

# HOUSE BILL No. 5701

July 16, 2014, Introduced by Rep. Callton and referred to the Committee on Michigan Competitiveness.

A bill to prohibit the bad-faith assertion of patent infringements; to provide remedies for the bad-faith assertion of patent infringements; to provide for the powers and duties of the attorney general; and to authorize the promulgation of rules.

**THE PEOPLE OF THE STATE OF MICHIGAN ENACT:**

1           Sec. 1. This act shall be known and may be cited as the "bad-  
2           faith patent infringement claims act".

3           Sec. 2. The legislature finds all of the following:

4           (a) This state is striving to build an entrepreneurial and  
5           knowledge-based economy. Attracting and nurturing small- and  
6           medium-sized knowledge-based companies is an important part of this  
7           effort and will be beneficial to this state's future.

8           (b) Patents are essential to encouraging innovation,

1 especially in information technology and knowledge-based fields.  
2 The protections afforded by the federal patent system create an  
3 incentive to invest in research and innovation, which spurs  
4 economic growth. Patent holders have every right to enforce their  
5 patents when they are infringed, and patent enforcement litigation  
6 is necessary to protect intellectual property.

7 (c) The legislature does not wish to interfere with the good-  
8 faith enforcement of patents or good-faith patent litigation. The  
9 legislature also recognizes that this state is preempted from  
10 passing any law that conflicts with federal patent law.

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

18 (e) Abusive patent litigation, and especially the assertion of  
19 bad-faith infringement claims, can harm companies in this state. A  
20 business that receives a letter asserting such a claim faces the  
21 threat of expensive and protracted litigation and may feel that it  
22 has no choice but to settle and to pay a licensing fee, even if the  
23 claim is meritless. This is especially so for small and medium  
24 companies and nonprofits that lack the resources to investigate and  
25 defend themselves against infringement claims.

26 (f) Through this narrowly focused act, the legislature seeks  
27 to facilitate the efficient and prompt resolution of patent

1 infringement claims, protect businesses in this state from abusive  
2 and bad-faith assertions of patent infringement, and build this  
3 state's economy, while at the same time respecting federal law and  
4 being careful not to interfere with legitimate patent enforcement  
5 actions.

6 Sec. 3. As used in this act:

7 (a) "Demand letter" means a letter, electronic mail, or other  
8 communication that asserts or claims that the target has engaged in  
9 patent infringement.

10 (b) "Person" means an individual, partnership, corporation,  
11 association, governmental entity, or other legal entity.

12 (c) "Target" means a person to which 1 or more of the  
13 following apply:

14 (i) The person has received a demand letter or an assertion or  
15 allegation of patent infringement has been made against the person.

16 (ii) The person has been threatened with litigation or a  
17 lawsuit has been filed against the person alleging patent  
18 infringement.

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

22 Sec. 5. (1) A person shall not make a bad-faith assertion of  
23 patent infringement.

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

27 (a) A demand letter sent by the person did not contain all of

1 the following information:

2 (i) The patent number.

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

5 (iii) Factual allegations concerning the specific areas in which  
6 the target's products, services, and technology infringed the  
7 patent or were covered by the claims in the patent.

8 (b) Before sending a demand letter, the person failed to  
9 conduct an analysis comparing the claims in the patent to the  
10 target's products, services, and technology, or such an analysis  
11 was done but did not identify specific areas in which the products,  
12 services, and technology were covered by the claims in the patent.

13 (c) A demand letter sent by the person lacked the information  
14 described in subdivision (a), the target requested the information,  
15 and the person failed to provide the information within a  
16 reasonable time.

17 (d) A demand letter sent by the person demanded payment of a  
18 license fee or response within an unreasonably short period of  
19 time.

20 (e) The person offered to license the patent for an amount  
21 that was not based on a reasonable estimate of the value of the  
22 license.

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

26 (g) The claim or assertion of patent infringement was  
27 deceptive.

1 (h) The person or any of its subsidiaries or affiliates has  
2 previously filed or threatened to file 1 or more lawsuits based on  
3 the same or similar claim of patent infringement and 1 or both of  
4 the following apply:

5 (i) The threats or lawsuits lacked the information described in  
6 subdivision (a).

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

10 (i) Any other factor the court finds relevant.

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

14 (a) A demand letter sent by the person contains the  
15 information described in subsection (2)(a).

16 (b) If a demand letter sent by the person lacked the  
17 information described in subsection (2)(a) and the target requested  
18 the information, the person provided the information within a  
19 reasonable time.

20 (c) The person engaged in a good-faith effort to establish  
21 that the target infringed the patent and to negotiate an  
22 appropriate remedy.

23 (d) The person made a substantial investment in the use of the  
24 patent or in the production or sale of a product or item covered by  
25 the patent.

26 (e) The person is 1 of the following:

27 (i) The inventor or joint inventor of the patent or, for a

1 patent filed by and awarded to an assignee of the original inventor  
2 or joint inventor, the original assignee.

3 (ii) An institution of higher education or a technology  
4 transfer organization owned or affiliated with an institution of  
5 higher education.

6 (f) The person has done either of the following:

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

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

11 (g) Any other factor the court finds relevant.

12 (4) This act does not apply to a demand letter or assertion of  
13 a patent infringement that includes a claim for relief arising  
14 under 35 USC 271(e) (2).

15 Sec. 7. (1) On motion by a target and a finding by the court  
16 that the target has established a reasonable likelihood that a  
17 person has made a bad-faith assertion of patent infringement in  
18 violation of this act, the court shall require the person to post a  
19 bond in an amount equal to a good-faith estimate of the target's  
20 costs to litigate the claim and an amount reasonably likely to be  
21 recovered under section 9(2), conditioned on payment of any amount  
22 finally determined to be due to the target. The court shall not  
23 order a bond to be posted under this section that exceeds  
24 \$250,000.00.

25 (2) A court may waive the bond requirement under this section  
26 if it finds the person alleged to have made a bad-faith assertion  
27 of patent infringement in violation of this chapter has available

1 assets equal to the amount of the proposed bond or for other good  
2 cause shown.

3       Sec. 9. (1) The attorney general has the same authority under  
4 this act to make rules, conduct civil investigations, bring civil  
5 actions, and enter into assurances of discontinuance as provided  
6 under the Michigan consumer protection act, 1976 PA 331, MCL  
7 445.901 to 445.922. In an action brought by the attorney general  
8 under this act, the court may award or impose any relief available  
9 under the Michigan consumer protection act, 1976 PA 331, MCL  
10 445.901 to 445.922.

11       (2) A target or a person aggrieved by a violation of this act  
12 or rules promulgated under this act may bring an action in the  
13 circuit court. The court may award the following remedies to a  
14 plaintiff that prevails in an action brought under this subsection:

15       (a) Equitable relief.

16       (b) Damages.

17       (c) Costs and fees, including reasonable attorney fees.

18       (d) Exemplary damages in an amount equal to \$50,000.00 or 3  
19 times the total of actual damages, costs, and fees, whichever is  
20 greater.

21       (3) This act does not limit rights and remedies available to  
22 this state or to any person under any other law and does not alter  
23 or restrict the attorney general's authority under the Michigan  
24 consumer protection act, 1976 PA 331, MCL 445.901 to 445.922, with  
25 regard to conduct involving assertions of patent infringement.