

ASSEMBLY, No. 2462

STATE OF NEW JERSEY 216th LEGISLATURE

INTRODUCED FEBRUARY 10, 2014

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District 35 (Bergen and Passaic)

SYNOPSIS

Prohibits bad faith assertion of patent infringement.

CURRENT VERSION OF TEXT

As introduced.



(Sponsorship Updated As Of: 5/9/2014)

1 AN ACT concerning bad faith assertions of patent infringement and
2 supplementing Title 56 of the Revised Statutes.

3

4 **BE IT ENACTED** by the Senate and General Assembly of the State
5 of New Jersey:

6

7 1. The Legislature finds and declares that:

8 a. Some firms that own patents, but do not make products with
9 them, play an important role in promoting innovations such as by
10 connecting manufacturers with inventors, thereby allowing
11 inventors to focus on what they do best.

12 b. Patent Assertion Entities (PAEs, also commonly known as
13 “patent trolls”) however, do not play such roles, but instead focus
14 on aggressive litigation, using such tactics as: threatening to sue
15 thousands of companies at once, without specific evidence of
16 infringement against any of them; creating shell companies that
17 make it difficult for defendants to know who is suing them; and
18 asserting that their patents cover inventions not imagined at the time
19 they were granted.

20 c. Suits brought by PAEs have tripled in just the last two years,
21 rising from 29 percent of all infringement suits to 62 percent of all
22 infringement suits and estimates suggest that PAEs may have
23 threatened over 100,000 companies with patent infringement last
24 year alone.

25 d. Although many significant settlements are from large
26 companies, the majority of PAE suits target small and inventor-
27 driven companies and these suits are increasingly targeting end
28 users of products, including many small businesses.

29 e. PAEs take advantage of uncertainty about the scope or
30 validity of patent claims, especially in software-related patents
31 because of the relative novelty of the technology and because it has
32 been difficult to separate the “function” of the software from the
33 “means” by which that function is accomplished.

34 f. Patent litigation can be technical, complex, and expensive,
35 and the expense of patent litigation, which may cost hundreds of
36 thousands of dollars or more, can be a significant burden on small
37 and medium sized companies.

38 g. In order for companies in the State to be able to respond
39 promptly and efficiently to patent infringement assertions against
40 them, it is necessary that they receive specific information
41 regarding how their product, service, or technology may have
42 infringed the patent at issue, and receiving such information at an
43 early stage will facilitate the resolution of claims and lessen the
44 burden of potential litigation on New Jersey companies.

45 h. A business that receives a letter asserting patent
46 infringement claims faces the threat of expensive and protracted
47 litigation and may feel that it has no choice but to settle and to pay a
48 licensing fee, even if the claim is meritless.

1 i. Abusive patent litigation, and especially the assertion of bad
2 faith infringement claims, can harm companies in New Jersey,
3 especially because funds used to avoid the threat of bad faith
4 litigation are no longer available to invest, produce new products,
5 expand, or hire new workers, thereby damaging New Jersey's
6 economy.

7 j. It is in the public interest for the State to facilitate the
8 efficient and prompt resolution of patent infringement claims,
9 protect New Jersey businesses from abusive and bad faith assertions
10 of patent infringement, and build the State's economy, while at the
11 same time respecting federal law and being careful to not interfere
12 with legitimate patent enforcement actions.

13

14 2. As used in this act:

15 "Demand letter" means a letter, e-mail, or other communication
16 asserting or claiming that the target has engaged in patent
17 infringement.

18 "Target" means a person:

19 a. who has received a demand letter or against whom an
20 assertion or allegation of patent infringement has been made;

21 b. who has been threatened with litigation or against whom a
22 lawsuit has been filed alleging patent infringement; or

23 c. whose customers have received a demand letter asserting
24 that the person's product, service, or technology has infringed a
25 patent.

26

27 3. a. No person shall make a bad faith assertion of patent
28 infringement.

