

BILL ANALYSIS

Senate Research Center
84R8773 DDT-D

S.B. 1187
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State Affairs
4/7/2015
As Filed

AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

"Patent trolls" are companies that do not invent or manufacture any products. These companies acquire patents for routine activities, such as scanning documents to email or using Wi-Fi. They then send out thousands of letters to companies that use these applications, demanding exorbitant fees for a license to engage in the patented activity, and threatening suit if the recipient fails to pay for a license. In one famous example, patent troll Innovatio sent out thousands of demand letters to owners of franchise hotels and coffee shops for using Wi-Fi. Defendants settled for amounts ranging from \$2,300 to \$5,000, amounts small enough that hiring a lawyer to look at the case would be a lot costlier than just paying.

Baseless patent assertion demands are egregious threats that serve to advance no valid legal purpose or legitimate protection of productive intellectual property. Rather, such assertions seek only to extract quick settlements from those otherwise committed to building their businesses and providing positive value to society. Baseless patent assertion demands can, in some cases, lead to costly and destructive litigation. As an alternative to litigation, many businesses choose to settle rather than pursue the costly litigation. The total estimated economic loss associated with such demands range from \$29 billion to \$83 billion per year. These costs not only provide disincentive for innovation, research, and development at the business level, but are also costs that are borne by every consumer.

Absent federal reform, the states have taken the lead in combating baseless demands. To date, 18 states have adopted legislation aimed towards curbing baseless patent assertions. S.B. 1187 aims to protect Texas consumers and businesses from baseless harassment claims from patent assertion entities by prohibiting an entity living or doing business in Texas from making objectively baseless patent infringement claims and demands for payment against Texas residents. The intent of S.B. 1187 is to limit baseless claims and authorize the prosecution, by the attorney general, of those that assert bad faith patent infringement claims against Texas residents and businesses.

S.B. 1187 requires entities sending 10 or more demand letters a year to register with the Secretary of State and provides penalties for noncompliance. The Secretary of State shall maintain a confidential demand letter database that will be accessible only to demand letter recipients, certificate of authority holders, courts, and the attorney general. Letters may only be seen by those who receive another letter for the same patent, which would permit multiple recipients of the same baseless demand letter to pool resources and take legal action against a baseless claim. The bill authorizes the attorney general to bring suit against an entity for bad faith patent assertion claims and to enforce registration requirements. The attorney general may also recover civil penalties and legal expenses. S.B. 1187 allows patent operators who own 1,000 patents, generate \$5 billion or more in annual sales and employ at least 5,000 employees to apply for a certificate of authority from the attorney general. The certificate of authority provides exemption from requirements of the law.

As proposed, S.B. 1187 amends current law relating to claims of patent infringement, provides civil penalties, and imposes fees.

RULEMAKING AUTHORITY

Rulemaking authority is expressly granted to the secretary of state in SECTION 2 (Sections 2005.104 and 2005.106, Business & Commerce Code) of this bill.

Rulemaking authority is expressly granted to the attorney general in SECTION 2 (Section 2005.151, Business & Commerce Code) of this bill.

SECTION BY SECTION ANALYSIS

SECTION 1. Amends the heading to Title 99, Business & Commerce Code, to read as follows:

TITLE 99. MISCELLANEOUS PROVISIONS

SECTION 2. Amends Title 99, Business & Commerce Code, as follows:

CHAPTER 2005. CLAIMS OF PATENT INFRINGEMENT

SUBCHAPTER A. GENERAL PROVISIONS

Sec. 2005.001. DEFINITIONS. Defines "affiliate," "control," "demand letter," "target," and "Texas resident" in this chapter.

SUBCHAPTER B. BAD FAITH CLAIMS OF PATENT INFRINGEMENT

Sec. 2005.051. BAD FAITH CLAIMS OF PATENT INFRINGEMENT PROHIBITED. (a) Prohibits a person from sending a demand letter making, in bad faith, a claim of patent infringement against a Texas resident, and in connection with the claim:

- (1) filing a lawsuit alleging patent infringement;
- (2) threatening to file a lawsuit if the alleged patent infringement is not resolved; or
- (3) making a demand for compensation or damages or payment of a license fee based on the alleged patent infringement.

(b) Provides that, for purposes of Subsection (a), a person makes a claim of patent infringement in bad faith if:

- (1) the claim is objectively baseless, meaning that no reasonable litigant could reasonably expect success on the merits; and
- (2) the person making the claim knows or should have known that the claim is objectively baseless.

(c) Provides that a claim of patent infringement is presumed to have been made in good faith if the claim:

- (1) is made by a person who holds a certificate of authority issued under Section 2005.151; or
- (2) is a claim for relief arising under 35 U.S.C. Section 271(e)(2) or 42 U.S.C. Section 262.

