

# PATENT REFORM 2016

*A Comprehensive Guide to Current Patent Reform Developments in Congress, the Executive Branch, the Courts, and the States*

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# 1. Congressional Proposals

## 1.1. Loser-Pays Fee-Shifting

U.S. patent litigation has followed the “American Rule” under which each party to a litigation pays its own legal fees and costs, regardless whether the party wins or loses the litigation. An exception exists in the Patent Act that allows fees and costs to be shifted to the nonprevailing party in patent cases deemed “exceptional” under 35 U.S.C. § 285.

The **White House’s** June 2013 “fact sheet” contains a “legislative recommendation” to “[p]ermit more discretion in awarding fees to the prevailing parties in patent cases, [by] providing district courts with more discretion to award attorney’s fees under 35 USC 285 as a sanction for abusive court filings (similar to the legal standard that applies in copyright infringement cases).”

In April 2014, the Supreme Court, in *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1751 (2014), reversed the Federal Circuit’s narrow interpretation of § 285 by giving district courts more discretion to award fees, explaining that “in the comparable context of the Copyright Act, [t]here is no precise rule or formula for making these determinations, but instead equitable discretion should be exercised ‘in light of the considerations we have identified.’” (quoting *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 534 (1994)) (internal quotations omitted) (considering factors such as “frivolousness, motivation, objective unreasonableness (both in the factual and legal components of the case) and the need in particular circumstances to advance considerations of compensation and deterrence”).

In July 2015, Rep. Goodlatte (R-VA)’s **H.R. 9 (“Innovation Act”)** was reported out of the House Judiciary Committee. H.R. 9 contains a fee-shifting provision that would make fee-shifting the default rule in patent cases, with two exceptions. First, fees would not be shifted if the position and conduct of the nonprevailing party were reasonably justified in law and fact. Second, fees would not be shifted if special circumstances (such as severe economic hardship to a named inventor) would make an award unjust.

In September 2015, Sen. Grassley (R-IA)’s **S.1137 (“PATENT Act”)** was reported out of the Senate Judiciary Committee. S. 1137 also contains a fee-shifting proposal but requires the prevailing party to file a motion for attorneys fees and places the burden of proof on the prevailing party to demonstrate that it is entitled to the fees because the position of the non-prevailing party was not objectively reasonable in law or fact or if the conduct of the non-prevailing party was not objectively reasonable. An exception is made if “special circumstances . . . would make an award unjust,” such as undue economic hardship to a named inventor or an institution of higher education.

A comparison of the fee-shifting provisions of H.R. 9 and S. 1137 is shown below.

Goodlatte – H.R. 9 [as reported]	Grassley – S. 1137 [as reported]
“The court shall award, to a prevailing party, reasonable fees and other expenses incurred by that party in connection with a civil action in which any party asserts a claim for relief arising under any Act of Congress	“In connection with a civil action in which any party asserts a claim for relief arising under any Act of Congress relating to patents, upon <u>motion by a prevailing party</u> , the court shall determine whether the

<p>relating to patents, <u>unless</u> the court finds that the <b>position</b> and <b>conduct</b> of the nonprevailing party or parties were <u>reasonably justified in law and fact</u> or that <u>special circumstances</u> (such as severe economic hardship to a named inventor) make an award unjust.”</p>	<p>position of the non-prevailing party was objectively reasonable in law and fact, and whether the conduct of the non-prevailing party was objectively reasonable. If the court finds that the <b>position</b> of the non-prevailing party was not <u>objectively reasonable in law or fact</u> or that the <b>conduct</b> of the non-prevailing party was not <u>objectively reasonable</u>, the court shall award reasonable attorney fees to the prevailing party unless <u>special circumstances</u>, such as undue economic hardship to a named inventor or an <u>institution of higher education (as defined in section 101(a) of the Higher Education Act of 1965 (20 U.S.C. 1001(a))</u>), would make an award unjust. The <u>prevailing party shall bear the burden</u> of demonstrating that the prevailing party is entitled to an award.”</p>
<p>Makes fees recoverable against an interested joined party if the nonprevailing party is unable to pay the award under this section.</p>	<p>Makes fees recoverable against an interested joined party if the nonprevailing party is unable to pay the award under this section.</p>
<p>A party cannot escape a fee award by unilaterally seeking to dismiss the action without the consent of the other party and extending to such other party a covenant not to sue for infringement.</p>	<p>A party cannot escape a fee award by unilaterally seeking to dismiss the action without the consent of the other party and extending to such other party a covenant not to sue for infringement.</p>
<p>[No such provision]</p>	<p>Exempts any civil action that includes a claim for relief arising under 35 U.S.C. § 271(e). In a civil action that includes a claim for relief arising under § 271(e), the court may in exceptional cases award reasonable attorney fees to the prevailing party.</p>

## 1.2. Joinder of Interested Parties

Rep. Goodlatte’s **H.R. 9 (Innovation Act)** (as reported) provides for the joinder of interested parties in a patent suit in which fees and other expenses have been awarded under section 285 to a prevailing party defending against an allegation of patent infringement. If the nonprevailing party is unable to pay the award of fees and expenses, then the court shall grant a motion by the prevailing party to join an “interested party” to the suit. The prevailing party must show that the nonprevailing party has “no substantial interest in the subject matter at issue other than asserting such patent claim in litigation.”

Sen. Grassley (R-IA)’s **S.1137 (“PATENT Act”)** (as reported) provides that a party defending against a claim of infringement may file a statement that such party holds a good faith belief that the primary business of the party alleging infringement is the assertion of patents or the licensing resulting therefrom. The party alleging infringement must, within 45 days of the statement, establish and certify that it will have sufficient funds to satisfy an award of fees if assessed, or demonstrate that its primary business is not the assertion and enforcement of patents or licensing therefrom, or identify any “interested parties,” or state that it has no such interested parties.

A comparison of the joinder provisions of H.R. 9 and S. 1137 is shown below.

Goodlatte – H.R. 9 [reported]	Grassley – S. 1137 [reported]
<p>Court shall join an “interested party” upon defendant’s motion if the prevailing party shows that the nonprevailing party has “no substantial interest in the subject matter at issue other than asserting such patent claim in litigation.” A “substantial interest” includes (A) inventing the subject matter or (B) commercially practicing or implementing, or making substantial preparations directed particularly to commercially practicing or implementing, or engaging in R&amp;D in, the field of the subject matter.</p>	<p>A party defending against a claim of infringement may file, not later than 14 days before a scheduling conference or scheduling order is due, a statement that such party holds a good faith belief that the primary business of the party alleging infringement is the assertion of patents or the licensing resulting therefrom.</p>
<p>Defines “interested party” as a person, other than the party alleging infringement, that—(A) is an assignee of the patent, (B) has a right, including a contingent right, to enforce or sublicense the patent, or (C) has a “direct financial interest” in the patent, including the right to any part of an award of damages or any part of licensing revenue.</p>	<p>Defines “interested party” as a person who has a substantial financial interest related to the proceeds from any settlement, license, or damages award resulting from the enforcement of the patent.</p>
<p>Excludes from “direct financial interest” category—</p> <ul style="list-style-type: none"> <li>(i) an employee of the party alleging infringement, (I) whose sole principal source of income or employment is employment with the party alleging infringement, or (II) whose sole financial interest in the patent is a salary or hourly wage paid by the party alleging infringement;</li> <li>(ii) an attorney or law firm providing legal representation in the civil action if the sole basis for the financial interest of the attorney or law firm in the patent or patents at issue arises from the attorney or law firm’s receipt of compensation reasonably related to the provision of the legal representation; or</li> <li>(iii) a person whose sole financial interest in the patent or patents at issue is ownership of an equity interest in the party alleging infringement, unless such person also has the right or ability to influence, direct, or control the civil action.</li> </ul>	<p>Excludes from “interested party” definition—</p> <ul style="list-style-type: none"> <li>(B) attorney or law firm providing legal representation in the action if the sole basis for the financial interest of the attorney or law firm in the outcome of the action arises from the attorney or law firm’s receipt of compensation reasonably related to the provision of the legal representation;</li> <li>(C) a person who has assigned all right, title, and interest in a patent, except for passive receipt of income, to an institution of higher education, or who has a right to receive any portion of such passive income;</li> <li>(D) a person whose financial interest is based solely on an equity or security interest established when the party alleging infringement’s primary business was not the assertion and enforcement of patents or the licensing resulting therefrom;</li> <li>(E) a depository institution as defined in section 19(b)(1)(A) of the Federal Reserve Act (12 U.S.C. 461(b)(1)(A)) if the sole basis for the financial interest arises from a loan or other debt obligation.</li> </ul>
<p>Court <i>may</i> deny motion to join if—(i) the interested party is not subject to service of process, or (ii) joinder would deprive the court of subject matter jurisdiction or make venue improper.</p>	<p>Court <i>may</i> exempt a party identified as an interested party from the applicability of this subsection “as the interest of justice requires”.</p>