29 b. A court may consider the following factors as evidence that
30 a person has made a bad faith assertion of patent infringement:

31 (1) The demand letter does not contain the following
32 information:

33 (a) the patent number;

34 (b) the name and address of the patent owner or owners and
35 assignee or assignees, if any; and

36 (c) factual allegations concerning the specific areas in which the
37 target's products, services, and technology infringe the patent or are
38 covered by the claims in the patent.

39 (2) Prior to sending the demand letter, the person fails to
40 conduct an analysis comparing the claims in the patent to the
41 target's products, services, and technology, or such an analysis was
42 done but does not identify specific areas in which the products,
43 services, and technology are covered by the claims in the patent.

44 (3) The demand letter lacks the information described in this
45 subsection, the target requests the information, and the person fails
46 to provide the information within a reasonable period of time.

47 (4) The demand letter demands payment of a license fee or
48 response within an unreasonably short period of time.

- 1 (5) The person offers to license the patent for an amount that is
2 not based on a reasonable estimate of the value of the license.
- 3 (6) The claim or assertion of patent infringement is meritless,
4 and the person knew, or should have known, that the claim or
5 assertion is meritless.
- 6 (7) The claim or assertion of patent infringement is deceptive.
- 7 (8) The person or its subsidiaries or affiliates have previously
8 filed or threatened to file one or more lawsuits based on the same or
9 similar claim of patent infringement and:
- 10 (a) those threats or lawsuits lacked the information described in
11 this subsection; or
- 12 (b) the person attempted to enforce the claim of patent
13 infringement in litigation and a court found the claim to be
14 meritless.
- 15 (9) Any other factor the court finds relevant.
- 16 c. A court may consider the following factors as evidence that
17 a person has not made a bad faith assertion of patent infringement:
- 18 (1) The demand letter contains the information described in
19 subsection b. of this section.
- 20 (2) Where the demand letter lacks the information described in
21 subsection b. of this section and the target requests the information,
22 the person provides the information within a reasonable period of
23 time.
- 24 (3) The person engages in a good faith effort to establish that
25 the target has infringed the patent and to negotiate an appropriate
26 remedy.
- 27 (4) The person makes a substantial investment in the use of the
28 patent or in the production or sale of a product or item covered by
29 the patent.
- 30 (5) The person is:
- 31 (a) the inventor or joint inventor of the patent or, in the case of a
32 patent filed by and awarded to an assignee of the original inventor
33 or joint inventor, is the original assignee; or
- 34 (b) an institution of higher education or a technology transfer
35 organization owned or affiliated with an institution of higher
36 education.
- 37 (6) The person has:
- 38 (a) demonstrated good faith business practices in previous
39 efforts to enforce the patent, or a substantially similar patent; or
- 40 (b) successfully enforced the patent, or a substantially similar
41 patent, through litigation.
- 42 (7) Any other factor the court finds relevant.
- 43
- 44 4. Upon motion by a target and a finding by the court that a
45 target has established a reasonable likelihood that a person has
46 made a bad faith assertion of patent infringement in violation of this
47 act, the court shall require the person to post a bond in an amount
48 equal to a good faith estimate of the target's costs to litigate the

1 claim and amounts reasonably likely to be recovered under section
2 5 of this act conditioned upon payment of any amounts finally
3 determined to be due to the target. A hearing shall be held if either
4 party so requests. A bond ordered pursuant to this section shall not
5 exceed \$250,000. The court may waive the bond requirement if it
6 finds the person has available assets equal to the amount of the
7 proposed bond or for other good cause shown.

8
9 5. a. The Attorney General shall have the same authority under
10 this act to make rules, conduct civil investigations, bring civil
11 actions, and obtain injunctions as provided under P.L.1960, c. 39
12 (C.56:8-1 et seq.). In an action brought by the Attorney General
13 under this act the court may award or impose any relief available
14 under P.L.1960, c. 39 (C.56:8-1 et seq.).

15 b. A target of conduct involving assertions of patent
16 infringement, or a person aggrieved by a violation of this act or by a
17 violation of rules adopted under this act, may bring an action in
18 Superior Court. A court may award the following remedies to a
19 plaintiff who prevails in an action brought pursuant to this
20 subsection:

21 (1) equitable relief;

22 (2) damages;

23 (3) costs and fees, including reasonable attorney's fees; and

24 (4) exemplary damages in an amount equal to \$50,000 or three
25 times the total of damages, costs, and fees, whichever is greater.

