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HOUSE BILL NO. 375

Offered January 8, 2014

Prefiled January 3, 2014

A BILL to amend the Code of Virginia by adding in Title 59.1 a chapter numbered 18.1, consisting of sections numbered 59.1-215.1 through 59.1-215.4, relating to bad faith assertions of patent infringement; penalties.

Patrons—O'Quinn, Keam, Campbell, Chafin, Comstock, Davis, Garrett, Head, Hugo, Kilgore, Marshall, R.G., Miller, Rush, Simon, Villanueva and Webert

Referred to Committee for Courts of Justice

Be it enacted by the General Assembly of Virginia:

1. That the Code of Virginia is amended by adding in Title 59.1 a chapter numbered 18.1, consisting of sections numbered 59.1-215.1 through 59.1-215.4, as follows:

CHAPTER 18.1.**BAD FAITH ASSERTIONS OF PATENT INFRINGEMENT.****§ 59.1-215.1. Definitions.**

As used in this chapter, unless the context requires a different meaning:

"Assertion of patent infringement" means (i) sending or delivering a demand letter to a target; (ii) threatening a target with litigation asserting, alleging, or claiming that the target has engaged in patent infringement; (iii) filing an action in state or federal court in the Commonwealth in which it is asserted, alleged, or claimed that the target has engaged in patent infringement; or (iv) sending or delivering a demand letter to the customers of a target.

"Demand letter" means a letter, email, or other communication asserting, alleging, or claiming that the target has engaged in patent infringement, or that the actions of the target would benefit from the grant of a license to any patent, or any similar assertion.

"Patent infringement" means (i) the unauthorized making of, use of, offering to sell, or sale of any patented invention within the United States, or the unauthorized importation into the United States of any patented invention, during the term of the patent therefor; (ii) actively inducing the infringement of a patent; (iii) offering to sell or selling within the United States or importing into the United States a component of a patented machine, manufacture, combination, or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use; or (iv) any other conduct that constitutes an act of infringement pursuant to 35 U.S.C. § 271, as amended.

"Target" means a person residing in or having its principal place of business in the Commonwealth:

1. Who has received a demand letter or against whom an assertion of patent infringement has been made;

2. Who has been threatened with litigation or against whom a lawsuit has been filed asserting or alleging patent infringement; or

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

§ 59.1-215.2. Bad faith assertions of patent infringement.

A. A person shall not make, in bad faith, an assertion of patent infringement.

B. The following shall constitute indicia that a person's assertion of patent infringement was made in bad faith:

1. The demand letter does not contain:

a. The number of the patent that is asserted, alleged, or claimed to have been infringed; or

b. The name and address of the patent's owner or owners and assignee or assignees, if any.

2. The person sends a demand letter to a target without first conducting an analysis comparing the claims in the patent to the target's products, services, and technology, or such an analysis was conducted but does not identify specific areas in which the products, services, or technology are covered by the claims in the patent.

3. The demand letter does not identify specific areas in which the products, services, and technology are covered by the claims in the patent.

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 reasonably based on the value to

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58 *the target's business of a license to the patent.*

59 6. *The person asserting a claim or allegation of patent infringement acts in subjective bad faith, or a*
60 *reasonable actor in the person's position would know or reasonably should know that such assertion is*
61 *meritless.*

62 7. *The assertion of patent infringement is deceptive.*

63 8. *The person or its subsidiaries or affiliates have previously filed or threatened to file one or more*
64 *lawsuits based on the same or similar assertion of patent infringement, the person attempted to enforce*
65 *the assertion of patent infringement in litigation, and a court found the claim to be meritless.*

66 C. *The following shall constitute indicia that a person's assertion of patent infringement was not*
67 *made in bad faith:*

68 1. *The person engages in a good faith effort to establish that the target has infringed the patent and*
69 *to negotiate an appropriate remedy.*

70 2. *The person makes a substantial investment in the use of the patent or in the production or sale of*
71 *a product or item covered by the patent.*

72 3. *The person has:*

73 a. *Demonstrated good faith in previous efforts to enforce the patent or a substantially similar patent;*
74 *or*

75 b. *Successfully enforced the patent, or a substantially similar patent, through litigation.*