<p>Court <i>shall</i> deny motion to join if—(i) the interested party did not timely receive the required notice; or (ii) within 30 days after receiving the notice the interested party renounces, in writing and with notice to the court and the parties to the action, any ownership, right, or direct financial interest that the interested party has in the patent or patents at issue.</p>	<p>Any recipient of a notice may submit a statement of renunciation of interest in a binding document with notice to the court and parties in the action not later than 90 days after receipt of the notice. The statement shall be required to renounce only such interest as would qualify the recipient as an interested party.</p>
<p>Joinder shall not apply to a technology transfer organization whose primary purpose is to facilitate the commercialization of technologies developed by one or more institutions of higher education (as defined in section 101(a) of the Higher Education Act of 1965 (20 U.S.C. 1001(a))) if such technology transfer organization is alleging infringement on behalf of an entity that would not be subject to this subsection.</p>	<p>Any institution of higher education (as defined in section 101(a) of the Higher Education Act of 1965 (20 U.S.C. 1001(a)) or under equivalent laws in foreign jurisdictions), or a non-profit technology transfer organization whose primary purpose is to facilitate the commercialization of technologies developed by 1 or more institutions of higher education, may exempt itself from the applicability of this subsection by filing a certification that it qualifies for the exception provided for in this subparagraph with the court and providing notice to the parties.</p>
<p>[No such provision]</p>	<p>Exempts any civil action that includes a claim for relief arising under 35 U.S.C. § 271(e).</p>

### 1.3. Offers of Judgment

Neither Rep. Goodlatte (R-VA)’s **H.R. 9 (“Innovation Act”)** (as reported) nor Sen. Grassley (R-IA)’s **S.1137 (“PATENT Act”)** (as reported) contains an offer-of-judgment provision to encourage the acceptance of settlement offers. Such a provision was originally included in Rep. Goodlatte’s **first discussion draft** bill released in May 2013. The proposal would shift fees against a party who rejects a settlement offer and later fails to improve on the offer at trial. Specifically, if the judgment finally rendered is not “more favorable” to the offeree than the last settlement offer received, then the offeree would be required to pay the offeror’s “costs and expenses, including attorney’s fees” incurred by the offeror from the time of the last offer. This proposal is similar to Federal Rule of Civil Procedure 68, which applies to all federal civil litigation (not only patent cases), but differs in that Rule 68 does not include “attorney’s fees” as part of payable costs. A similar offer-of-judgment provision was contained in a bill that Rep. Goodlatte co-sponsored in 1995 (H.R. 988, “Attorney Accountability Act of 1995”).

### 1.4. Real Party-in-Interest

When suing in court. Currently, under Federal Rule of Civil Procedure 7.1, all parties in a civil litigation must identify “any parent corporation and any publicly held corporation owning 10% or more of its stock.”

- Rep. Goodlatte’s **H.R. 9 (“Innovation Act”)** (as reported) would require a patent plaintiff to identify: (A) the assignee of the patent; (B) any entity with a right to sublicense or enforce the patent; (C) any entity, other than the plaintiff, that the plaintiff knows to have a “financial interest” in the patent or plaintiff (defined as having at least 5% ownership or control of the plaintiff, or any right to receive proceeds from the action); (D) any ultimate parent entity (defined

in 16 CFR 801.1 as an entity which is not controlled by any other entity); (E) a clear and concise description of the principal business of the party alleging infringement; (F) a list of each complaint asserting infringement of the patent; and (G) whether a the patent has been declared standard-essential or the US Government or foreign government has imposed specific licensing requirements with respect to such patent. Failure to update this information within 90 days of any change would result in the inability to receive attorneys fees under § 285 and enhanced damages under § 284 for patent infringement occurring during that period, and the defendant would be entitled to attorney’s fees incurred to discover the missing information.

- Sen. Grassley’s **S. 1137 (“PATENT Act”)** (as reported) largely tracks the court disclosure requirements in H.R. 9, described above.

*Before the Patent Office.* Except in limited circumstances, there is currently no requirement in the Patent Office to disclose a patent owner’s “real party-in-interest.”

- Rep. Goodlatte’s **H.R. 9 (“Innovation Act”)** (as reported) would impose on any patent plaintiff who asserted a patent in court an ongoing duty to continually update that information, described above, to the Patent Office for the life of the patent.
- Sen. Grassley’s **S. 1137 (“PATENT Act”)** (as reported) contains a requirement for all patent owners to disclose ownership information to the Patent Office, even if the patent had not been asserted in court. Specifically, S. 1137 would require all patent owners to record, in the Patent Office, an assignment of all substantial rights in an issued patent, including the name of the assignee and the assignee’s “ultimate parent entity” (as defined in 16 CFR 801.1(a)(3)) at each of the following times: (1) not later than the date the patent is issued, and (2) within 3 months of any subsequent assignment that changes the ultimate parent entity. Failure to do so would result in the inability to receive attorneys fees under § 285 and enhanced damages under § 284 for patent infringement occurring during that period, and the defendant would be entitled to attorney’s fees incurred to discover the missing information.
- Rep. Deutch (D-FL)’s **H.R. 2370 (“End Anonymous Patents Act”)** (introduced) would require disclosure to the Patent Office of the identity of the owner and any real party in interest, (1) upon the issuance of the patent, (2) upon all payments of maintenance fees, and (3) within 90 days after the sale, grant, or conveyance of the patent, application, or any interest therein. The bill defines a “real party in interest” as any entity that has the right to enforce the patent, such entity’s ultimate parent, and any entity with a controlling interest in the enforcement of the patent. Failure to do so would result in the inability to collect any damages during the period of noncompliance.

*When sending demand letters.* No federal statute currently requires a person to identify its “real party-in-interest” when sending demand letters to potential patent infringers. The **White House** June 2013 “fact sheet” says it supports legislation that would require parties who send demand letters to identify their real party-in-interest.

- Rep. Goodlatte’s **H.R. 9 (“Innovation Act”)**, as reported, would require anyone sending a demand letter to identify, among other things, “the ultimate parent entity of the claimant”. Failure to do so would result in the inability to rely on the letter as evidence of pre-suit notification for purposes of willful infringement.

- Sen. Grassley’s **S. 1137 (“PATENT Act”)**, as reported, would require anyone sending a demand letter to identify, among other things, “the identity of any person with the right to enforce each patent.” Failure to do so would result in the inability to rely on the letter as evidence of pre-suit notification for purposes of willful infringement.

### 1.5. Stay of Customer Suits

The **White House’s** June 2013 “fact sheet” supports giving courts the ability to stay an infringement suit against a consumer when a suit has also been brought against a vendor, retailer, or manufacturer.

