

# Navigating the landscape of anti-trolling legislation

US states have taken differing approaches to tackling patent trolls. **Qian Huang, Grace King and Tim Rawson** assess the anti-trolling landscape

Patents serve the vital constitutional purpose of providing incentives for innovations and promoting technological advancement.<sup>1</sup> To achieve that purpose, US patent law provides a patent owner a monopoly for a limited time. During the monopoly period, a patent owner can enforce his patent rights against acts of infringement. However, in recent years abusive behaviour and tactics in patent enforcement, pejoratively known as patent trolling, have placed a burden on economic growth, calling for the need to devise new measures to curb such abusive practices.

Although patent law is exclusively a federal issue, various states have taken action to reduce the negative impact on economic growth from patent trolling. In 2013, Vermont became the first state to enact legislation aimed at combatting abusive tactics of patent assertion entities (PAEs). Vermont's law<sup>2</sup> focuses on determining whether a person had made infringement assertions in bad faith and sets forth a list of factors that a court could consider in making that determination. Those factors range from what information was specified in the PAE's demand letter to actions taken and not taken by the PAE. While many states have followed Vermont's lead and adopted bad faith criterion to identify abusive patent assertions, others, including Texas, have passed legislation that is more narrowly directed to communications made in bad faith rather than additionally considering the PAE's behaviour. Thus, what constitutes bad faith and what actions can trigger the protective measures against bad faith differ from state to state. This article provides a brief overview of which states have enacted measures against patent trolls as well as a more in-depth discussion about different approaches taken by states with heavy patent-litigation dockets. The article concludes with recommendations on how legitimate patent enforcers and accused infringers can strategically navigate the anti-patent troll landscape in the US.

## Current landscape of anti-trolling legislation

To date, 29 states (shown in figure 1) have enacted anti-patent trolling legislation.<sup>3</sup> In addition to these states, Minnesota, Iowa and South Carolina have recently proposed their own anti-trolling legislation. Figure 2 displays patent troll statistics.

Figure 1: Enactment of legislation.

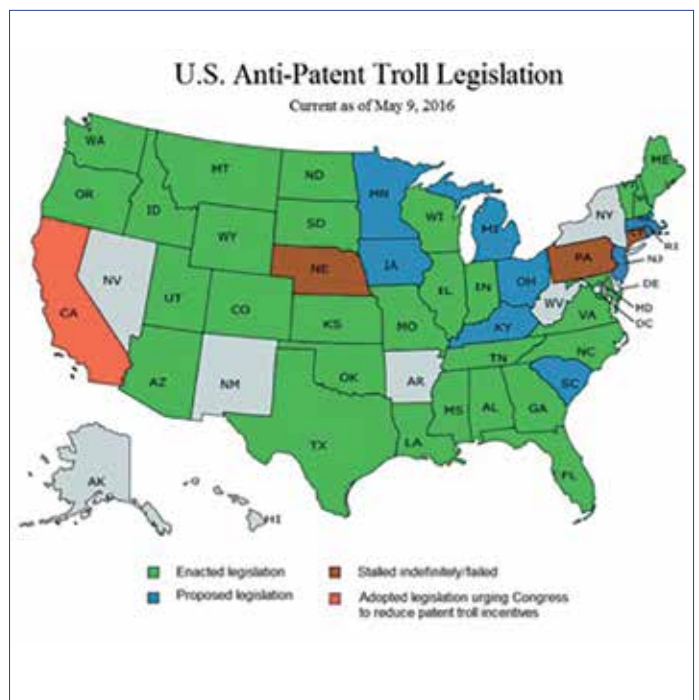


Figure 2: Statistics of current and proposed law.

Patent troll legislation statistics as of 9 May 2016			
Number of states with enacted legislation	States with proposed legislation (9)	States with no legislation (8)	States with stalled legislation (3)
29	Iowa, Kentucky, Massachusetts, Michigan, Minnesota, New Jersey, Ohio, Rhode Island, South Carolina	Alaska, Arkansas, Delaware, Hawaii, New Mexico, Nevada, New York, Wyoming	Connecticut, Pennsylvania, Nebraska

In general, state anti-trolling legislation empowers an Attorney General to act against bad faith asserters. Twenty one states also created a private right of action, thereby empowering an accused infringer to bring an action against a PAE. Many of these states – most recently Arizona, Florida and Wyoming<sup>4</sup> in March 2016 – patterned their legislation after that enacted by Vermont. According to Vermont’s anti-troll law, a court should consider nine factors<sup>5</sup> in determining whether a PAE has made a patent infringement assertion in bad faith. These factors fall into the categories shown below in figure 3.

Figure 3: Bad faith factors.

