

2014 -- S 2822 SUBSTITUTE A

LC004905/SUB A

STATE OF RHODE ISLAND

IN GENERAL ASSEMBLY

JANUARY SESSION, A.D. 2014

A N A C T

RELATING TO COMMERCIAL LAW - GENERAL REGULATORY PROVISIONS -
PATENT INFRINGEMENT

Introduced By: Senators Algiere, Lombardi, Hodgson, McCaffrey, and Walaska

Date Introduced: March 25, 2014

Referred To: Senate Judiciary

It is enacted by the General Assembly as follows:

1 SECTION 1. Title 6 of the General Laws entitled "COMMERCIAL LAW - GENERAL
2 REGULATORY PROVISIONS" is hereby amended by adding thereto the following chapter:

3 CHAPTER 41.1

4 PATENT INFRINGEMENT

5 **6-41.1-1. Legislative findings and statement of purpose. --** (a) Rhode Island is striving
6 to build an entrepreneurial and knowledge based economy. Attracting and nurturing small and
7 medium-size internet technology ("IT") and other knowledge-based companies is an important
8 part of this effort and will be beneficial to Rhode Island's future.

9 (b) Patents can be important to encouraging innovation, especially in the IT and
10 knowledge-based fields. The protections afforded by the federal patent system create an incentive
11 to invest in research and innovation, which spurs economic growth. Patent holders have every
12 right to enforce their patents when they are infringed, and patent enforcement litigation is
13 necessary to protect intellectual property.

14 (c) The general assembly does not wish to interfere with the good faith enforcement of
15 patents or good faith patent litigation. The general assembly also recognizes that Rhode Island is
16 preempted from passing any law that conflicts with federal patent law.

17 (d) Patent litigation can be technical, complex, and expensive. The expense of patent
18 litigation, which may cost hundreds of thousands of dollars or more, can be a significant burden

1 on small and medium-size companies. Rhode Island wishes to help its businesses avoid these
2 costs by encouraging the most efficient resolution of patent infringement claims without
3 conflicting with federal law.

4 (e) In order for Rhode Island companies to be able to respond promptly and efficiently to
5 patent infringement assertions against them, it is necessary that they receive specific information
6 regarding how their product, service, or technology may have infringed the patent at issue.
7 Receiving such information at an early stage will facilitate the resolution of claims and lessen the
8 burden of potential litigation on Rhode Island companies.

9 (f) Abusive patent litigation, and especially the assertion of bad faith infringement claims,
10 can harm Rhode Island companies. A business that receives a letter asserting such claims faces
11 the threat of expensive and protracted litigation and may feel that it has no choice but to settle and
12 to pay a licensing fee, even if the claim is meritless. This is especially so for small and medium-
13 size companies and nonprofits that lack the resources to investigate and defend themselves
14 against infringement claims.

15 (g) Not only do bad faith patent infringement claims impose a significant burden on
16 individual Rhode Island businesses, they also undermine Rhode Island's efforts to attract and
17 nurture small and medium-size IT and other knowledge-based companies. Funds used to avoid
18 the threat of bad faith litigation are no longer available to invest, produce new products, expand,
19 or hire new workers, thereby harming Rhode Island's economy.

20 (h) Through this narrowly focused act, the general assembly seeks to facilitate the
21 efficient and prompt resolution of patent infringement claims, protect Rhode Island businesses
22 from abusive and bad faith assertions of patent infringement, and build Rhode Island's economy,
23 while at the same time respecting federal law and being careful to not interfere with legitimate
24 patent enforcement actions.

25 **6-41.1-2. Definitions.** – As used in this chapter:

26 (1) "Demand letter" means a letter, e-mail, or other communication asserting or claiming
27 that the target has engaged in patent infringement;

28 (2) "Person" means any natural person or the estate of any natural person, or trust or
29 association of persons, whether formal or otherwise, or any corporation, partnership, company, or
30 any other legal or commercial entity;

31 (3) "Target" means a Rhode Island person;

32 (i) Who has received a demand letter or against whom an assertion or allegation of patent
33 infringement has been made;

34 (ii) Who has been threatened with litigation or against whom a lawsuit has been filed

1 alleging patent infringement; or

2 (iii) Whose customers have received a demand letter asserting that the person's product,
3 service, or technology has infringed a patent.

