

BILL ANALYSIS

Senate Research Center
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S.B. 1457
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AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

In the United States, patents provide the right for an individual to exclude others from making, selling, using, or importing a claimed invention for a period of time. Patents are acquired from the United States Patent Trademark Office, and patent holders enforce their rights by filing patent infringement claims in federal courts, which have the exclusive jurisdiction over patent enforcement.

In recent years, the patent system has seen the growth of abusive patent litigation by entities whose business model exploits the complicated federal patent system for financial gain. Patent assertion entities (PAEs), or as they are commonly called, "patent trolls," in some cases acquire patents with the sole intent to initiate patent infringement litigation and garner licensing fees or settlements from their targets. Other PAEs may not hold patents at all, or hold expired patents, and nonetheless send large volumes of demand letters targeted toward small businesses and small financial institutions that may lack the resources to defend a complex federal lawsuit. These PAEs have cost businesses and consumers throughout the United States millions of dollars and wasted time and resources, but to date, Congress has not provided a legislative solution to curb this abusive practice.

Because of the lack of federal patent reform legislation, many states have passed laws to attempt to address PAEs. To date, 18 states have passed a law aimed at curbing patent abuses; however, Texas does currently not have a state law addressing these types of deceptive patent infringement claims.

S.B. 1457 adds a new subchapter to Chapter 17, Business and Commerce Code, relating to deceptive trade practices, to prohibit a person from sending written communications in which a bad faith claim of patent infringement is made against a person located or doing business in Texas. It defines what constitutes a bad-faith claim of patent infringement, limiting it to communications that: (1) falsely state that the sender has filed a lawsuit in connection with the claim; (2) make a claim that is objectively baseless; or (3) are likely to materially mislead a recipient because of the communication's content. It authorizes the Office of the Attorney General to investigate bad-faith claims of patent infringement and bring an action in court to enjoin a violator, and/or seek penalties, reimbursement, and restitution relating to the bad-faith patent infringement claim.

S.B. 1457 provides a safe harbor to protect the rights of valid patent holders to enforce their patent, including the notification of possible infringements and the pursuit of compensation for past or present infringements.

Finally, S.B. 1457 amends Section 38.12, Penal Code, to make the knowing institution of a claim that would be considered a bad-faith patent infringement claim under the new Subchapter L an offense of barratry, punishable as a Class A Misdemeanor.

As proposed, S.B. 1457 amends current law relating to bad faith claims of patent infringement, provides a civil penalty, and creates a criminal offense.

RULEMAKING AUTHORITY

This bill does not expressly grant any additional rulemaking authority to a state officer, institution, or agency.

SECTION BY SECTION ANALYSIS

SECTION 1. Amends Chapter 17, Business & Commerce Code, by adding Subchapter L, as follows:

SUBCHAPTER L. BAD FAITH CLAIMS OF PATENT INFRINGEMENT

Sec. 17.951. BAD FAITH CLAIMS OF PATENT INFRINGEMENT PROHIBITED. Prohibits a person from sending 10 or more written communications per calendar year in which the person makes a bad faith claim of patent infringement against a person located or doing business in this state. Provides that a person makes a bad faith claim of patent infringement if the communication includes an allegation that the recipient or a person affiliated with the recipient has infringed a patent and is liable for that infringement and:

- (1) the communication falsely states that the sender has filed a lawsuit in connection with the claim;
- (2) the claim is objectively baseless because:
 - (A) the sender or a person the sender represents does not have a current right to license the patent to or enforce the patent against the recipient;
 - (B) the patent has been held invalid or unenforceable in a final judgment or administrative decision; or
 - (C) the infringing activity alleged in the patent occurred after the patent expired; or
- (3) the communication is likely to materially mislead a reasonable recipient because the communication does not contain information sufficient to inform the recipient of:
 - (A) the identity of the person asserting the claim;
 - (B) the patent that is alleged to have been infringed; and
 - (C) at least one product, service, or activity of the recipient that is alleged to infringe the patent.

Sec. 17.952. ENFORCEMENT BY ATTORNEY GENERAL; INJUNCTION AND CIVIL PENALTY. (a) Authorizes the attorney general to bring an action on behalf of the state to enjoin the person from violating Section 17.951 if the attorney general believes that a person has violated or is violating that section.

- (b) Authorizes the attorney general to request and authorizes the court to order, in addition to seeking an injunction under Subsection (a), any other relief that may be in the public interest, including:
- (1) the imposition of a civil penalty in an amount not to exceed \$50,000 for each violation of Section 17.951;
 - (2) an order requiring reimbursement to this state for the reasonable value of investigating and prosecuting a violation of Section 17.951; and

(3) an order requiring restitution to a victim for legal and professional expenses related to the violation.

Sec. 17.953. CONSTRUCTION OF SUBCHAPTER. Prohibits this subchapter from being construed to:

(1) limit rights and remedies available to the state or another person under any other law;

(2) alter or restrict the attorney general's authority under other law with regard to conduct involving claims of patent infringement; or

(3) prohibit a person who owns or has a right to license or enforce a patent from: notifying others of the person's ownership or right, offering the patent to others for license or sale, notifying any person of the person's infringement of the patent as provided by 35 U.S.C. Section 287, or seeking compensation for past or present infringement of the patent or for a license to the patent.

SECTION 2. Amends Section 38.12, Penal Code, by amending Subsections (a) and (f) and adding Subsection (f-1), as follows:

(a) Adds Subdivision (7) to provide that a person commits an offense if, with intent to obtain an economic benefit the person knowingly institutes a suit or claim for patent infringement that constitutes a bad faith claim of patent infringement under Section 17.951, Business & Commerce Code. Makes a nonsubstantive change.

(f) Creates an exception as provided by Subsection (f-1).

(f-1) Provides that an offense under Subsection (a)(7) is a Class A misdemeanor.

SECTION 3. Effective date: September 1, 2015.