(d) Provides that this section does not apply to a communication between parties to the same federal lawsuit.

Sec. 2005.052. ENFORCEMENT BY ATTORNEY GENERAL; INJUNCTION AND CIVIL PENALTY. (a) Authorizes the attorney general, if the attorney general believes

that a person has violated Section 2005.051, to bring an action on behalf of the state to enjoin the person from any conduct constituting a continuing violation of that section with respect to a demand letter already sent or future conduct that would violate that section.

(b) Authorizes the attorney general to request and the court to order any other relief that may be in the public interest, in addition to seeking an injunction under Subsection (a), including:

(1) the imposition of a civil penalty in an amount not to exceed \$50,000 for each violation of Section 2005.051, except as provided by Subsection (c);

(2) an order requiring reimbursement to this state for the reasonable value of investigating and prosecuting a violation of Section 2005.051; and

(3) an order requiring reimbursement of a Texas resident (target) for legal, professional, and technical expenses related to evaluating or preparing to defend against the claim.

(c) Authorizes the court to increase the amount of the civil penalty to an amount not to exceed \$150,000 for each violation of Section 2005.051 if the trier of fact finds that the person described by Subsection (a) falsely claimed to a target or a target's attorney or other representative that the person received a certificate of authority under Section 2005.151.

(d) Requires that the money be paid toward each on a pro rata basis if the amount of money recovered after final judgment is insufficient to satisfy the civil penalty, the state's investigation and prosecution costs, and the target's or targets' evaluation and preparation costs.

Sec. 2005.053. COMPLAINTS. (a) Authorizes a target or a target's attorney or other representative who receives a demand letter from a person located anywhere in the United States and who believes that the person violated Section 2005.051 in connection with the letter to file a written complaint with the attorney general.

(b) Authorizes a target whose customers receive a demand letter from a person located anywhere in the United States to also file a complaint with the attorney general if the target believes that the sender of the demand letter violated Section 2005.051 in connection with the letter.

(c) Requires that a complaint filed with the attorney general under this section include a copy of the demand letter.

Sec. 2005.054. NO PRIVATE CAUSE OF ACTION. Provides that this subchapter does not create a private cause of action for a violation of Section 2005.051.

Sec. 2005.055. CONSTRUCTION OF SUBCHAPTER; EFFECT ON ATTORNEY GENERAL AUTHORITY. Prohibits this subchapter from being construed to limit rights and remedies available to the state or to any person under any other law and from altering or restricting the attorney general's authority under law with regard to conduct involving assertions of patent infringement.

SUBCHAPTER C. REGISTRATION AND DISCLOSURE REQUIREMENTS; DATABASES

Sec. 2005.101. REGISTRATION AND DISCLOSURE REQUIREMENT FOR CERTAIN PATENT INFRINGEMENT CLAIMS; DATABASE. (a) Requires a person who sends 10 or more demand letters per calendar year from anywhere in the United States and who has an ownership interest in a patent associated with the demand letters or

a person on whose behalf the letters are sent from anywhere in the United States and who has an ownership interest in a patent associated with the demand letters to, not later than the 30th day after the date the 10th demand letter is sent:

- (1) register with the secretary of state (SOS);
- (2) provide the information required under Subsection (b); and
- (3) pay a registration fee in the amount established under Section 2005.104.

(b) Requires SOS to establish and maintain a database of persons required to register under Subsection (a). Requires that the database include:

- (1) a summary of information from each demand letter sent to a Texas resident by or on behalf of the registrant during the two-year period preceding the date the 10th demand letter was sent, including the name of the sender, the date of the letter, the person to whom the letter was sent, the patent number associated with the letter, and any other information SOS considers relevant;
- (2) in the case of a registrant who is a business entity:
 - (A) the names and addresses of the registrant's top five executive officers, if applicable;
 - (B) the name and address of each individual who has an ownership interest in the registrant of more than five percent; and
 - (C) the name and address of each affiliate of the registrant; and
- (3) the name and address of each person who has made an investment in or a loan to the registrant in an amount of \$1 million or more during the 12-month period preceding the date the 10th demand letter was sent by or on behalf of the registrant.

(c) Provides that this section does not apply to:

- (1) a demand letter sent by or on behalf of a person who holds a certificate of authority issued under Section 2005.151; or
- (2) a demand letter that includes a claim for relief arising under 35 U.S.C. Section 271(e)(2) or 42 U.S.C. Section 262.

Sec. 2005.102. DEMAND LETTER DATABASE; NOTIFICATION. (a) Authorizes a target or a target's attorney or other representative who receives a demand letter sent from anywhere in the United States to notify SOS of the person's receipt of the demand letter and provide SOS with a copy of the letter and, if not contained in the letter:

- (1) the target's name and address;
- (2) the name and address of the person who claims to own or claims to have a right to license the patent that the letter claims the target has infringed; and
- (3) the patent number of each patent that the person sending the demand letter claims the target has infringed.

