

BILL ANALYSIS

S.B. 1457
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Judiciary & Civil Jurisprudence
Committee Report (Unamended)

BACKGROUND AND PURPOSE

Interested stakeholders explain that in the United States securing a patent from the U.S. Patent and Trademark Office authorizes an inventor to prevent others from making, selling, using, or importing the inventor's patented invention for a set period. Patent holders enforce their rights by filing patent infringement claims in federal courts, which have exclusive jurisdiction over patent enforcement.

These stakeholders contend that in recent years the patent system has seen the growth of abusive patent litigation by entities with business models that exploit the complicated federal patent system for financial gain. Patent assertion entities (PAEs), commonly called "patent trolls," may acquire patents with the sole intent to initiate patent infringement litigation and garner licensing fees or settlements from their targets, usually small businesses and financial institutions that may lack the resources to defend a complex federal lawsuit. Other PAEs may not hold patents at all, or may hold expired patents, but nevertheless send demand letters to targeted businesses. According to the stakeholders, PAEs have cost businesses and consumers throughout the United States millions of dollars and have wasted countless hours and resources but Congress has not provided a legislative solution to curb this abusive practice.

Given this lack of federal patent reform legislation, the stakeholders note that nearly 20 states have passed laws to address PAEs. However, there is concern that Texas does not have a state law addressing bad faith patent infringement claims and that such a law would go a long way toward eliminating this deceptive practice. S.B. 1457 seeks to address bad faith patent infringement claims.

CRIMINAL JUSTICE IMPACT

It is the committee's opinion that this bill does not expressly create a criminal offense, increase the punishment for an existing criminal offense or category of offenses, or change the eligibility of a person for community supervision, parole, or mandatory supervision.

RULEMAKING AUTHORITY

It is the committee's opinion that this bill does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution.

ANALYSIS

S.B. 1457 amends the Business & Commerce Code to prohibit a person from sending to an end user located or doing business in Texas a written or electronic communication that is a bad faith claim of patent infringement. The bill defines "end user" as a person that purchases, rents, leases, or otherwise obtains a product, service, or technology in the commercial market that is not for resale and that is, or later becomes, the subject of a patent infringement assertion due to the person's use of the product, service, or technology. The bill establishes that a communication is a bad faith claim of patent infringement if the communication includes a claim that the end user or

a person affiliated with the end user has infringed a patent and is liable for that infringement and the communication falsely states that the sender has filed a lawsuit in connection with the claim; the claim is objectively baseless because 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 end user, the patent has been held invalid or unenforceable in a final judgment or administrative decision, or the infringing activity alleged in the communication occurred after the patent expired; or the communication is likely to materially mislead a reasonable end user because the communication does not contain information sufficient to inform the end user of the identity of the person asserting the claim, the patent that is alleged to have been infringed, and at least one product, service, or technology obtained by the end user that is alleged to infringe the patent or the activity of the end user that is alleged to infringe the patent.

S.B. 1457 authorizes the attorney general, if the attorney general believes that a person has violated or is violating the prohibition against sending an end user a bad faith claim of patent infringement, to bring an action on behalf of the state to enjoin the person from violating that prohibition. The bill authorizes the attorney general, in addition to seeking the injunction, to request, and authorizes the court to order, any other relief that may be in the public interest, including the imposition of a civil penalty in an amount not to exceed \$50,000 for each violation, an order requiring reimbursement to the state for the reasonable value of investigating and prosecuting a violation, and an order requiring restitution to a victim for legal and professional expenses related to the violation.

S.B. 1457 prohibits its provisions from being construed to limit rights and remedies available to the state or another person under any other law; alter or restrict the attorney general's authority under other law with regard to conduct involving claims of patent infringement; or 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 federal law, or seeking compensation for past or present infringement of the patent or for a license to the patent. The bill does not create a private cause of action for a violation of the prohibition against sending an end user a bad faith claim of patent infringement.

EFFECTIVE DATE

September 1, 2015.