Both Rep. Goodlatte (R-VA)’s **H.R. 9 (“Innovation Act”)** (as reported) and Sen. Grassley (R-IA)’s **S.1137 (“PATENT Act”)** (as reported) contain a customer-suit provision, with slight differences between the two bills. The definition of a “covered product” in H.R. 9 includes a “material” and “apparatus”, which are absent from the definition in S. 1137. Moreover, S. 1137 expressly defines the terms “use” and “sale” consistent with infringing uses and sales under § 271, whereas H.R. 9 does not. The deadline for filing a motion to stay, following the date of service of an infringement complaint, is longer in H.R. 9 (providing for 120 days) than in S. 1137 (providing for 90 days).

A comparison of the customer-stay provisions in H.R. 9 and S. 1137 is shown below.

Goodlatte – H.R. 9 [reported]	Grassley – S. 1137 [reported]
<p><b>“Covered customer”</b> means a retailer or end user that is accused of infringing a patent or patents in dispute based on—</p> <p>(A) the sale, or offer for sale, of a covered product or covered process without material modification of the product or process in a manner that is alleged to infringe a patent or patents in dispute; or</p> <p>(B) the use by such retailer, the retailer’s end user customer, or an end user of a covered product or covered process without material modification of the product or process in a manner that is alleged to infringe a patent or patents in dispute.</p>	<p><b>“Covered customer”</b> means a retailer or end user that is accused of infringing a patent or patents in dispute based on—</p> <p>(A) the sale, or offer for sale, of a covered product or covered process without material modification of the product or process in a manner that is alleged to infringe a patent or patents in dispute; or</p> <p>(B) the use by such retailer, the retailer’s end user customer, or an end user of a covered product or covered process without material modification of the product or process in a manner that is alleged to infringe a patent or patents in dispute.</p>
<p><b>“Covered manufacturer”</b> means a person that manufactures or supplies, or causes the manufacture or supply of, a covered product or covered process, or a relevant part thereof.</p>	<p><b>“Covered manufacturer”</b> means a person who manufactures or supplies, or causes the manufacture or supply of, a covered product or covered process, or a relevant part thereof.</p>
<p><b>“Covered process”</b> means a process, method, or a relevant part thereof, that is alleged to infringe a patent or patents in dispute where such process, method, or relevant part thereof is implemented by an apparatus, material, system, software, or other instrumentality that is provided by the covered manufacturer.</p>	<p><b>“Covered process”</b> means a process, method, or a relevant part thereof, that is alleged to infringe <u>the</u> patent or patents in dispute where such process, method, or relevant part thereof is implemented by an apparatus, material, system, software or other instrumentality that is provided by the covered manufacturer.</p>
<p><b>“Covered product”</b> means a product, system, service, <u>component, material, or apparatus</u>, or relevant part</p>	<p><b>“Covered product”</b> means a <u>component</u>, product, system, service, or a relevant part thereof, that—</p>

<p>thereof, that—                  (A) is alleged to infringe a patent or patents in dispute; or                  (B) implements a process alleged to infringe the patent or patents in dispute.</p>	<p>(A) is alleged to infringe the patent or patents in dispute; or                  (B) implements a process alleged to infringe the patent or patents in dispute.</p>
<p><b>“End user”</b> <u>includes</u> an affiliate of an end user, but <u>does not</u> include an entity that manufactures or causes the manufacture of a covered product or covered process, or a relevant part thereof.</p>	<p><b>“End user”</b> <u>shall</u> include an affiliate of <u>such</u> an end user, but <u>shall not</u> include an entity that manufactures or causes the manufacture of a covered product or covered process or a relevant part thereof.</p>
<p><b>“Retailer”</b> means an entity that generates revenues predominately through the sale to the public of consumer goods or services, or an affiliate of such entity, but <u>does not</u> include an entity that manufactures or causes the manufacturer of a covered product or covered process, or a relevant part thereof.</p>	<p><b>“Retailer”</b> means an entity that generates <u>its</u> revenues predominately through the sale to the public of consumer goods or services, or an affiliate of such entity, but <u>shall not</u> include an entity that manufactures or causes the manufacture of a covered product or covered process or a relevant part thereof;</p>
<p>[No such provision]</p>	<p><b>“Use”</b> and <b>“sale”</b> mean the use and the sale, respectively, within the meanings given those terms under section 271.</p>
<p><b>Stay of Action Against Customer.</b>—Except as provided in subsection (d), in any civil action in which a party asserts a claim for relief arising under any Act of Congress relating to patents, the court shall grant a motion to stay at least the portion of the action against a covered customer related to infringement of a patent involving a covered product or covered process if the following requirements are met:</p> <p>(1) Party to the Action.—The covered manufacturer is a party to the action or to a separate action (in which a party asserts a claim for relief arising under any Act of Congress relating to patents) involving the same patent or patents related to the same covered product or covered process.</p> <p>(2) Agreement to be Bound By Issues Determined.—The covered customer agrees to be bound as to issues determined in an action described in paragraph (1) without a full and fair opportunity to separately litigate any such issue, but only as to those issues for which all other elements of the common law doctrine of issue preclusion are met.</p> <p>(3) Deadline to File Motion.—The motion is filed after the first pleading in the action but not later than the later of—</p> <p>(A) the <u>120th day</u> after the date on which the first pleading or paper in the action is served that specifically identifies the covered product or covered process as a basis for the covered customer’s alleged infringement of the patent and that specifically</p>	<p><b>Motion For Stay.</b>—In a civil action in which a party asserts a claim for relief arising under any Act of Congress relating to patents (other than an action that includes a cause of action described in section 271(e)), the court shall grant a motion to stay at least the portion of the action against a covered customer that relates to infringement of a patent involving a covered product or covered process if—</p> <p>(1) the covered manufacturer is a party to the action or a separate action in a Federal court of the United States involving the same patent or patents relating to the same covered product or covered process;</p> <p>(2) the covered customer agrees to be bound as to issues determined in an action described in paragraph (1) without a full and fair opportunity to separately litigate any such issue, but only as to those issues for which all other elements of the common law doctrine of issue preclusion are met; and</p> <p>(3) the motion is filed after the first pleading in the action but not later than the later of—</p> <p>(A) <u>90 days</u> after service of the first pleading or paper in the action that specifically identifies the covered product or covered process as a basis for the alleged infringement of the patent by the covered customer, and specifically identifies how the covered product or covered process is alleged to infringe the patent; or</p>

