

Department of Legislative Services
Maryland General Assembly
2014 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 585

(Senator Middleton, *et al.*)

Finance

Economic Matters

Commercial Law - Patent Infringement - Assertions Made in Bad Faith

This bill prohibits a person from making an assertion of patent infringement in bad faith, with specified exceptions. The bill specifies factors for a court to consider as evidence of whether a person has made an assertion of patent infringement in bad faith or in good faith. The Attorney General and the Division of Consumer Protection of the Attorney General have the same authority to adopt regulations, conduct investigations, and bring civil and criminal actions as the Attorney General and the division have under the Maryland Consumer Protection Act (MCPA). The bill authorizes a target of a bad faith assertion to bring a civil action in the appropriate court to recover for injury or loss sustained as a result of a violation of the bill. If a target prevails and is awarded damages, a court may award reasonable attorney's fees, court costs, and exemplary damages.

The bill takes effect June 1, 2014.

Fiscal Summary

State Effect: General fund expenditures for the Office of the Attorney General (OAG) increase by \$220,200 in FY 2015 to hire staff to comply with the functions required by the bill. Out-year expenditures reflect annualization and inflation. Potential significant expenditure savings for State entities, such as higher education institutions, that hold patents or may be targets of fraudulent patent infringement claims. While the bill may generate additional litigation, it can be handled with existing resources of the Judiciary. Revenues are not materially affected.

(in dollars)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	220,200	261,000	271,500	282,500	294,000
Higher Ed Exp.	(-)	(-)	(-)	(-)	(-)
Net Effect	(\$220,200)	(\$261,000)	(\$271,500)	(\$282,500)	(\$294,000)

Note: (-) = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: While the bill may generate additional litigation, the impact is likely small enough that it can be handled with the Judiciary's existing resources. Revenues are not affected.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: The bill does not apply to assertions of patent infringement arising under specified provisions of federal law that relate to patented drugs (35 U.S.C. § 271(e)(2)) and biological products (42 U.S.C. § 262).

Under the bill, "demand letter" means a letter, an electronic mail, or any other written communication asserting that a person has engaged in patent infringement. "Target" means a person who has (1) received a demand letter or against whom an assertion of patent infringement has been made; (2) been threatened with litigation or against whom a lawsuit has been filed alleging patent infringement; or (3) at least one customer who has received a demand letter asserting that the person's product, service, or technology has infringed a patent.

Factors a Court May Consider

Factors a court may consider when determining whether a person is acting in *bad faith* include (1) the contents of the demand letter, including the absence of a patent number, the name and address of the patent owner or assignee, and the specificity of facts relating to the areas in which the target's product, service, or technology infringes the patent or is covered by the claims in the patent; (2) the responsiveness of the person to inquiries by the target related to the demand letter; (3) the extent to which the person conducted an analysis specifically comparing the claims in the patent to the target's product, service, or technology; (4) whether the demand letter demanded a response or payment of a licensing fee within an unreasonably short period of time; (5) the amount the person offered to license the patent; (6) whether the assertion of the patent infringement is without merit or deceptive; (7) whether the person, a subsidiary, or an affiliate previously filed or threatened to file one or more lawsuits based on the same or a similar assertion of patent infringement but those threats or lawsuits did not contain items specified in the first item above and a court found the person's assertion to be without merit; and (8) any other factor the court determines to be relevant.

Factors a court may consider as evidence that a person acted in *good faith* include, among other things (1) that the person has engaged in a good faith effort to establish that the target has infringed the patent and attempted to negotiate an appropriate remedy;

(2) whether the person has demonstrated good faith business practices in previous efforts to enforce a patent or successfully enforced a patent through litigation; (3) that the person has made a substantial investment in the use of the patent or in the production or sale of a product covered by the patent; (4) that the person is either an inventor of the patent, an original assignee, or a representative of an institution of higher education or a technology transfer organization affiliated with an institution of higher education; and (5) any other fact the court determines to be relevant.

Damages and Awards in Civil Actions by Target

If a target prevails in an action brought under the bill, and is awarded damages, the court may also award:

- court costs and fees, including reasonable attorney's fees;
- exemplary damages capped at the greater of \$50,000 or three times the total of damages, costs, and fees; and
- any equitable relief that the court considers appropriate.

Current Law: The federal U.S. Patent Act of 1952, codified with amendments as U.S.C. Title 35, governs patent law. There is no State law relating to a person making assertions of patent infringement.