(b) Requires SOS to establish and maintain a database of demand letters and other information about which SOS has received notification under Subsection (a). Requires that the database include:

(1) the names and addresses of the persons described by Subsection (a)(2) and targets against whom an allegation of patent infringement has been made; and

(2) the patent number of each patent that the targets have allegedly infringed.

(c) Requires SOS to notify the sender of a demand letter of the registration requirements of Section 2005.101 if SOS has reason to believe the sender or other person on whose behalf the letter was sent is required to but has failed to register under that section. Requires SOS to send the notification at least 30 days before the date the attorney general brings an action under Section 2005.105.

Sec. 2005.103. LIMITED ACCESS TO DATABASES; CONFIDENTIALITY. (a) Provides that, except as provided by Subsection (b) or (c), information contained in the databases established under Sections 2005.101 and 2005.102 is confidential and not subject to disclosure under Chapter 552 (Public Information), Government Code.

(b) Requires SOS to establish a procedure to allow only the following persons to have online access to information contained in the databases established under Sections 2005.101 and 2005.102:

(1) a target or a target's attorney or other representative who provides a demand letter under Section 2005.102 that includes a patent number and evidence of a demand for compensation or damages or payment of a license fee based on the alleged patent infringement; and

(2) a person who holds a certificate of authority under Section 2005.151.

(c) Authorizes the information in the databases to be disclosed to a court or to the attorney general to take enforcement action with respect to a violation of Section 2005.051 or 2005.101.

Sec. 2005.104. FEES. Requires SOS by rule to establish a registration fee to be paid by persons required to register under Section 2005.101, and a database access fee to be charged to a person permitted by Section 2005.103(b) to access the databases established under Sections 2005.101 and 2005.102 to cover the costs of administering this subchapter.

Sec. 2005.105. CIVIL PENALTY. (a) Provides that, except as provided by Subsection (b), a person who violates Section 2005.101(a) and does not come into compliance with that section on or before the 30th day after the date SOS sends notice of the registration requirements of that section as required by Section 2005.102(c) is liable to the state for a civil penalty in an amount not to exceed \$10,000 for each day the violation continues.

(b) Authorizes the court to increase the amount of the civil penalty to an amount not to exceed \$30,000 for each day the violation of Section 2005.101(a) continues if the trier of fact finds that the person described by Subsection (a) falsely claimed to a target or a target's attorney or other representative that the person received a certificate of authority under Section 2005.151.

(c) Authorizes the attorney general to bring suit to recover the civil penalty imposed under this section. Requires the attorney general, for purposes of the notice requirement under Section 2005.102(c), to notify SOS before bringing a suit under this section and allow time for that notice to be timely made.

(d) Authorizes the attorney general to recover reasonable expenses incurred in recovering the civil penalty, including court costs and reasonable attorney's fees.

Sec. 2005.106. RULES. Authorizes SOS to establish procedures. Requires SOS to adopt rules to implement this subchapter.

SUBCHAPTER D. CERTIFICATE OF AUTHORITY

Sec. 2005.151. CERTIFICATE OF AUTHORITY FOR CERTAIN BUSINESSES. (a) Authorizes a person to apply to the attorney general for a certificate of authority for purposes of establishing a presumption under Section 2005.051(c)(1) or asserting an exemption under Section 2005.101(c)(1).

(b) Requires the attorney general by rule, subject to Subsection (c), to adopt eligibility criteria for the issuance by the attorney general of a certificate of authority under this section.

(c) Requires the attorney general to issue a certificate of authority to an applicant who:

(1) owns at least 1,000 patents;

(2) generates \$5 billion or more in annual sales; and

(3) employs at least 5,000 persons.

(d) Requires the attorney general by rule to establish a procedure by which a person may apply for and receive a certificate of authority under this section.

(e) Authorizes the attorney general to charge an application fee to recover the costs of administering this section.

(f) Authorizes a person denied a certificate of authority under this section to appeal that determination to a district court.

SECTION 3. (a) Requires SOS to establish the databases required by Sections 2005.101 and 2005.102, Business & Commerce Code, as added by this Act, not later than January 1, 2016.

(b) Requires SOS to adopt the rules necessary to implement Subchapter C, Chapter 2005, Business & Commerce Code, as added by this Act, not later than January 1, 2016.

(c) Provides that, notwithstanding Section 2005.101, Business & Commerce Code, as added by this Act, a person is not required to register under that section before January 1, 2016.

SECTION 4. Requires the attorney general to adopt the rules necessary to implement Section 2005.151, Business & Commerce Code, as added by this Act, not later than October 1, 2015.

SECTION 5. Effective date: September 1, 2015.