<p>identifies how the covered product or covered process is alleged to infringe the patent; or</p> <p>(B) the date on which the first scheduling order in the case is entered.</p> <p>(4) <b>Manufacturer Consent In Certain Cases.</b>—In a case in which the covered manufacturer has been made a party to the action on motion by the covered customer, the covered manufacturer and the covered customer consent in writing to the stay.</p>	<p>(B) the date on which the first scheduling order in the case is entered.</p> <p>(c) <b>Manufacturer Consent In Certain Cases.</b>—If the covered manufacturer has been made a party to the action on motion by the covered customer, then a motion under subsection (b) may only be granted if the covered manufacturer and the covered customer agree in writing to the stay.</p>
<p><b>Lift Of Stay.</b>—</p> <p>(1) <b>In General.</b>—A stay entered under this section may be lifted upon grant of a motion based on a showing that—</p> <p>(A) the action involving the covered manufacturer will not resolve a major issue in the suit against the covered customer (such as a covered product or covered process identified in the motion to lift the stay is not a material part of the claimed invention or inventions in the patent or patents in dispute); or</p> <p>(B) the stay unreasonably prejudices or would be manifestly unjust to the party seeking to lift the stay.</p> <p>(2) <b>Separate <u>Manufacturer</u> Action <u>Involved</u>.</b>—In the case of a stay entered under this section based on the participation of the covered manufacturer in a separate action described in subsection (b)(1), a motion under paragraph (1) may only be granted if the court in such separate action determines that the showing required under paragraph (1) has been made.</p>	<p><b>Lift Of Stay.</b>—</p> <p>(1) <b>In General.</b>—A stay entered under this section may be lifted upon grant of a motion based on a showing that—</p> <p>(A) the action involving the covered manufacturer will not resolve major issues in the suit against the covered customer, such as that a covered product or covered process identified in the motion to lift the stay is not a material part of the claimed invention or inventions in the patent or patents in dispute; or</p> <p>(B) the stay unreasonably prejudices or would be manifestly unjust to the party seeking to lift the stay.</p> <p>(2) <b>Separate <u>Actions</u>.</b>—In the case of a stay entered under this section based on the participation of the covered manufacturer in a separate action described in subsection (b)(1), a motion under paragraph (1) may only be granted if the court in such separate action determines that the showing required under paragraph (1) has been made.</p>
<p><b>Waiver Of Estoppel Effect.</b>—The court may, upon motion, determine that a consent judgment or an unappealed final order shall not be binding on the covered customer with respect to one or more of the issues that gave rise to the stay based on a showing that such consent judgment or unappealed final order would unreasonably prejudice or be manifestly unjust to the covered customer in light of the circumstances of the case if, following the grant of a motion to stay under this section, the covered manufacturer described in subsection (b)(1)—</p> <p>(1) obtains or consents to entry of a consent judgment relating to such issue that gave rise to the stay; or</p> <p>(2) fails to prosecute to a final, non-appealable judgment such issue that gave rise to the stay.</p>	<p><b>Waiver Of Estoppel Effect.</b>—If, following the grant of a motion to stay under this section, the covered manufacturer in an action described in subsection (b)(1)—</p> <p>(1) obtains or consents to entry of a consent judgment involving one or more of the issues that gave rise to the stay; or</p> <p>(2) fails to prosecute to a final, non-appealable judgment a final decision as to one or more of the issues that gave rise to the stay,</p> <p>the court may, upon motion, determine that such consent judgment or unappealed final decision shall not be binding on the covered customer with respect to one or more of the issues that gave rise to the stay based on a showing that such an outcome would unreasonably prejudice or be manifestly unjust to the covered customer in light of the circumstances of the case.</p>
<p><b>Exemption.</b>—This section shall not apply to an action that includes a cause of action described under section</p>	<p>Exempts “an action that includes a cause of action described in section 271(e)”</p>

271(e)(2).	
<b>Rule of Construction.</b> —Nothing in this section shall be construed to limit the ability of a court to grant any stay, expand any stay granted <u>under</u> this section, or grant any motion to intervene, if otherwise permitted by law.	<b>Rule Of Construction.</b> —Nothing in this section shall be construed to limit the ability of a court to grant any stay, expand any stay granted <u>pursuant to</u> this section, or grant any motion to intervene, if otherwise permitted by law.

### 1.6. Stay of Discovery

Both Rep. Goodlatte (R-VA)’s **H.R. 9 (“Innovation Act”)** (as reported) and Sen. Grassley (R-IA)’s **S.1137 (“PATENT Act”)** (as reported) contain a provision that would stay discovery pending a preliminary motion. The types of preliminary motions that would trigger a stay in **H.R. 9** are: (A) motion to sever a claim or drop a party for misjoinder under Rule 21 of the Federal Rules of Civil Procedure; (B) motion to transfer the action under section 1404(a) of title 28; (C) motion to transfer or dismiss the action under section 1406(a) of title 28; or (D) motion to dismiss the action pursuant to Federal Rule of Civil Procedure 12(b). By contrast, the preliminary motions subject to stay in **S. 1137** are: (A) motion to dismiss; (B) motion to transfer venue; and (C) motion to sever accused infringers. Thus, a motion to sever a “claim” (as opposed to a “party”) would be subject to a stay under H.R. 9 but not under S. 1137. Moreover, the timing of the preliminary motions that trigger a stay differs in the two bills: **H.R. 9** requires the motion to be filed “within 90 days after service of the complaint”; whereas **S. 1137** requires the motion to be filed “prior to the first responsive pleading.” Both bills contain an exemption for suits brought under § 271(e).

### 1.7. Pleading Infringement in More Detail

As of December 1, 2015, the Federal Rules of Civil Procedure no longer contain a “form” complaint for pleading patent infringement (formerly known as Form 18). The U.S. Judicial Conference eliminated Form 18 as part of a rulemaking process that began several years ago. Although Form 18 no longer exists, several bills in Congress continue to call for the elimination of Form 18: Rep. Goodlatte (R-VA)’s **H.R. 9 (“Innovation Act”)** (as reported), Sen. Grassley (R-IA)’s **S.1137 (“PATENT Act”)** (as reported), and Sen. Coons (D-DE)’s **S. 631 (“STRONG Patents Act of 2015”)** (introduced) would each require the Supreme Court to eliminate Form 18.

Beyond eliminating Form 18, both **H.R. 9** and **S. 1137** would impose additional pleading requirements for patent complaints, as shown in the chart below.

Goodlatte – H.R. 9 [reported]	Grassley – S. 1137 [reported]
Applies to any civil action in which a party asserts a claim for relief arising under any Act of Congress relating to patents.	Applies to any civil action in which a party asserts a claim for relief arising under any Act of Congress relating to patents.
Does not apply to any civil action that includes a claim for relief arising under 35 U.S.C. § 271(e)(2).	Does not apply to a civil action that includes a claim for relief arising under section 271(e).

<p>(1) Requires an identification of each patent allegedly infringed.</p>	<p>(1) Requires an identification of each patent allegedly infringed.</p>
<p>(2) Requires an identification of all claims necessary to produce the identification (under paragraph (3)) of each <u>process, machine, manufacture, or composition of matter (referred to in this section as an ‘accused instrumentality’)</u> that is alleged to infringe any claim of each patent that is identified under paragraph (1).</p>	<p>(2) Requires an identification of each claim of each patent identified under paragraph (1) that is allegedly infringed.</p>
<p>(3) Requires an identification of each accused instrumentality alleged to infringe the claim.</p>	<p>(3) Requires an identification of each accused <u>process, machine, manufacture, or composition of matter (referred to in this section as an ‘accused instrumentality’)</u> alleged to infringe the claim.</p>
<p>(4) Requires an identification with particularity, if known, of—                  (A) the name or model number (or a representative model number) of each accused instrumentality; or                  (B) if there is no name or model number, a description of each accused instrumentality.</p>	<p>(4) Requires an identification with particularity, if known, of—                  (A) the name or model number (or a representative model number) of each accused instrumentality; or                  (B) if there is no name or model number, a description of each accused instrumentality.</p>
<p>(5) Requires a <u>clear and concise statement of—</u>                  (A) <u>where each element of each claim identified under paragraph (2) is found within the accused instrumentality; and</u>                  (B) <u>with detailed specificity, how each limitation of each claim identified under paragraph (2) is met by the accused instrumentality.</u></p>	<p>(5) Requires a <u>description of the elements thereof that are alleged to be infringed by the accused instrumentality and how the accused instrumentality is alleged to infringe those elements.</u></p>
<p>(6) Requires a description of the acts of the alleged indirect infringer that contribute to or are inducing the direct infringement.</p>	<p>(6) Requires a description of the acts of the alleged infringer that are alleged to contribute to or induce the direct infringement.</p>
<p>(7) Requires description of the authority of the party alleging infringement to assert each patent identified under paragraph (1) and of the grounds for the court’s jurisdiction.</p>	<p>[No such provision]</p>
<p>[No such provision]</p>	<p><b>Dismissal For Failure To Meet Pleading Requirements.</b>—The court shall, on the motion of any party, dismiss any count or counts of the complaint, counterclaim, or cross-claim for patent infringement if the requirements of paragraphs (1) through (6) of subsection (a) are not met with respect to such count or counts. The fact that a</p>

