

# ASSEMBLY, No. 310

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# STATE OF NEW JERSEY

## 217th LEGISLATURE

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PRE-FILED FOR INTRODUCTION IN THE 2016 SESSION

**Sponsored by:**

**Assemblyman TROY SINGLETON**

**District 7 (Burlington)**

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**District 25 (Morris and Somerset)**

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**District 35 (Bergen and Passaic)**

**SYNOPSIS**

Prohibits bad faith assertion of patent infringement.

**CURRENT VERSION OF TEXT**

Introduced Pending Technical Review by Legislative Counsel.



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 d. The provisions of this act shall not apply to a written or  
44 electronic communication:
- 45 (1) related to a patent that is required or authorized under 35  
46 U.S.C. s.271(e), or a “request for disclosure” authorized under 35  
47 U.S.C. s.287(b)(4);or
- 48 (2) sent by:

1 (a) an owner of a patent who is using the patent in connection  
2 with substantial research, development, production, manufacturing,  
3 processing, or delivery of products or materials;

4 (b) an institution of higher education; or

5 (c) a technology transfer organization which has the primary  
6 purpose of facilitating the commercialization of technology  
7 developed by an institution of higher education.

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9 4. Upon motion by a target and a finding by the court that a  
10 target has established a reasonable likelihood that a person has  
11 made a bad faith assertion of patent infringement in violation of this  
12 act, the court shall require the person to post a bond in an amount  
13 equal to a good faith estimate of the target's costs to litigate the  
14 claim and amounts reasonably likely to be recovered under section  
15 5 of this act conditioned upon payment of any amounts finally  
16 determined to be due to the target. A hearing shall be held if either  
17 party so requests. A bond ordered pursuant to this section shall not  
18 exceed \$250,000. The court may waive the bond requirement if it  
19 finds the person has available assets equal to the amount of the  
20 proposed bond or for other good cause shown.

21

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

28 b. A target of conduct involving assertions of patent  
29 infringement, or a person aggrieved by a violation of this act or by a  
30 violation of rules adopted under this act, may bring an action in  
31 Superior Court. A court may award the following remedies to a  
32 plaintiff who prevails in an action brought pursuant to this  
33 subsection:

34 (1) equitable relief;

35 (2) damages;

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

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

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

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45 6. This act shall take effect immediately.

STATEMENT

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This bill would protect New Jersey businesses from abusive and bad faith assertions of patent infringement. The bill identifies a list of factors that a court may consider as evidence that a person has made a bad faith assertion of patent infringement. One factor is whether a person's demand letter claiming patent infringement does not contain the following information: the patent number; the name and address of the patent owner or owners; and factual allegations specifying the patent infringement.

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

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

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

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

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

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

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

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

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

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

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

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

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

1 (5) The person is the inventor or joint inventor of the patent or, in  
2 the case of a patent filed by and awarded to an assignee of the original  
3 inventor or joint inventor, is the original assignee, or an institution of  
4 higher education or a technology transfer organization owned or  
5 affiliated with an institution of higher education.

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

10 The bill specifically excludes a written or electronic  
11 communication related to a patent that is required or authorized under  
12 35 U.S.C. s.271(e), or is a “request for disclosure” authorized under 35  
13 U.S.C. s.287(b)(4). The bill also protects a written or electronic  
14 communication from being considered a bad faith assertion of patent  
15 infringement if the communication is sent by:

- 16 • an owner of a patent who is using the patent in connection with  
17 substantial research, development, production, manufacturing,  
18 processing, or delivery of products or materials;
- 19 • an institution of higher education; or
- 20 • a technology transfer organization which has the primary  
21 purpose of facilitating the commercialization of technology  
22 developed by an institution of higher education.

23 The bill authorizes a court, upon a showing of a reasonable  
24 likelihood that a person has made a bad faith assertion of patent  
25 infringement to require that a bond be posted, which bond shall not  
26 exceed \$250,000. In addition, a court may award a successful plaintiff  
27 exemplary damages in an amount equal to \$50,000 or three times the  
28 total of damages, costs, and fees, whichever is greater.

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