26 c. This act shall not be construed to limit rights and remedies
27 available to the State of New Jersey or to any person under any
28 other law and shall not alter or restrict the Attorney General's
29 authority under P.L.1960, c. 39 (C.56:8-1 et seq.) with regard to
30 conduct involving assertions of patent infringement.

31
32 6. This act shall take effect immediately.

33 34 35 STATEMENT

36
37 This bill prohibits a person from making a bad faith assertion of
38 patent infringement. The bill identifies a list of factors that a court
39 may consider as evidence of bad faith, including, that the person,
40 when issuing a demand letter asserting or claiming that another
41 entity has engaged in patent infringement, does not provide the
42 following information: the patent number; the name and address of
43 the patent owner or owners and assignee or assignees, if any; and
44 factual allegations concerning the specific areas in which the
45 entity's products, services, and technology infringe the patent or are
46 covered by the claims in the patent.

47 Additional factors specified in the bill for a court to consider as
48 evidence of bad faith are:

1 (1) Prior to sending the demand letter, the person fails to
2 conduct an analysis comparing the claims in the patent to the
3 entity's products, services, and technology, or such an analysis was
4 done but does not identify specific areas in which the products,
5 services, and technology are covered by the claims in the patent.

6 (2) The demand letter lacks the information described above, the
7 target requests the information, and the person fails to provide the
8 information within a reasonable period of time.

9 (3) The demand letter demands payment of a license fee or
10 response within an unreasonably short period of time.

11 (4) The person offers to license the patent for an amount that is
12 not based on a reasonable estimate of the value of the license.

13 (5) The claim or assertion of patent infringement is meritless,
14 and the person knew, or should have known, that the claim or
15 assertion is meritless.

16 (6) The claim or assertion of patent infringement is deceptive.

17 (7) The person or its subsidiaries or affiliates have previously
18 filed or threatened to file one or more lawsuits based on the same or
19 similar claim of patent infringement and those threats or lawsuits
20 lacked the information described above, or the person attempted to
21 enforce the claim of patent infringement in litigation and a court
22 found the claim to be meritless.

23 This bill also identifies factors that a court may consider as
24 evidence that a person has not made a bad faith assertion of patent
25 infringement. These include:

26 (1) The aforementioned demand letter contains the information
27 described above.

28 (2) Where the demand letter lacks the information described
29 above and the entity requests the information, the person provides
30 the information within a reasonable period of time.

31 (3) The person engages in a good faith effort to establish that
32 the entity has infringed the patent and to negotiate an appropriate
33 remedy.

34 (4) The person makes a substantial investment in the use of the
35 patent or in the production or sale of a product or item covered by
36 the patent.

37 (5) The person is the inventor or joint inventor of the patent or,
38 in the case of a patent filed by and awarded to an assignee of the
39 original inventor or joint inventor, is the original assignee, or an
40 institution of higher education or a technology transfer organization
41 owned or affiliated with an institution of higher education.

42 (6) The person has demonstrated good faith business practices in
43 previous efforts to enforce the patent, or a substantially similar
44 patent, or successfully enforced the patent, or a substantially similar
45 patent, through litigation.

46 Furthermore, the bill authorizes a court, upon a showing of a
47 reasonable likelihood that a person has made a bad faith assertion of
48 patent infringement to require that a bond be posted, which bond

1 shall not exceed \$250,000. In addition, a court may award a
2 successful plaintiff exemplary damages in an amount equal to
3 \$50,000 or three times the total of damages, costs, and fees,
4 whichever is greater.

5 The bill also stipulates that the Attorney General shall have the
6 same authority under its provisions to make rules, conduct civil
7 investigations, bring civil actions, and obtain injunctions as
8 provided under the consumer fraud act, P.L.1960, c. 39 (C.56:8-1 et
9 seq.). In an action brought by the Attorney General under this bill,
10 the court may award or impose any relief available under P.L.1960,
11 c. 39 (C.56:8-1 et seq.).