	party pleads in accordance with subsection (c) shall not be a basis for dismissal if the party nonetheless states a plausible claim for relief sufficient under the Federal Rules of Civil Procedure.
<b>Information Not Readily Accessible.</b> —If information required to be disclosed under subsection (a) is not <u>readily</u> accessible to a party after an inquiry reasonable under the circumstances, as required by Rule 11 of the Federal Rules of Civil Procedure, that information may instead be generally described, along with an explanation of why such undisclosed information was not <u>readily</u> accessible, <u>and of any efforts made by such party to access such information.</u>	<b>Information Not Accessible.</b> —If some subset of information required to comply with subsection (a) is not accessible to a party after an inquiry reasonable under the circumstances, consistent with rule 11 of the Federal Rules of Civil Procedure, an allegation requiring that information may be based upon a general description of that information, along with a statement as to why the information is not accessible.
<b>Amendment of Pleadings.</b> —Nothing in this <u>section</u> shall be construed to affect a party’s <u>ability</u> to amend pleadings as specified in the Federal Rules of Civil Procedure. Amendments permitted by the court are subject to the pleading requirements set forth in this section.	<b>Amendment of Pleadings.</b> —Nothing in this <u>provision</u> shall be construed to affect a party’s <u>leave</u> to amend pleadings as specified in the Federal Rules of Civil Procedure. Amendments permitted by the court are subject to the pleading requirements set forth in this section.
<b>Confidential Information.</b> —A party required to disclose information described under subsection (a) may file, under seal, information believed to be confidential, with a motion setting forth good cause for such sealing. If such motion is denied by the court, the party may seek to file an amended complaint.	<b>Confidential Information.</b> —A party required to disclose information described under subsection (a) may file information believed to be confidential under seal, with a motion setting forth good cause for such sealing. If such motion is denied by the court, the party may seek to file an amended pleading.

## 1.8. FTC Demand Letter Enforcement

Three bills pending in Congress would define the act of sending bad-faith demand letters as an “unfair or deceptive act or practice” under the Federal Trade Commission Act.

Both Sen. Coons (D-DE)’s **S. 631 (“STRONG Patents Act of 2015”)** (introduced) and Rep. Burgess (R-TX)’s **H.R. 2045 (“Targeting Rogue and Opaque Letters Act of 2015”)** (introduced) would preempt all state laws expressly relating to the transmission or contents of communications relating to the assertion of patent rights, and both bills would empower states attorneys general to bring a civil action to enforce this new provision in federal district court on behalf of residents of their states.

By contrast, Sen. Grassley (R-IA)’s **S.1137 (“PATENT Act”)** (as reported) does not expressly preempt state laws and does not authorize states attorneys general to bring enforcement actions; rather, S. 1137 provides for enforcement only by the FTC.

A comparison of the FTC demand-letter provisions of S. 1137, S. 632 and H.R. 2045 is shown below.

Grassley – S. 1137 [reported]	Coons – S. 632 [introduced]	Burgess – H.R. 2045 [introduced]
Applies to the <u>widespread sending</u> of written communications representing that the intended recipients, <u>or any persons affiliated with those recipients</u> , are or may be infringing, or have or may have infringed, a patent and may bear liability or owe compensation to another.	Applies to a <u>pattern or practice of sending</u> written communications that state or represent that the recipients are or may be infringing, or have or may have infringed, the patent and bear liability or owe compensation to another.	Applies to a <u>pattern or practice of sending</u> written communications that state or represent that the recipients are or may be infringing, or have or may have infringed, the patent and bear liability or owe compensation to another.
Defines “affiliated person” as a person affiliated with the intended recipient of a written communication.	[No such provision]	[No such provision]
[No such provision]	<p>The term “bad faith” means that the sender—</p> <ul style="list-style-type: none"> <li>(A) made knowingly false or knowingly misleading statements, representations, or omissions;</li> <li>(B) made statements, representations, or omissions with reckless indifference as to the false or misleading nature of such statements, representations, or omissions; or</li> <li>(C) made statements, representations, or omissions with awareness of the high probability of the statements, representations, or omissions to deceive and the sender intentionally avoided the truth.</li> </ul>	<p>The term “bad faith” means that the sender—</p> <ul style="list-style-type: none"> <li>(A) made knowingly false or knowingly misleading statements, representations, or omissions;</li> <li>(B) made statements, representations, or omissions with reckless indifference as to the false or misleading nature of such statements, representations, or omissions; or</li> <li>(C) made statements, representations, or omissions with awareness of the high probability of the statements, representations, or omissions to deceive and the sender intentionally avoided the truth.</li> </ul>
	Requires the FTC to promulgate rules establishing that a written communication must contain the patent number, the patent claims allegedly infringed, a description of the manufacturer and model number of each accused product or service, notice that the recipient may have the right to have the manufacturer defend against the infringement, the identity of the person with the right to enforce (including each owner, co-owner, assignee, exclusive licensee, and entity with	[No such provision]

	<p>the authority to enforce the patent, and the ultimate parent entity), any FRAND licensing commitments, any basis for a specific license amount, and each PTO proceeding or litigation involving the patent.</p>	
<p>An unfair or deceptive act or practice within the meaning of section 5(a)(1) of the Federal Trade Commission Act (15 U.S.C. 45(a)(1)), in connection with the widespread sending of written communications representing that the intended recipients, or any persons affiliated with those recipients, are or may be infringing, or have or may have infringed, a patent and may bear liability or owe compensation to another, <b>shall be treated as a violation of a rule</b> defining an <b>unfair or deceptive act or practice</b> described under section 18(a)(1)(B) of the Federal Trade Commission Act (15 U.S.C. 57a(a)(1)(B)) if—</p>	<p>It <b>shall</b> be an <b>unfair or deceptive act or practice</b> within the meaning of section 5(a)(1) of the Federal Trade Commission Act (15 U.S.C. 45(a)(1)) for a person, in connection with the assertion of a United States patent, to engage in a pattern or practice of sending written communications that state or represent that the recipients are or may be infringing, or have or may have infringed, the patent and bear liability or owe compensation to another, if—</p>	<p>It <b>shall</b> be an <b>unfair or deceptive act or practice</b> within the meaning of section 5(a)(1) of the Federal Trade Commission Act (15 U.S.C. 45(a)(1)) for a person, in connection with the assertion of a United States patent, to engage in a pattern or practice of sending written communications that state or represent that the recipients are or may be infringing, or have or may have infringed, the patent and bear liability or owe compensation to another, if—</p>
<p>(1)(A) the communications <u>falsely</u>—          (i) represent that administrative or judicial relief has been sought against the recipient or others; or          (ii) threaten litigation if compensation is not paid, the infringement issue is not otherwise resolved, or the communication is not responded to; and          (B) there is a pattern of false representations or threats described in subparagraph (A) having been made without litigation or other relief then having been pursued;</p>	<p>(1) the sender of the communications, <u>in bad faith</u>, states or represents in the communications that—          (A) the sender is a person with the right to license or enforce the patent at the time the communications are sent, and the sender is not a person with such a right;          (B) a civil action asserting a claim of infringement of the patent has been filed against the recipient;          (C) a civil action asserting a claim of infringement of the patent has been filed against other persons;          (D) legal action for infringement of the patent will be taken against the recipient;          (E) the sender is the exclusive licensee of the patent asserted in the</p>	<p>(1) the sender of the communications, <u>in bad faith</u>, states or represents in the communications that—          (A) the sender is a person with the right to license or enforce the patent at the time the communications are sent, and the sender is not a person with such a right;          (B) a civil action asserting a claim of infringement of the patent has been filed against the recipient;          (C) a civil action asserting a claim of infringement of the patent has been filed against other persons;          (D) legal action for infringement of the patent will be taken against the recipient;          (E) the sender is the exclusive licensee of the patent asserted in the communications;</p>