Contents of the demand letter sent by PAE	Actions taken by the PAE	Actions not taken by the PAE	Nature of the claim & other factors
Lacks key information about the asserted patent (eg, patent number, name and address of patent owner, factual allegations concerning infringement).  Makes demands for payment or a response within an unreasonably short period of time.	Offers to license a patent for an amount that is not based on a reasonable estimate of the licence’s value.  Knows or should have known that the claim was meritless.  Files or threatens to file a lawsuit based on the same or similar claim of patent infringement that lacks key patent information or that was found to be meritless by a court in litigation.	Does not conduct a targeted patent claim analysis.  Does not provide key information regarding the patent and potential infringement upon request.	The patent infringement claim is deceptive.  Any other factor the court finds relevant.

One might expect that popular patent litigation venues such as Delaware, California, Virginia and Texas have enacted similar anti-trolling legislation. In fact, Delaware has not proposed any such legislation to date. California merely adopted a resolution that urges Congress to enact anti-trolling measures at the federal level.<sup>6</sup>

Of these four states, Virginia’s legislation most resembles Vermont’s anti-troll law in that its protective measures broadly prohibit bad faith assertions of patent infringement. Despite this similarity, Virginia empowers only its Attorney General to take action against a potential PAE. Although there is no private cause of action established like that specified in Vermont’s law, Virginia’s Attorney General created a special system for reporting patent trolls, named the Patent Troll Unit,<sup>7</sup> which invites assertion targets to file a report to initiate an investigation and potential prosecution of bad-faith claims.

Near the end of 2015, Texas also passed anti-trolling legislation, yet its approach differs sharply from the broad measures adopted by Vermont. Although the Texas statute also focuses on bad faith, it is

only keyed on the communications (eg, a demand letter made in bad faith) sent to the target rather than assertions more broadly. It prohibits communications with false statements that a lawsuit has been filed, ‘objectively baseless’ claims and misleadingly insufficient information.<sup>8</sup> The Texas statute further defines ‘objectively baseless’ and when a communication is likely to ‘materially mislead’. Because the bad-faith behaviour is tied to communications, it provides narrower legislative protection against patent trolling than the Vermont law. Moreover, the Texas statute does not provide a private cause of action and does not have a specific mechanism to notify the Attorney General of patent troll behaviour. Given that the Texas statute is still in its infancy, only time will tell how the Texas Attorney General intends to enforce it.

The chart below compares the anti-trolling legislation enacted in Vermont, Virginia and Texas. The key take-away is that while Vermont’s legislation serves as a model for a very broad anti-trolling measure, the legislation in Texas represents an alternative, narrower approach to targeting bad-faith behaviour. Virginia falls somewhere in between. As discussed below in figure 4, patent enforcers and assertion targets should be mindful of the anti-trolling laws in relevant venues.

Figure 4: Laws in relevant venues.

States with varying levels of patent troll legislation	Vermont 9 VSA §§ 4195-4199	Virginia Va Code Ann § 591-2152.B6	Texas Tex Bus & Com Code Ann § 17952.
<b>Definition of “bad faith”</b>	Provides nine factors that constitute indicia for determining whether a patent infringement assertion is made in bad faith.	Closely models Vermont’s nine acts of indicia for bad faith assertions.  Also provides indicia that a person’s assertion of patent infringement was not made in bad faith, with the caveat that that the absence of such indicia shall not constitute evidence of bad faith.	Defines particular communications that are indicative of bad faith claims of patent infringement and further defines what constitutes a claim that is objectively baseless.
<b>Who can act</b>	The Attorney General <sup>9</sup> is empowered to instigate both civil investigations and civil actions in court.  The statute also creates a private right of action for the target against a bad faith asserter. In that action, a plaintiff may obtain equitable relief, damages, costs and attorneys’ fees, and “exemplary damages.”	The Attorney General is empowered to issue a civil investigative demand and seek injunctive relief and civil penalties against “persons” that engage in bad faith assertions of patent infringement.	The Attorney General can bring an action on behalf of the state seeking civil penalty for bad faith patent assertions as well as restitution for a victim’s legal and professional expenses related to the bad faith infringement claim.
<b>How to file a complaint</b>	Contact the consumer assistance programme. <sup>10</sup>	File complaint with the Attorney General’s patent troll unit. <sup>11</sup>	Does not specify any mechanism for individuals to bring violations to the Attorney General’s attention.

### Strategy in response to state anti-trolling legislation

While there is a broad consensus of anti-trolling in the US and different states have, in response to that strong sentiment, enacted anti-trolling laws to curb patent-trolling, the Constitution protects the right of a patent owner to enforce a patent against an infringer. The intent of adopting bad-faith criterion in anti-trolling legislations is to separate patent-trolling behaviour from legitimate patent enforcement. This has created a new landscape for patent enforcers and targets alike in the world of patent enforcement.

