ASSEMBLY, No. 2462

STATE OF NEW JERSEY

216th LEGISLATURE

INTRODUCED FEBRUARY 10, 2014

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SYNOPSIS
Prohibits bad faith assertion of patent infringement.

CURRENT VERSION OF TEXT
As introduced.

(Sponsorship Updated As Of: 5/9/2014)
AN ACT concerning bad faith assertions of patent infringement and
supplementing Title 56 of the Revised Statutes.

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

1. The Legislature finds and declares that:
   a. Some firms that own patents, but do not make products with
      them, play an important role in promoting innovations such as by
      connecting manufacturers with inventors, thereby allowing
      inventors to focus on what they do best.
   b. Patent Assertion Entities (PAEs, also commonly known as
      “patent trolls”) however, do not play such roles, but instead focus
      on aggressive litigation, using such tactics as: threatening to sue
      thousands of companies at once, without specific evidence of
      infringement against any of them; creating shell companies that
      make it difficult for defendants to know who is suing them; and
      asserting that their patents cover inventions not imagined at the time
      they were granted.
   c. Suits brought by PAEs have tripled in just the last two years,
      rising from 29 percent of all infringement suits to 62 percent of all
      infringement suits and estimates suggest that PAEs may have
      threatened over 100,000 companies with patent infringement last
      year alone.
   d. Although many significant settlements are from large
      companies, the majority of PAE suits target small and inventor-
      driven companies and these suits are increasingly targeting end
      users of products, including many small businesses.
   e. PAEs take advantage of uncertainty about the scope or
      validity of patent claims, especially in software-related patents
      because of the relative novelty of the technology and because it has
      been difficult to separate the “function” of the software from the
      “means” by which that function is accomplished.
   f. Patent litigation can be technical, complex, and expensive,
      and the expense of patent litigation, which may cost hundreds of
      thousands of dollars or more, can be a significant burden on small
      and medium sized companies.
   g. In order for companies in the State to be able to respond
      promptly and efficiently to patent infringement assertions against
      them, it is necessary that they receive specific information
      regarding how their product, service, or technology may have
      infringed the patent at issue, and receiving such information at an
      early stage will facilitate the resolution of claims and lessen the
      burden of potential litigation on New Jersey companies.
   h. A business that receives a letter asserting patent
      infringement claims faces the threat of expensive and protracted
      litigation and may feel that it has no choice but to settle and to pay a
      licensing fee, even if the claim is meritless.
Abusive patent litigation, and especially the assertion of bad faith infringement claims, can harm companies in New Jersey, especially because funds used to avoid the threat of bad faith litigation are no longer available to invest, produce new products, expand, or hire new workers, thereby damaging New Jersey’s economy.

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

2. As used in this act:

“Demand letter” means a letter, e-mail, or other communication asserting or claiming that the target has engaged in patent infringement.

“Target” means a person:

a. who has received a demand letter or against whom an assertion or allegation of patent infringement has been made;
b. who has been threatened with litigation or against whom a lawsuit has been filed alleging patent infringement; or
c. whose customers have received a demand letter asserting that the person’s product, service, or technology has infringed a patent.

3. a. No person shall make a bad faith assertion of patent infringement.
b. A court may consider the following factors as evidence that a person has made a bad faith assertion of patent infringement:

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

(a) the patent number;
(b) the name and address of the patent owner or owners and assignee or assignees, if any; and
(c) factual allegations concerning the specific areas in which the target’s products, services, and technology infringe the patent or are covered by the claims in the patent.

(2) Prior to sending the demand letter, the person fails to conduct an analysis comparing the claims in the patent to the target’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.

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

(4) The demand letter demands payment of a license fee or response within an unreasonably short period of time.
(5) The person offers to license the patent for an amount that is not based on a reasonable estimate of the value of the license.

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

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

(8) The person or its subsidiaries or affiliates have previously filed or threatened to file one or more lawsuits based on the same or similar claim of patent infringement and:

   (a) those threats or lawsuits lacked the information described in this subsection; or

   (b) the person attempted to enforce the claim of patent infringement in litigation and a court found the claim to be meritless.

(9) Any other factor the court finds relevant.

c. A court may consider the following factors as evidence that a person has not made a bad faith assertion of patent infringement:

   (1) The demand letter contains the information described in subsection b. of this section.

   (2) Where the demand letter lacks the information described in subsection b. of this section and the target 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 target 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.

   (5) The person is:

      (a) the inventor or joint inventor of the patent or, in the case of a patent filed by and awarded to an assignee of the original inventor or joint inventor, is the original assignee; or

      (b) an institution of higher education or a technology transfer organization owned or affiliated with an institution of higher education.

   (6) The person has:

      (a) demonstrated good faith business practices in previous efforts to enforce the patent, or a substantially similar patent; or

      (b) successfully enforced the patent, or a substantially similar patent, through litigation.

   (7) Any other factor the court finds relevant.

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

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

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

(1) equitable relief;
(2) damages;
(3) costs and fees, including reasonable attorney’s fees; and
(4) exemplary damages in an amount equal to $50,000 or three times the total of damages, costs, and fees, whichever is greater.

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

6. This act shall take effect immediately.

STATEMENT

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

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 have 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.

This 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) Where 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.

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

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

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

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