MISSISSIPPI LEGISLATURE REGULAR SESSION 2014

By: Representatives Gipson, Byrd

To: Judiciary B

HOUSE BILL NO. 521
(As Passed the House)

AN ACT TO PROHIBIT BAD FAITH ASSERTIONS OF PATENT INFRINGEMENT; TO MAKE CERTAIN LEGISLATIVE FINDINGS; TO DEFINE CERTAIN TERMS; TO PROVIDE FACTORS THAT THE COURT MAY CONSIDER IN DETERMINING WHETHER A BAD FAITH ASSERTION OF PATENT INFRINGEMENT HAS BEEN MADE; TO PROVIDE PROCEDURES FOR ACTIONS UNDER THIS ACT; TO PROVIDE FOR A DEMAND LETTER IN AN ACTION; TO REQUIRE THE POSTING OF BOND; TO PROVIDE FOR ENFORCEMENT, REMEDIES AND DAMAGES; AND FOR RELATED PURPOSES.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MISSISSIPPI:

SECTION 1. (1) The Legislature finds that:

(a) Mississippi is striving to build an entrepreneurial and knowledge-based economy. Attracting and nurturing small- and medium-size Internet technology ("IT") and other knowledge-based companies is an important part of this effort and will be beneficial to Mississippi's future.

(b) Patents are essential to encouraging innovation, especially in the IT and knowledge-based fields. The protections afforded by the federal patent system create an incentive to invest in research and innovation, which spurs economic growth. Patent holders have every right to enforce their patents when they

are infringed, and patent enforcement litigation is necessary to protect intellectual property.

(c) The Legislature does not wish to interfere with the good faith enforcement of patents or good faith patent litigation. The Legislature also recognizes that Mississippi is preempted from passing any law that conflicts with federal patent law.

(d) Patent litigation can be technical, complex, and expensive. The expense of patent litigation, which may cost hundreds of thousands of dollars or more, can be a significant burden on small- and medium-size companies. Mississippi wishes to help its businesses avoid these costs by encouraging the most efficient resolution of patent infringement claims without conflicting with federal law.

(e) In order for Mississippi companies 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. Receiving such information at an early stage will facilitate the resolution of claims and lessen the burden of potential litigation on Mississippi companies.

(f) Abusive patent litigation, and especially the assertion of bad faith infringement claims, can harm Mississippi companies. A business that receives a letter asserting such 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. This is especially so for small- and medium-size companies and nonprofits that lack the resources to investigate and defend themselves against infringement claims.

(g) Not only do bad faith patent infringement claims impose a significant burden on individual Mississippi businesses, they also undermine Mississippi's efforts to attract and nurture small- and medium-size IT and other knowledge-based companies. 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 harming Mississippi's economy.

(2) Through this narrowly focused act, the Legislature seeks to facilitate the efficient and prompt resolution of patent infringement claims, protect Mississippi businesses from abusive and bad faith assertions of patent infringement, and build Mississippi's economy, while at the same time respecting federal law and being careful to not interfere with legitimate patent enforcement actions.

SECTION 2. In this act:

(a) "Demand letter" means a letter, email, or other communication asserting or claiming that the target has engaged in patent infringement.

(b) "Target" means a Mississippi person:

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

(ii) Who has been threatened with litigation or against whom a lawsuit has been filed alleging patent infringement; or

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

SECTION 3. (1) A person shall not make a bad faith assertion of patent infringement.

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

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

(i) The patent number;

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

(iii) 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.

(b) 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.

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

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

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

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

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

(h) 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:

(i) Those threats or lawsuits lacked the information described in paragraph (a) of this subsection; or

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

(iii) Any other factor the court finds relevant.

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

(a) The demand letter contains the information described in subsection (2)(a) of this section.

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

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

(d) 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.

(e) The person is:

(i) 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

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

(f) The person has:

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

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

(g) Any other factor the court finds relevant.

SECTION 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(2) 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 Two Hundred Fifty Thousand Dollars ($250,000.00). 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.

SECTION 5. (1) The Attorney General shall have the authority under this act to make rules, conduct civil investigations, bring civil actions, and enter into assurances of discontinuance. In an action brought by the Attorney General under this act, the court may award or impose any relief available.

(2) 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 circuit court. A court may award the following remedies to a plaintiff who prevails in an action brought pursuant to this subsection:

(a) Equitable relief;

(b) Damages;

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

(d) Exemplary damages in an amount equal to Fifty Thousand Dollars ($50,000.00) or three (3) times the total of damages, costs, and fees, whichever is greater.

(3) This act shall not be construed to limit rights and remedies available to the State of Mississippi or to any person under any other law and shall not alter or restrict the Attorney General's authority with regard to conduct involving assertions of patent infringement.

SECTION 6. This act shall take effect and be in force from and after July 1, 2014, and shall stand repealed on June 30, 2014.