For a legitimate patent enforcer, the key is to avoid the unexpected, potentially negative impact of an anti-trolling law on a legitimate patent infringement action. Any law, including an anti-trolling law, can potentially be abused despite the positive legislative intent. With that in mind, it may be crucial to first strategically select a venue to file a suit and, secondly, apply measures to avoid any implication of bad-faith behaviour in a venue with anti-trolling law. Specifically, it is important to select a venue without anti-trolling legislation to avoid complications arising from potential abuse of the law by an accused patent infringer. Also, if a venue with an anti-trolling law cannot be avoided, select one where only the Attorney General is empowered to pursue bad-faith claims. Avoid a venue where an accused infringer can directly bring a private action.

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When it comes to avoiding bad-faith implications, in a state with an anti-trolling law examine the factors considered by a court to determine bad faith and take appropriate measures to conduct communications and assertions in a manner that avoids implicating bad-faith behaviour. Conduct due diligence on the legal status of the patent to be enforced as well as a thorough infringement analysis on the target’s products prior to asserting a patent infringement claim. Also, maintain records of all assertions/communications with respect to each target in order to counter possible accusations of bad-faith behaviour.

As for an accused infringer named in a suit or a demand letter, it is important to determine early on in the case whether the state in which the suit was brought has enacted an anti-trolling law and, if so, whether it can be invoked as part of a defence strategy. Specifically, determine whether the venue is proper and whether it has an anti-trolling law in place. If the venue does not have an anti-trolling law, consider moving the case to another appropriate venue that not only has anti-trolling legislation, but also provides either a private cause of action or a mechanism to submit a claim to the Attorney General based on bad-faith behaviour. These protective measures can potentially benefit a target, especially when the facts of the case likely support a bad-faith claim. Check how bad faith is defined in the selected venue and collect and record supporting evidence to build a potential case for bad-faith behaviour.

### Discussion

More than half the states in the US have enacted anti-trolling statutes that focus on bad-faith behaviour in asserting patent rights. Although these statutes all link patent trolling to bad-faith behaviour in enforcement, how each state defines bad faith likely reflects how the state desires to curb patent trolling and, hence, possibly impacts the constitutionality inquiry of the anti-trolling law at issue. While the long-term impact of the states’ anti-trolling legislation remains to be seen, both patent owners and accused infringers need to attune themselves to the nuances and implications of state anti-trolling legislation and strategically manage their patent cases accordingly.

### Footnotes

1. See US CONST art I, § 8, cl 8.
2. See 9 VSA § 4195(a)(6).
3. <http://www.patentprogress.org/patent-progress-legislation-guides/patent-progress-guide-state-patent-legislation/>
4. Arizona HB 2386 <http://www.azleg.gov/legtext/52leg/2R/laws/0069.htm>; Florida HB 1181 <http://www.flsenate.gov/Session/Bill/2016/1181>; Wyoming SF No 65 <http://legisweb.state.wy.us/2016/Engross/SF0065.pdf>.
5. 9 VSA § 4197(b).
6. See California’s Adopted assembly joint resolution No 9 (7/21/2015) [http://leginfo.ca.gov/faces/billNavClient.xhtml?bill\\_id=201520160AJR9](http://leginfo.ca.gov/faces/billNavClient.xhtml?bill_id=201520160AJR9). This resolution does not define bad faith, but instead “urge[s] the President and the Congress of the US to craft a balanced and workable approach to reduce incentives for and minimise unnecessary patent litigation while ensuring that legitimate patent enforcement rights are protected and maintained.”
7. Virginia’s Patent Troll Unit <http://www.ag.virginia.gov/index.php/patent-troll-unit/patent-trolling>
8. Tex Bus & Com Code Ann § 17952 <http://www.statutes.legis.state.tx.us/Docs/BC/htm/BC.17.htm>.
9. 9 VSA § 4199(a) & (b). Although Vermont’s Attorney General has not filed suit against any alleged patent trolls under the 2013-enacted Bad Faith Assertions of Patent Infringement Act (“BFAPIA”) (9 VSA §§ 4195-4199), one company has already challenged the constitutionality of Vermont’s anti-troll law. MPHJ Technology Investments, LLC (MPHJ), a Texas-based company that achieved notoriety for its practice of sending demand letters to small businesses supposedly infringing its network scanning system patents, has already filed suit challenging the constitutionality of Vermont’s anti-troll law. In its complaint, filed in September 2014, MPHJ accused the BFAPIA of violating the First Amendment and other parts of the US Constitution and requested injunctive and declaratory relief. Thus far, MPHJ’s suit has survived a motion to dismiss filed by Vermont’s Attorney General, and so for now, Vermont’s anti-troll law remains under attack. (See *MPHJ Technology Investments, LLC v Sorrell et al*, No 2:14-CV-00191, N. 2:14-CV-00191, Dkt 42 (Order granting in part and denying in part motion to dismiss and motion to dismiss for failure to state a claim) (DVt 2015).
10. <https://www.uvm.edu/consumer/?Page=complaint.html>
11. <http://www.oag.state.va.us/index.php/patents/report-a-patent-troll>

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