good faith estimate of litigation costs and any amounts likely to be awarded in a final judgment. The maximum bond amount is \$250,000.

The bill allows the court to waive the bond for good cause shown or if the person has available assets at least equal to the bond amount.

**FACTORS THE COURT MAY CONSIDER**

The bill creates a framework for the court to determine whether a claim or assertion of patent infringement is valid. The framework consists of separate factors for determining whether a claim or assertion is made in good or bad faith. Some factors are common to

both categories.

### ***Common Factors***

In assessing the validity of a claim or assertion of patent infringement, the bill allows the court to consider the content of a demand letter (which can also be an electronic communication). In doing so, the court may consider whether the demand letter contains the patent number and owner's and assignee's name and address. It may also consider whether the demand letter contains factual allegations specifying the areas in which the target's products, services, and technology infringed on the patent terms. If a demand letter does not contain this information, the court may consider whether the person provided it to the target within 30 days after the target requested it.

### ***Factors for Determining Bad Faith Claim or Assertion***

In determining whether a person made a bad faith claim or assertion, in addition to the common factors above, the court may consider whether the person:

1. conducted an analysis of the terms of the patent relative to the target's products, services, and technology, included the results of any such analysis in the demand letter, and identified the ways in which a target's products, services, and technology infringe the patent terms;
2. included in the demand letter a request for a response or the payment of a license fee within an unreasonable period of time;
3. offered to license the patent for a sum of money not based on a reasonable estimate of the license value;
4. knew or should have known that the claim or assertion is meritless; and
5. previously filed or threatened to file a civil action based on the same or a similar claim but did not include the information

specified earlier or a court found it to be meritless (or whether a person's subsidiary or affiliate filed such an action).

The court may also consider whether the claim or assertion was meritless or deceptive.

### ***Factors for Determining Good Faith Claim or Assertion***

In addition to the common factors discussed earlier, when determining whether a person's claim or assertion was made in good faith, the court may consider whether the person:

1. made a good faith effort to establish that the target has infringed the patent and to negotiate an appropriate remedy;
2. 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;
3. is owned by, affiliated with, or is an institution of higher education;
4. is the sole or a joint inventor of a patent, or, if the patent is filed by and awarded to an assignee, the original assignee; and
5. successfully enforced the patent or a substantially similar patent through a civil action or demonstrated good faith business practices in previous efforts to enforce the patent or a substantially similar patent.

### **JUDICIAL REMEDIES**

Under the bill, if a target succeeds in a civil action involving a bad faith claim or assertion of patent infringement, the court may order the following remedies:

1. equitable relief (i.e., nonmonetary relief);
2. actual damages (i.e., monetary compensation for actual losses);
3. reasonable costs and attorney's fees; and

4. an amount in excess of the actual damages (i.e., punitive damages), up to the greater of \$500,000 or three times the total of actual damages, reasonable costs, and attorney's fees.

## **BACKGROUND**

### ***Federal Patent Laws***

The United States Constitution allows Congress to grant patents that give inventors the exclusive right to their discoveries (U.S.C.A. Const. Art. I § 8, cl. 8).

Federal law gives the U.S. Patent and Trademark Office responsibility for (1) granting and issuing patents, (2) registering trademarks, and (3) disseminating information to the public regarding patents and trademarks (35 U.S.C.A. § 2).

The federal district courts have jurisdiction over any civil action arising under any federal patent law. State courts have no jurisdiction over any such claim arising under these laws (28 U.S.C.A. § 1338(a)).

Under federal law, a patent is presumed to be valid, a patentee has a right to a remedy by civil action for infringement, and the burden of establishing invalidity of a patent or any claim thereof rests on the party asserting the invalidity (35 U.S.C.A. §§ 281-282). Federal law establishes patent holders' rights and duties, defenses for alleged infringers, and limits on damages and other remedies.

## **COMMITTEE ACTION**

Judiciary Committee

Joint Favorable

Yea 40    Nay 2    (03/10/2014)