An unfair or deceptive trade practice under MCPA includes any false, falsely disparaging, or misleading oral or written statement, visual description, or other representation of any kind which has the capacity, tendency, or effect of deceiving or misleading consumers. The prohibition against engaging in any unfair or deceptive trade practice encompasses the offer for or actual sale, lease, rental, loan, or bailment of any consumer goods, consumer realty, or consumer services; the extension of consumer credit; and the collection of consumer debt.

The Consumer Protection Division is responsible for enforcing MCPA and investigating the complaints of aggrieved consumers. The division may attempt to conciliate the matter, hold a public hearing, seek an injunction, or bring an action for damages. A merchant who violates MCPA is subject to a fine of up to \$1,000 for the first violation and up to \$5,000 for each subsequent violation. In addition to any civil penalties that may be imposed, any person who violates MCPA is guilty of a misdemeanor and, on conviction, is subject to a fine of up to \$1,000 and/or imprisonment for up to one year.

Background: A patent is an intellectual property right granted by the United States to an inventor "to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing into the United States" generally for a period of 20 years from the date an application is filed with the U.S. Patent and Trademark

Office. 35 U.S.C. § 154. Once a patent is granted, it is up to the patent holder to enforce the exclusivity conferred by the patent. A patent is considered personal property and may be transferred, sold, or licensed by the holder of the patent to others.

Patent infringement is the unauthorized making, using, offering for sale, or selling of any patented invention during the term of the patent. If a patent is infringed, the patentee may bring suit in federal court. The court may award injunctive relief and damages.

Patent litigation initiated by nonpracticing entities (NPEs) has become a costly issue for operating companies in recent years. According to RPX Corporation (RPX), a patent acquisition firm, an NPE, often referred to as a “patent troll,” acquires patents for the purpose of seeking out entities that may be infringing those patents and then threatens to take or takes legal action against those entities. In 2012, more than 2,400 operating companies were defendants in NPE litigation, accounting for 65% of all patent litigation in U.S. District Courts. The firm estimates that the median cost for a defendant to resolve NPE cases was \$550,000 in combined legal expenses and settlements.

In 2013, Vermont enacted a bill titled Bad Faith Assertions of Patent Infringement. The bill was created in response to an increasing volume of complaints from businesses that received letters or other communications from NPEs threatening litigation for infringing on patents. The bill amends the state’s consumer protection statute and explicitly states that it does not intend to conflict with federal law. The Vermont bill is the first of its kind that has been enacted and served as the model for this bill.

State Expenditures: General fund expenditures increase by \$220,201 in fiscal 2015, which assumes a 90-day start-up delay. This estimate reflects the cost of hiring one assistant Attorney General with knowledge of patent law and an investigator to investigate complaints brought under the bill. The amount also includes contractual services for expert consultants. The estimate includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses. The information used in calculating the estimate is stated below.

Positions	2
Salaries and Fringe Benefits	\$177,049
Expert Contractual Services	33,200
Other Operating Expenses	<u>9,952</u>
Total FY 2015 State Expenditures	\$220,201

Future year expenditures reflect full salaries with annual increases and employee turnover as well as annual increases in ongoing operating expenses.

Small Business Effect: Operating businesses are susceptible to patent infringement claims if the businesses make, use, offer for sale, or sell a product that allegedly infringes on a patent. As noted above, the costs for a defendant to resolve NPE claims are substantial. To the extent that small businesses are targets of bad faith assertions of patent infringement, the bill may have a substantially positive impact on their ability to defend against such assertions.

Additional Information

Prior Introductions: None.

Cross File: None designated; however, except for the effective date, HB 430 (Delegate Cardin - Economic Matters) is nearly identical.

Information Source(s): Office of the Attorney General (Consumer Protection Division), Judiciary (Administrative Office of the Courts), University System of Maryland, U.S. Patent and Trademark Office, *Forbes*, *Intellectual Property Magazine*, U.S. House of Representatives (Office of the Law Revision Counsel), *The Washington Post*, Vermont State Legislature, Department of Legislative Services

Fiscal Note History: First Reader - February 17, 2014
mm/kdm Revised - Senate Third Reader - March 26, 2014

Analysis by: Joshua A. Lowery

Direct Inquiries to:
(410) 946-5510
(301) 970-5510