4 **6-41.1-3. Bad faith assertions of patent infringement.** – (a) A person shall not make a
5 bad faith assertion of patent infringement.

6 (b) A court may consider the following factors as evidence that a person has made a bad
7 faith assertion of patent infringement:

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

9 (i) The patent number;

10 (ii) The name and address of the patent owner or owners and assignee or assignees, if
11 any; and

12 (iii) Factual allegations concerning the specific areas in which the target's products,
13 services, and technology infringe the patent or are covered by the claims in the patent.

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

18 (3) The demand letter lacks the information described in subdivision (1) of this section,
19 the target requests the information, and the person fails to provide the information within a
20 reasonable period of time.

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

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

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

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

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

30 (i) Those threats or lawsuits lacked the information described in subdivision (1) of this
31 subsection; or

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

34 (9) Any other factor the court finds relevant.

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

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

5 (2) Where the demand letter lacks the information described in subsection (b)(1) of this
6 section and the target requests the information, the person provides the information within a
7 reasonable period of time.

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

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

12 (5) The person is:

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

15 (ii) An institution of higher education or a technology transfer organization owned or
16 affiliated with an institution of higher education.

17 (6) The person has:

18 (i) Demonstrated good faith business practices in previous efforts to enforce the patent, or
19 a substantially similar patent; or

20 (ii) Successfully enforced the patent, or a substantially similar patent, through litigation.

21 (7) Any other factor the court finds relevant.

22 **6-41.1-4. Exemptions.** – A demand letter or assertion of patent infringement that
23 includes a claim for relief arising under 35 U.S.C. 271(e)(2) shall not be subject to the provisions
24 of this chapter.

25 **6-41.1-5. Bond.** – Upon motion by a target and a finding by the court that a target has
26 established a reasonable likelihood that a person has made a bad faith assertion of patent
27 infringement in violation of this chapter, the court shall require the person to post a bond in an
28 amount equal to a good faith estimate of the target's costs to litigate the claim and amounts
29 reasonably likely to be recovered under § 6-41.1-6(b), conditioned upon payment of any amounts
30 finally determined to be due to the target. A hearing shall be held if either party so requests. A
31 bond ordered pursuant to this section shall not exceed two hundred fifty thousand dollars
32 (\$250,000). The court may waive the bond requirement if it finds the person has available assets
33 equal to the amount of the proposed bond or for other good cause shown.

34 **6-41.1-6. Enforcement, remedies, and damages.** – (a) The attorney general shall have

1 the same authority under this chapter to make rules, conduct civil investigations, bring civil
2 actions, and enter into assurances of discontinuances as provided under chapter 36 of title 6
3 entitled "Antitrust Law". In an action brought by the attorney general under this chapter, the court
4 may award or impose any relief available under chapter 36 of title 6 entitled "Antitrust Law".

5 (b) A target of conduct involving assertions of patent infringement, or a person aggrieved
6 by a violation of this chapter may bring an action in superior court. A court may award the
7 following remedies to a plaintiff who prevails in an action brought pursuant to this subsection:

8 (1) Equitable relief;

9 (2) Actual damages;

10 (3) Costs and fees, including reasonable attorney's fees; and

11 (4) Exemplary damages in an amount equal to fifty thousand dollars (\$50,000) or three

12 (3) times the total of actual damages, costs, and fees, whichever is greater.

13 (c) This chapter shall not be construed to limit rights and remedies available to the state
14 of Rhode Island or to any person under any other law and shall not alter or restrict the attorney
15 general's authority under chapter 36 of title 6 entitled "Antitrust Law" with regard to conduct
16 involving assertions of patent infringement.

17 SECTION 2. This act shall take effect upon passage.

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EXPLANATION
BY THE LEGISLATIVE COUNCIL
OF

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RELATING TO COMMERCIAL LAW - GENERAL REGULATORY PROVISIONS -
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1 This act would authorize the attorney general and/or persons aggrieved to file a bad faith
2 patent infringement suit in superior court seeking equitable and/or monetary relief from persons
3 filing frivolous patent infringement claims as well as costs, fees, including reasonable attorney's
4 fees and punitive damages of at least fifty thousand dollars (\$50,000) or three (3) times the total
5 of actual damages, costs, and fees, whichever is greater.

6 This act would take effect upon passage.

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