76 **§ 59.1-215.3. Bonding requirement.**

77 *Upon motion by a target and a finding by a court that a target has established a reasonable*
78 *likelihood that a person has made, in bad faith, an assertion of patent infringement in violation of this*
79 *chapter, the court shall require the person to post a bond in an amount equal to a good faith estimate*
80 *of the target's costs to litigate the claim and amounts reasonably likely to be recovered under*
81 *§ 59.1-215.4, conditioned upon payment of any amounts finally determined to be due to the target. A*
82 *hearing shall be held if either party so requests. The court may waive the bond requirement if it finds*
83 *the person has available assets equal to the amount of the proposed bond or for other good cause*
84 *shown.*

85 **§ 59.1-215.4. Enforcement; remedies; civil investigative demands; assurances of voluntary**
86 **compliance; restraining prohibited acts; individual actions for damages or penalty.**

87 A. *Whenever the Attorney General has reasonable cause to believe that any person has engaged in,*
88 *or is engaging in, or is about to engage in, any violation of this chapter, the Attorney General is*
89 *empowered to issue a civil investigative demand. The provisions of § 59.1-9.10 shall apply mutatis*
90 *mutandis to civil investigative demands issued pursuant to this section.*

91 B. *The Attorney General may accept an assurance of voluntary compliance with this chapter from*
92 *any person subject to the provisions of this chapter. Any such assurance shall be in writing and be filed*
93 *with and be subject on petition to the approval of the appropriate circuit court. Such assurance of*
94 *voluntary compliance shall not be considered an admission of guilt or a violation for any purpose. Such*
95 *assurance of voluntary compliance may at any time be reopened by the Attorney General for additional*
96 *orders or decrees to enforce the assurance of voluntary compliance. When an assurance is presented to*
97 *the circuit court for approval, the Attorney General shall file, in the form of a motion for judgment or*
98 *complaint, the allegations that form the basis for the entry of the assurance. The assurance may provide*
99 *by its terms for any relief that an appropriate circuit court could grant, including but not limited to*
100 *restitution, arbitration of disputes between the supplier and its customers, investigative expenses, civil*
101 *penalties, and costs, provided, however, that nothing in this chapter shall be construed to authorize or*
102 *require the Commonwealth or the Attorney General to participate in arbitration of violations under this*
103 *section.*

104 C. *Notwithstanding any other provisions of law to the contrary, the Attorney General or any attorney*
105 *for the Commonwealth may cause an action to be brought in the appropriate circuit court in the name*
106 *of the Commonwealth to enjoin any violation of this chapter. The circuit court having jurisdiction may*
107 *enjoin such violations notwithstanding the existence of an adequate remedy at law. In any action under*
108 *this section, it shall not be necessary that damages be proved. Unless the Attorney General or any*
109 *attorney for the Commonwealth determines that a person subject to the provisions of this chapter*
110 *intends to depart from the Commonwealth or to remove his property from the Commonwealth, or to*
111 *conceal himself or his property within the Commonwealth, or on a reasonable determination that*
112 *irreparable harm may occur if immediate action is not taken, the Attorney General or any attorney for*
113 *the Commonwealth shall, before initiating any legal proceedings as provided in this section, give notice*
114 *in writing that such proceedings are contemplated and allow such person a reasonable opportunity to*
115 *show that a violation did not occur or execute an assurance of voluntary compliance as provided in*
116 *subsection B. The circuit courts are authorized to issue temporary or permanent injunctions to restrain*
117 *and prevent violations of this chapter.*

118 D. *Any target of conduct involving assertions of patent infringement that suffers loss as the result of*
119 *a violation of this chapter, or any other person aggrieved by a violation of this chapter, shall be entitled*

120 to initiate an action to recover actual damages. If the trier of fact finds that the violation was willful, it
121 may increase damages to an amount not exceeding three times the actual damages sustained or
122 \$50,000, whichever is greater. In addition to any damages awarded, such target or other person also
123 may be awarded reasonable fees and costs, including attorney fees and court costs. Such target may
124 also be awarded equitable relief.

125 E. Any person outside the Commonwealth sending a demand letter to a target shall be deemed to be
126 transacting business within the Commonwealth within the meaning of subdivision A 1 of § 8.01-328.1
127 and shall thereby be subject to the jurisdiction of the courts of the Commonwealth.