	<p>communications;</p> <p>(F) persons other than the recipient purchased a license for the patent asserted in the communications;</p> <p>(G) persons other than the recipient purchased a license, and the sender does not disclose that such license is unrelated to the alleged infringement or the patent asserted in the communications;</p> <p>(H) an investigation of the recipient's alleged infringement occurred; or</p> <p>(I) the sender or an affiliate of the sender previously filed a civil action asserting a claim of infringement of the patent based on the activity that is the subject of the written communication when the sender knew such activity was held, in a final determination, not to infringe the patent; [or]</p>	<p>(F) persons other than the recipient purchased a license for the patent asserted in the communications;</p> <p>(G) persons other than the recipient purchased a license, and the sender does not disclose that such license is unrelated to the alleged infringement or the patent asserted in the communications;</p> <p>(H) an investigation of the recipient's alleged infringement occurred; or</p> <p>(I) the sender or an affiliate of the sender previously filed a civil action asserting a claim of infringement of the patent based on the activity that is the subject of the written communication when the sender knew such activity was held, in a final determination, not to infringe the patent; [or]</p>
<p>(2) the assertions contained in the communications <u>lack a reasonable basis in fact or law</u>, because—</p> <p>(A) the person asserting the patent is not a person, or does not represent a person, with the current right to license the patent to, or to enforce the patent against, the intended recipients or any affiliated persons;</p> <p>(B) the communications seek compensation on account of activities undertaken after the patent has expired;</p> <p>(C) the communications seek compensation for a patent that has been held to be invalid or unenforceable in a final judicial or administrative proceeding that is unappealable or for which any opportunity for appeal is no longer available;</p> <p>(D) the communications seek compensation for activities by</p>	<p>(2) the sender of the communications, <u>in bad faith</u>, seeks compensation for—</p> <p>(A) a patent claim that has been held to be unenforceable due to inequitable conduct, invalid, or otherwise unenforceable against the recipient, in a final determination;</p> <p>(B) activities undertaken by the recipient after expiration of the patent asserted in the communications; or</p> <p>(C) activity of the recipient that the sender knew was authorized, with respect to the patent claim or claims that are the subject of the communications, by a person with the right to license the patent; or</p>	<p>(2) the sender of the communications, <u>in bad faith</u>, seeks compensation for —</p> <p>(A) a patent claim that has been held to be unenforceable due to inequitable conduct, invalid, or otherwise unenforceable against the recipient, in a final determination;</p> <p>(B) activities undertaken by the recipient after expiration of the patent asserted in the communications;</p> <p>(C) activity of the recipient that the sender knew was authorized, with respect to the patent claim or claims that are the subject of the communications, by a person with the right to license the patent; or</p>

<p>the recipient that the sender knows do not infringe the patent because such activities are authorized by the patentee;</p> <p>(E) the communications falsely represent that an investigation of the recipient’s alleged infringement has occurred; or</p> <p>(F) the communications falsely represent that litigation has been filed against, or a license has been paid by, persons similarly situated to the recipient; or</p>		
<p>(3) the content of the written communications is <u>likely to materially mislead a reasonable recipient</u> because the content fails to include facts reasonably necessary to inform the recipient—</p> <p>(A) of the identity of the person asserting a right to license the patent to, or enforce the patent against, the intended recipient or any affiliated person;</p> <p>(B) of the patent issued by the United States Patent and Trademark Office alleged to have been infringed; and</p> <p>(C) if infringement or the need to pay compensation for a license is alleged, of an identification of at least one product, service, or other activity of the recipient that is alleged to infringe the identified patent or patents and, unless the information is not readily accessible, an explanation of the basis for such allegation.</p>	<p>(3) the sender of the communications, <u>in bad faith</u>, fails to include—</p> <p>(A) the identity of the person asserting a right to license the patent to, or enforce the patent against, the recipient, including the identity of any parent entity and the ultimate parent entity of such person, unless such person is a public company and the name of the public company is identified;</p> <p>(B) an identification of at least one patent issued by the United States Patent and Trademark Office alleged to have been infringed;</p> <p>(C) an identification, to the extent reasonable under the circumstances, of at least one product, service, or other activity of the recipient that is alleged to infringe the identified patent;</p> <p>(D) a description, to the extent reasonable under the circumstances, of how the product, service, or other activity of the recipient infringes an identified patent and patent claim; or</p> <p>(E) a name and contact information for a person the recipient may contact about the assertions or claims relating to the patent</p>	<p>(3) the sender of the communications, <u>in bad faith</u>, fails to include—</p> <p>(A) the identity of the person asserting a right to license the patent to, or enforce the patent against, the recipient, including the identity of any parent entity and the ultimate parent entity of such person, unless such person is a public company and the name of the public company is identified;</p> <p>(B) an identification of at least one patent issued by the United States Patent and Trademark Office alleged to have been infringed;</p> <p>(C) an identification, to the extent reasonable under the circumstances, of at least one product, service, or other activity of the recipient that is alleged to infringe the identified patent;</p> <p>(D) a description, to the extent reasonable under the circumstances, of how the product, service, or other activity of the recipient infringes an identified patent and patent claim; or</p> <p>(E) a name and contact information for a person the recipient may contact about the assertions or claims relating to the patent contained in the</p>

	contained in the communications.	communications.
[No such provision]	<b>Affirmative Defense.</b> —With respect to subsection (a), there shall be an affirmative defense that statements, representations, or omissions were not made in bad faith (as defined in subparagraphs (B) and (C) of section 201(1)) if the sender can demonstrate that such statements, representations, or omissions were mistakes made in good faith. <u>Evidence that the sender in the usual course of business sends written communications that do not violate the provisions of this title shall be sufficient to demonstrate good faith. Good faith may also be demonstrated by other evidence.</u>	<b>Affirmative Defense.</b> —With respect to subsection (a), there shall be an affirmative defense that statements, representations, or omissions were not made in bad faith (as defined in subparagraphs (B) and (C) of section 5(1)) if the sender can demonstrate that such statements, representations, or omissions were mistakes made in good faith, <u>which may be demonstrated by a preponderance of evidence that the violation was not intentional and resulted from a bona fide error notwithstanding the maintenance of procedures reasonably adapted to avoid any such error.</u>
<b>Enforcement By Federal Trade Commission</b> The Federal Trade Commission shall enforce this section in the same manner, by the same means, and with the same jurisdiction, powers, and duties as though all applicable terms and provisions of the Federal Trade Commission Act (15 U.S.C. 41 et seq.) were incorporated into and made a part of this section. Any person who engages in an act or practice described in subsection (b) shall be subject to the penalties and entitled to the privileges and immunities provided in the Federal Trade Commission Act (15 U.S.C. 41 et seq.).	<b>Enforcement By Federal Trade Commission</b> The Commission shall enforce this title in the same manner, by the same means, and with the same jurisdiction, powers, and duties as though all applicable terms and provisions of the Federal Trade Commission Act (15 U.S.C. 41 et seq.) were incorporated into and made a part of this title. Any person who violates section 202 shall be subject to the penalties and entitled to the privileges and immunities provided in the Federal Trade Commission Act.	<b>Enforcement By Federal Trade Commission</b> The Commission shall enforce this Act in the same manner, by the same means, and with the same jurisdiction, powers, and duties as though all applicable terms and provisions of the Federal Trade Commission Act (15 U.S.C. 41 et seq.) were incorporated into and made a part of this Act. Any person who violates section 2 shall be subject to the penalties and entitled to the privileges and immunities provided in the Federal Trade Commission Act.
[No such provision]	<b>Preemption of State Laws on Patent Demand Letters and Enforcement By State Attorneys General</b> This <u>title</u> preempts any law, rule, regulation, requirement, standard, or other provision having the force and effect of law of any State, or political subdivision of a State, expressly relating to the transmission or	<b>Preemption of State Laws on Patent Demand Letters and Enforcement By State Attorneys General</b> This <u>Act</u> preempts any law, rule, regulation, requirement, standard, or other provision having the force and effect of law of any State, or political subdivision of a State, expressly relating to the transmission or contents of

