

Bad Faith Assertions of Patent Infringement

With passage of this Act, Vermont enacted what observers believe is the first state anti-patent “troll” legislation in the country. Though the law still provides for legitimate claims of patent infringement in accordance with federal law, it will, however, require more detailed allegations in licensing demand letters and it increases the potential cost of making a baseless claim. Under the new law, demand letters must include detailed information about how the Vermont product, service or technology infringes on an existing patent. The demand letter must also allow for a reasonable amount of time for the licensing fee to be paid. The penalty for a bad faith claim is a bond equal to the cost of litigating the claim for the Vermont company. Violators risk being brought into court in violation of state law and the attorney general can also file suit against patent trolls who target Vermont companies without legitimate claims.

Submitted as:

Vermont

[HB 299](#)

Status: Signed into law on May 22, 2013.

Suggested State Legislation

(Title, enacting clause, etc.)

- 1 Section 1. [*Short Title.*] Bad Faith Assertions of Patent Infringement.
- 2
- 3 Section 2. [*Findings and statement of purpose.*]
- 4
- 5 Section 3. [*Definitions.*]
- 6 In this chapter:
- 7 (1) “Demand letter” means a letter, e-mail, or other communication asserting or claiming that the
- 8 target has engaged in patent infringement.
- 9 (2) “Target” means a Vermont person:
- 10 (A) who has received a demand letter or against whom an assertion or allegation of patent
- 11 infringement has been made;
- 12 (B) who has been threatened with litigation or against whom a lawsuit has been filed alleging
- 13 patent infringement; or
- 14 (C) whose customers have received a demand letter asserting that the person’s product,
- 15 service, or technology has infringed a patent.

1 Section 4. [*Bad faith assertions of patent infringement.*]

2 (a) A person shall not make a bad faith assertion of patent infringement.

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

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

6 (A) the patent number;

7 (B) the name and address of the patent owner or owners and assignee or assignees, if any;
8 and

9 (C) factual allegations concerning the specific areas in which the target's products,
10 services, and technology infringe the patent or are covered by the claims in the
11 patent.

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

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

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

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

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

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

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

28 (A) those threats or lawsuits lacked the information described in subdivision (1) of
29 this subsection; or

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

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

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

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

36 (2) Where the demand letter lacks the information described in subdivision (b)(1) of this
37 section and the target requests the information, the person provides the information
38 within a reasonable period of time.

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

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

43 (5) The person is:

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

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

3 (6) The person has:

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

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

7 (7) Any other factor the court finds relevant.
8

9 Section 5. [*Bond.*]

10 Upon motion by a target and a finding by the court that a target has established a reasonable
11 likelihood that a person has made a bad faith assertion of patent infringement in violation of this
12 chapter, the court shall require the person to post a bond in an amount equal to a good faith
13 estimate of the target's costs to litigate the claim and amounts reasonably likely to be recovered
14 under Section 6(b) of this chapter, conditioned upon payment of any amounts finally determined
15 to be due to the target. A hearing shall be held if either party so requests. A bond ordered
16 pursuant to this section shall not exceed \$250,000.00. The court may waive the bond requirement
17 if it finds the person has available assets equal to the amount of the proposed bond or for other
18 good cause shown.
19

20 Section 6. [*Enforcement; Remedies; Damages.*]

21 (a) The Attorney General shall have the same authority under this chapter to make rules, conduct
22 civil investigations, bring civil actions, and enter into assurances of discontinuance as
23 provided under [Insert citation.] In an action brought by the Attorney General under this
24 chapter the court may award or impose any relief available under [Insert Citation].

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

29 (1) equitable relief;

30 (2) damages;

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

32 (4) exemplary damages in an amount equal to \$50,000.00 or three times the total of damages,
33 costs, and fees, whichever is greater.

34 (c) This chapter shall not be construed to limit rights and remedies available to the State of
35 Vermont or to any person under any other law and shall not alter or restrict the Attorney
36 General's authority under [Insert citation] with regard to conduct involving assertions of
37 patent infringement.
38

39 Section 7. [*Severability.*] Insert severability clause.

40
41 Section 8. [*Repealer.*] Insert repealer clause.

42
43 Section 9. [*Effective Date.*] Insert effective date.