DRAFTER'S NOTE
FROM THE
LEGISLATIVE REFERENCE BUREAU

LRB–2996/P1dn
MPG:eev:rs

September 20, 2013

Senator Farrow:

Please review this draft carefully to ensure that it is consistent with your intent.

In addition to my questions included in drafter's notes embedded in the draft, I want to bring to your attention the issue of possible federal preemption as it relates to this draft.

This draft is based in large part on a recently passed Vermont anti–patent trolling law that appears to be the first of its kind. Given the novelty of that law, it is difficult to predict how the courts will interpret these new anti–patent trolling laws in connection with federal patent law preemption of state laws affecting the enforcement of patents.

However, there is a line of federal court cases that provides some guidance in the context of the federal preemption of state common law tort claims, such as tortious interference with contract, affecting patent enforcement. Essentially, the position the federal courts have taken is that "state tort claims against a patent holder . . . are 'preempted' by federal patent laws, unless the claimant can show that the patent holder acted in 'bad faith' in the publication or enforcement of its patent." *800 Adept, Inc. v. Murex Securities, Ltd.*, 539 F.3d 1354, 1369 (Fed. Cir. 2008). According to the U.S. Court of Appeals for the Federal Circuit in *800 Adept, Inc.*, the bad faith requirement, the finding of which is necessary to avoid federal preemption, consists in the following:

> This "bad faith" standard has objective and subjective components. The objective component requires a showing that the infringement allegations are "objectively baseless." The subjective component relates to a showing that the patentee in enforcing the patent demonstrated subjective bad faith. Absent a showing that the infringement allegations are objectively baseless, it is unnecessary to reach the question of the patentee's intent.
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> Infringement allegations are objectively baseless if "no reasonable litigant could realistically expect success on the merits." *800 Adept, Inc.*, 539 F.3d at 1370 (numerous internal citations omitted).

The court went on to emphasize the exacting nature of this bad faith standard:

> Because of the value placed on property rights, which issued patents share, and in light of the underlying jurisprudential basis for the bad faith standard, . . . a party attempting to prove bad faith on the part of a patentee enforcing its patent rights has a heavy burden to carry. *Id.* (internal citations omitted).

This draft allows a court to find that a patentee has made a bad faith assertion of patent infringement even absent the finding that "no reasonable litigant could realistically expect success on the merits." To that extent, the proposal is open to federal preemption should the proposal be enacted.

If you want to minimize the potential for federal preemption, one option would be to have the draft incorporate the federal bad faith standard, requiring that a court find that the assertion of patent infringement was objectively baseless (the "no reasonable litigant" standard) and showed subjective bad faith on the part of the patentee. The draft could still include the list of factors a court may consider in making its determination, but the actual determination the court is required to make would be more explicit, matching the strict federal bad faith standard.

Please let me know how you would like to proceed, and do not hesitate to contact me with any questions.

Thank you.

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