	<p>contents of communications relating to the assertion of patent rights.</p> <p>In any case in which the attorney general of a State has reason to believe that an interest of the residents of that State has been adversely affected by any person who violates section 202, the attorney general of the State, may bring a civil action on behalf of such residents of the State in a district court of the United States of appropriate jurisdiction—</p> <p>(A) to enjoin further such violation by the defendant; or</p> <p>(B) to obtain civil penalties <u>on behalf of recipients who suffered actual damages as a result of such violation.</u></p>	<p>communications relating to the assertion of patent rights.</p> <p>In any case in which the attorney general of a State has reason to believe that an interest of the residents of that State has been adversely affected by any person who violates section 2, the attorney general of the State, may bring a civil action on behalf of such residents of the State in a district court of the United States of appropriate jurisdiction—</p> <p>(A) to enjoin further such violation by the defendant; or</p> <p>(B) to obtain civil penalties.</p>
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### 1.9. Venue

Both Rep. Goodlatte (R-VA)'s **H.R. 9 (“Innovation Act”)** (as reported) and Sen. Jeff Flake (R-AZ)'s **S. 2733 (“Venue Equity and Non-Uniformity Elimination (“VENUE”) Act of 2016)** (introduced) would limit the venue where a civil action for patent infringement may be brought. A comparison of the venue provisions is shown below.

Goodlatte – H.R. 9 [as reported]	Flake – S. 2733 [introduced]
<p>Notwithstanding subsections (b) and (c) of section 1391 of this title, any civil action for patent infringement or any action for a declaratory judgment that a patent is invalid or not infringed may be brought only in a judicial district—</p> <p>(1) where the defendant has its principal place of business or is incorporated;</p> <p>(2) where the defendant has committed an act of infringement of a patent in suit and has a regular and established physical facility that gives rise to the act of infringement;</p> <p>(3) where the defendant has agreed or consented to be sued in the instant action;</p> <p>(4) where an inventor named on the patent in suit conducted research or development that led to the application for the patent in suit;</p> <p>(5) where a party has a regular and established physical facility that such party controls and operates, not primarily for the purpose of creating venue, and</p>	<p>Notwithstanding subsections (b) and (c) of section 1391, any civil action for patent infringement or any action for a declaratory judgment that a patent is invalid or not infringed may be brought only in a judicial district—</p> <p>(1) where the defendant has its principal place of business or is incorporated;</p> <p>(2) where the defendant has committed an act of infringement of a patent in suit and has a regular and established physical facility that gives rise to the act of infringement;</p> <p>(3) where the defendant has agreed or consented to be sued in the instant action;</p> <p>(4) where an inventor named on the patent in suit conducted research or development that led to the application for the patent in suit;</p> <p>(5) where a party has a regular and established physical facility that such party controls and operates, not primarily for the purpose of creating venue, and</p>

<p>has—</p> <p>(A) engaged in management of significant research and development of an invention claimed in a patent in suit prior to the effective filing date of the patent;</p> <p>(B) manufactured a tangible product that is alleged to embody an invention claimed in a patent in suit; or</p> <p>(C) implemented a manufacturing process for a tangible good in which the process is alleged to embody an invention claimed in a patent in suit; or</p> <p>(6) for foreign defendants that do not meet the requirements of paragraphs (1) or (2), according to section 1391(d) of this title.</p>	<p>has—</p> <p>(A) engaged in management of significant research and development of an invention claimed in a patent in suit prior to the effective filing date of the patent;</p> <p>(B) manufactured a tangible product that is alleged to embody an invention claimed in a patent in suit; or</p> <p>(C) implemented a manufacturing process for a tangible good in which the process is alleged to embody an invention claimed in a patent in suit; or</p> <p>(6) in the case of a foreign defendant that does not meet the requirements of paragraph (1) or (2), in accordance with section 1391(c)(3).</p>
<p><b>Mandamus Relief.</b>—For the purpose of determining whether relief may issue under section 1651 of title 28, United States Code, a clearly and indisputably erroneous denial of a motion under section 1406(a) of such title to dismiss or transfer a case on the basis of section 1400(b) of such title shall be deemed to cause irreparable interim harm.</p>	<p><b>Mandamus Relief.</b>—For the purpose of determining whether relief may issue under section 1651 of title 28, United States Code, a clearly and indisputably erroneous denial of a motion under section 1406(a) of such title to dismiss or transfer a case on the basis of section 1400(b) of such title shall be deemed to cause irreparable interim harm.</p>
<p><b>Retailers Not Eligible For Customer Stay.</b>—If a defendant does not meet the definition of a retailer under section 296(a)(6) of title 35, United States Code, as added by section 5, solely because the defendant manufactures or causes the manufacture of the covered product or process in suit, the retail facilities of such defendant shall not constitute a regular and established physical facility for purposes of section 1400(b)(2) of title 28, United Code, as added by paragraph (1).</p>	<p>[No such provision]</p>
<p>(4) <b>Teleworkers.</b>—The dwelling or residence of an employee or contractor of a defendant who works at such dwelling or residence shall not constitute a regular and established physical facility of the defendant for purposes of section 1400(b)(2) of title 28, United Code, as added by paragraph (1).</p>	<p><b>Teleworkers.</b>—The dwelling or residence of an employee or contractor of a defendant who works at such dwelling or residence shall not constitute a regular and established physical facility of the defendant for purposes of section 1400(b)(2) of title 28, United States Code, as added by subsection(a).</p>
<p><b>Effective Date.</b>—Except as otherwise provided in this section, the amendments made by this section shall take effect on the date of the enactment of this Act and shall apply to any action for which a complaint is filed on or after that date.</p>	<p>[No such provision]</p>

## 1.10. ITC Domestic Industry

The **White House’s** June 2013 “fact sheet” expresses support for legislation that would change the ITC standard for granting an exclusion order. Specifically, the “fact sheet” states that the ITC should be required to apply the four-factor test set forth in *eBay Inc. v. MercExchange* that district courts currently apply when granting an injunction in patent cases.

Rep. Cárdenas (D-CA)'s **H.R. 4829 ("Trade Protection Not Troll Protection Act")** (introduced) amends Section 337 of the Tariff Act so that any "licensing activities" relied upon by a complainant for establishing a domestic industry in the United States must be "licensing activities that leads to the adoption and development of articles that incorporate the patent, copyright, trademark, mask work, or design." Moreover, the bill provides that "the complainant may not rely upon activities by its licensees unless the license leads to the adoption and development of articles that incorporate the claimed patent, copyright, trademark, mask work, or design for sale in the United States." Further, if the ITC identifies the domestic industry issue as being dispositive in the case, the ITC shall direct the administrative law judge to expedite fact finding on the issue and make an initial determination on it within 100 days after the start of the investigation. The determination on that issue is appealable to the Federal Circuit, during which time the ITC investigation will be stayed until all appeals are final.

### 1.11. Attorney Sanctions

Sen. Grassley (R-IA)'s **S.1137 ("PATENT Act")** (as reported) would require the USPTO to issue regulations to "make clear that an attorney or unrepresented party presenting a statement, petition, or other submission to the Office does so under an obligation substantially similar to the obligations contained in rule 11 of the Federal Rules of Civil Procedure."

In the 113<sup>th</sup> Congress, Rep. Jeffries (D-NY)'s **H.R. 2639 ("Patent Litigation and Innovation Act of 2013")** would have required the court, upon final adjudication of any civil action arising under an Act of Congress relating to patents, to make specific findings regarding each party's and each attorney's compliance with Federal Rule of Civil Procedure 11(b) as to any complaint, responsive pleading, or dispositive motion. Violations of this rule would result in sanctions in accordance with Rule 11.

