Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: H.B. 573 of the 130th G.A. **Date**: November 12, 2014

Status: As Introduced **Sponsor**: Rep. Roegner

Local Impact Statement Procedure Required: No

Contents: Bad faith assertion of patent infringement

State Fiscal Highlights

- The Attorney General may need to hire additional staff to investigate and litigate bad faith assertions of patent infringement.
- State universities and colleges that are targets of a bad faith assertion of patent infringement may use the bill's civil remedy to recover damages and litigation costs.

Local Fiscal Highlights

- It is likely that there will be no discernible fiscal effect on courts of common pleas generally to adjudicate any additional civil actions generated by the bill.

Detailed Fiscal Analysis

The bill prohibits the bad faith assertion of patent infringement, specifies the requirements for a person or entity to assert a right to license or enforce a patent (including a demand letter), and permits the target of a demand letter to bring a civil action in the appropriate court of common pleas to recover damages for a violation of the prohibition. The court is authorized to award equitable relief, compensatory damages, litigation costs and fees, and exemplary damages.[1]

It appears that the bill is intended to address what is termed patent trolling. This typically involves a firm sending letters alleging a patent infringement and demanding a license payment or risk litigation. These "demand letters" can be sent to thousands of small businesses and individuals. The frequency with which these demand letters are sent to businesses and individuals in Ohio is unknown. Arguably, the bill may to some degree have a chilling effect. Some firms or persons may permanently stop sending demand letters in Ohio. Alternately, some may temporarily stop to ensure that their practice comports with the bill's demand letter requirements.

As of November 2, 2014, 18 states had signed into law legislation acting against bad faith patent infringement assertions.[2] Vermont signed the legislation into law in May 2013. According to staff of the Office of the Vermont Attorney General, their only notable related work has been an ongoing dispute with what was termed a "patent troll" company. There have been very few other investigations or civil actions initiated. As the 17 other states just enacted the legislation in 2014, little is known as to how frequent investigations and civil actions will be initiated.

As noted, the bill permits the target of an allegedly bad faith assertion of patent infringement to file a civil action for the recovery of damages. The action would be filed in the common pleas court of the county of the target's residence or primary place of business. The frequency with which civil actions will be filed alleging a bad faith assertion of patent infringement is highly uncertain. That said, it appears that the number of such filings will be relatively small in the context of any given court's caseload. This suggests that courts of common pleas generally will be able to absorb these additional filings with little discernible fiscal effect on their annual operating expenses.

The bill authorizes the Ohio Attorney General to investigate a bad faith assertion of patent infringement and to initiate a civil action seeking injunctive or other relief. The potential impact of exercising this permissive authority on the agency's workload and

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[1] Exemplary damages are in an amount equal to $50,000 or three times the total of damages, costs, and fees, whichever is greater.

[2] The 18 states include Alabama, Georgia, Idaho, Illinois, Louisiana, Maine, Maryland, Missouri, New Hampshire, North Carolina, Oklahoma, Oregon, South Dakota, Tennessee, Utah, Vermont, Virginia, and Wisconsin.

annual operating budget is uncertain. The Attorney General may incur additional payroll costs to ensure that a sufficient number of staff can be allocated as necessary to investigate and litigate matters related to a bad faith assertion of patent infringement.

The bill may also generate two fiscal effects for state universities and colleges. First, the bill itself could create a chilling effect that reduces the incentive for a person or firm to send demand letters, thus potentially saving legal expenses that might otherwise have been expended to resolve and possibly litigate the matter. Second, a state university or college that feels it is the target of a bad faith assertion of patent infringement is permitted to file a civil action for the recovery of damages.

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