DOUGLAS F. GANSLER
ATTORNEY GENERAL

KATHERINE WINFREE
CHIEF DEPUTY ATTORNEY GENERAL

JOHN B. HOWARD, JR.
DEPUTY ATTORNEY GENERAL

DAN FRIEDMAN
COUNSEL TO THE GENERAL ASSEMBLY

SANDRA BENSON BRANTLEY
JEREMY M. MCCOY
KATHRYN M. ROWE
ASSISTANT ATTORNEYS GENERAL

THE ATTORNEY GENERAL OF MARYLAND
OFFICE OF COUNSEL TO THE GENERAL ASSEMBLY

April 30, 2014

The Honorable Martin O'Malley
Governor of Maryland
State House
100 State Circle
Annapolis, Maryland 21401-1991

RE: House Bill 430 and Senate Bill 585, "Commercial Law – Patent Infringement – Assertions Made in Bad Faith"

Dear Governor O'Malley:

We have reviewed and hereby approve House Bill 430 and Senate Bill 585, both entitled "Commercial Law – Patent Infringement – Assertions Made in Bad Faith," for constitutionality and legal sufficiency. In reviewing the bills we have considered whether the bills would be preempted by federal patent law and concluded that they could be successfully defended against a challenge on that ground. We also note that the bills are identical except that Senate Bill 585 has an effective date of June 1, 2014 while House Bill 430 has an effective date of October 1, 2014. If both bills are signed, the changes will take effect June 1, 2014 regardless of signing order.

House Bill 430 and Senate Bill 585 provide that a person "may not make an assertion of patent infringement against another in bad faith." The bills do not define the term "bad faith," but list factors that a court may consider in determining whether bad faith has been established, as well as factors that a court may consider as evidence that an assertion of patent infringement has been made in good faith. The prohibition may be enforced by the Attorney General and the Division of Consumer Protection or by a suit brought by the target of an assertion of patent infringement made in bad faith. These provisions are very similar to those found in the Vermont law on bad faith assertions of patent infringement, 9 V.S.A. §§ 4195, *et seq*. The Vermont law, enacted in 2013 was the first such law in the country, but several other states have followed suit.

Article I, § 8, cl. 8, of the United States Constitution gives Congress the power "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." The Clause "reflects a balance between the need to encourage innovation and the avoidance of monopolies which stifle competition without any concomitant advance in the 'Progress of Science and useful Arts.'" *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 146 (1989). The Supreme Court has noted that the federal patent laws "have embodied a careful balance between the need to promote innovation and the recognition that imitation and refinement through imitation are both necessary to invention itself and the very lifeblood of a competitive economy." *Id.* Thus, state regulation of intellectual property must yield to the extent that it clashes with this balance. *Id.* at 152.

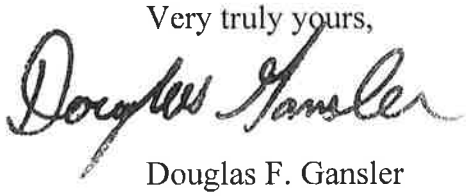
In *Globetrotter Software, Inc. v. Elan Computer Group, Inc.*, 362 F.3d 1367 (Fed. Cir. 2004) it was held that "a patentee that has a good faith belief that its patents are being infringed violates no protected right when it so notifies infringers," and therefore must be allowed to make its rights known to a potential infringer, "so that the latter can determine whether to cease its allegedly infringing activities, negotiate a license if one is offered, or decide to run the risk of liability and/or the imposition of an injunction." *Id.* at 1374. Thus, the court concluded that a state tort claim based on an assertion of patent rights would be preempted unless they are based on a showing of bad faith. *Id.* at 1374-1375.

One commentator has suggested that the Vermont law has satisfied this test by targeting the conduct that surrounds patent infringement, allowing state courts to examine the behavior of the entity asserting the patent without requiring them to analyze the validity of the patent itself. T. Christian Landreth, *The Fight Against "Patent Trolls:" Will State Law Come to the Rescue?* 15 N.C. Journal of Law & Technology 100, 120 (2014). The article also concluded that the Vermont law comports with the "objectively baseless" standard set out in the *Globetrotter* case because it did not try to prevent the assertion of patent rights, but only to prevent the assertion of claims in a deceptive or unfair manner, and the factors set out in the law "could certainly lead to the conclusion that no reasonable litigant could realistically expect success on the merits." *Id.* at 124.

The conclusions of the Landreth article would appear to be supported by the recent ruling in *State of Vermont v. MPHJ*, 2014 U.S. Dist. LEXIS 52132 (D.Vt. April 15, 2014). The MPHJ case was filed by the State of Vermont before the enactment of the Vermont law, and asserts unfair and deceptive trade claims against MPHJ for sending hundreds of letters alleging infringement without appropriate research in ways that would

now support a claim of bad faith under the Vermont law. The case was removed to federal court by MPHJ and the federal court found that it lacked subject matter jurisdiction. The court concluded that the complaint was based solely on state law, not federal patent law, and did not concern the validity of the patents in question. It also found that the complaint did not "necessarily raise" federal issues because the claims did not depend on any determination of federal patent law but challenged MPHJ's bad faith acts, not its ability to protect its patent rights.[1] Given this scant but persuasive authority, it is our view that House Bill 430 and Senate Bill 585 could be successfully defended if challenged on federal preemption grounds.

Very truly yours,



Douglas F. Gansler
Attorney General

DFG/KMR/kk

cc: The Honorable Thomas McLain Middleton
The Honorable Jon S. Cardin
The Honorable John P. McDonough
Jeanne D. Hitchcock
Karl Aro

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[1] While the Attorney General in Nebraska was less successful in *Activision TV, Inc. v. Pinnacle Bancorp, Inc.*, 2013 U.S. Dist. LEXIS 140805 (D. Neb. September 30, 2013), that case can be distinguished because the cease and desist order in question actually prevented the law firm from filing a patent enforcement action in federal court. It is also worth noting that the Eighth Circuit Court of Appeals held that Brunings appeal of the decision in that case was not frivolous. *See* http://legalnewsline.com/news/s-4461-state-ags/246306-eighth-circuit-says-neb-ags-patent-troll-appeal-not-frivolous (last visited April 30, 2014).