
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)