### 1.12. Disciplinary Proceedings

Both Rep. Goodlatte (R-VA)'s **H.R. 9 ("Innovation Act")** (as reported) and Sen. Grassley (R-IA)'s **S.1137 ("PATENT Act")** (as reported) would extend the time limit for the USPTO to commence misconduct proceedings against an attorney or agent who violates the USPTO's rules of professional responsibility. Both bills add an additional 6 months (for a total of 18 months) to the time by which the USPTO must commence a misconduct proceeding once a written grievance has been received. **H.R. 9** would also toll the deadline until any court or administrative-agency proceeding involving the misconduct becomes final and non-appealable, whereas **S.1137** would not.

In September 2015, the USPTO issued its 4-year implementation report as required by the AIA, titled *Study and Report on the Implementation of the Leahy-Smith America Invents Act*. The report includes a recommendation to: "Allow disciplinary proceedings to commence 18 months after misconduct was first made known to USPTO rather than one year, and clarify timing related to concurrently pending court cases."

In September 2013, the USPTO issued a report titled *Report on Compliance with the Provisions of the America Invents Act for Timely Filing Disciplinary Proceedings*. The report stated: "The USPTO is pleased to report that after the AIA was enacted, OED was not made aware of any incidents that were subsequently barred from a disciplinary proceeding based on the new time limits [i.e., the 1-year time limit under the AIA]."

### 1.13. Pharma Carve-Outs

Both Rep. Goodlatte (R-VA)'s **H.R. 9 ("Innovation Act")** (as reported) and Sen. Grassley (R-IA)'s **S.1137 ("PATENT Act")** (as reported) expressly exempt pharmaceutical litigation under the Hatch-Waxman and Biologics Acts (35 U.S.C. § 271(e)) from the various litigation-related provisions in the bills. The exempted provisions are shown in the chart below.

Provision	Goodlatte – H.R. 9 [reported]	Grassley – S. 1137 [reported]
<b>Loser-Pays Fee-Shifting and Joinder of Interested Party</b>	[No such provision]	<b>Claims Under Section 271(e).—</b> (1) Applicability.—Subsections (a), (b), and (c) shall not apply to a civil action that includes a claim for relief arising under section 271(e). (2) Award in Certain Claims Under Section 271(e).—In a civil action that includes a claim for relief arising under section 271(e), the court may in exceptional cases award reasonable attorney fees to the prevailing party.
<b>Pleading Requirements in Patent Infringement Complaints</b>	<b>Exemption.</b> —A civil action that includes a claim for relief arising under section 271(e)(2) shall not be subject to the requirements of subsection (a).	<b>Exemption.</b> —Subsection (a) shall not apply to a civil action that includes a claim for relief arising under section 271(e).
<b>Discovery Stay</b>	<b>FDA and Biological Product Application.</b> —Subsections (a) and (c) shall not apply to an action that includes a cause of action described under section 271(e)(2).	<b>Claims under Section 271(e).</b> —This section shall not apply to a civil action that includes a claim for relief arising under section 271(e).
<b>Transparency of Patent Ownership</b>	<b>Exemption.</b> —The requirements of paragraph (1) shall not apply with respect to a civil action filed under subsection (a) that includes a cause of action described under section 271(e)(2).	[No such provision]
<b>Stay of Action Against Manufacturer and Customers</b>	<b>Exemption.</b> —This section shall not apply to an action that includes a cause of action described under section 271(e)(2).	<b>Motion For Stay.</b> —In a civil action in which a party asserts a claim for relief arising under any Act of Congress relating to patents ( <b>other than an action that includes a cause of action described in section 271(e)</b> ), the court shall grant a motion to stay at least the portion of the action against a covered customer that relates to infringement of a patent involving a covered product or covered process if...

## 1.14. Post-Grant Claim Construction

The USPTO's regulations (codified at 37 C.F.R. § 42.100(b) and § 42.200(b)) provide that, during an inter partes review ("IPR") or post grant review ("PGR"), a claim in an unexpired patent shall be given its "broadest reasonable construction in light of the specification." This standard is broader than the standard that district courts apply in infringement litigation. In April 2016, the Supreme Court upheld these regulations as a valid exercise of the USPTO's rulemaking authority in *Cuozzo Speed Techs., LLC v. Lee*, 136 S. Ct. 2131 (2016). Several bills pending in Congress would legislatively overrule these regulations and require the USPTO to construe claims using the same standard that district courts apply.

Rep. Goodlatte (R-VA)'s **H.R. 9 ("Innovation Act")** (as reported), Sen. Grassley (R-IA)'s **S.1137 ("PATENT Act")** (as reported), and Sen. Coons (D-DE)'s **S. 631 ("STRONG Patents Act of 2015")** (introduced) would each require the USPTO to construe patent claims as such claims would be construed in a civil action to invalidate a patent under section 282(b), including construing each claim of the patent in accordance with the "ordinary and customary meaning" as understood by a person skilled in the art, and in light of the "prosecution history pertaining to the patent." Each bill also provides that if a court has previously construed the claim in a civil action in which the patent owner was a party, the USPTO "shall consider" such construction. **H.R. 9** is the only bill among these three that would exempt covered business method ("CBM") proceedings from these changes; specifically, H.R. 9 contains a "technical and conforming amendment" that adds this claim-construction provision to a list of PGR procedures that do not apply to CBM (see Section 18(a)(1)(A) of the Leahy-Smith America Invents Act). By contrast, **S. 1137** and **S. 631** do not exempt CBM from the change that would apply to PGR's claim-construction standard.

## 1.15. Post-Grant Estoppel

Both Rep. Goodlatte (R-VA)'s **H.R. 9 ("Innovation Act")** (as reported) and Sen. Grassley (R-IA)'s **S.1137 ("PATENT Act")** (as reported) would amend the post-grant review "estoppel" provision of 35 U.S.C. § 325(e)(2) that currently precludes a PGR petitioner from raising in a district court of ITC action any ground of unpatentability that the petitioner "raised or reasonably could have raised" during the PGR. Both H.R. 9 and S. 1137 would strike the words "or reasonably could have raised." Thus, estoppel under § 325(e)(2) would be limited to grounds that the PGR petitioner actually "raised" in the PGR, thereby allowing the petitioner, after failing to invalidate a patent claim in the USPTO, to challenge the identical claim in a subsequent civil action using evidence and arguments that the petitioner "reasonably could have raised" during the PGR.

## 1.16. Same Party Joinder in IPR

Both Rep. Goodlatte (R-VA)'s **H.R. 9 ("Innovation Act")** (as reported) and Sen. Grassley (R-IA)'s **S.1137 ("PATENT Act")** (as reported) would amend the IPR "joinder" provision of 35 U.S.C. § 315(c) to clarify that same-party joinder is permitted. The bills, however, use different language. **H.R. 9** states: "For good cause shown, the Director may allow a party who files a petition that meets the requirement ... and concerns the patent of a pending inter partes review to join the petition to the pending review." By contrast, **S. 1137** states: "A petitioner may petition to add additional patent claims in an instituted inter partes review in which the petitioner is a party, if such petition is made within 1 year after the date on which that petitioner, or the real party in interest or privy of that petitioner, is served with an amended

complaint or other paper in a pending litigation for the first time alleging infringement by one or more of them of those patent claims to be added.”

In September 2015, the USPTO issued its 4-year implementation report as required by the AIA, titled *Study and Report on the Implementation of the Leahy-Smith America Invents Act*. The report recommends that Congress “[c]larify the joinder provisions to state that same party joinder is permitted.” As the report explains, “Absent the change, a party could potentially be precluded from challenging newly-asserted claims from related district court litigation.”

In February 2015, an expanded 7-judge panel of the PTAB held that the phrase “any person” in 35 U.S.C. § 315(c) allows the same petitioner of an earlier-instituted IPR proceeding to file a second IPR petition (challenging additional patent claims) and be joined as a party to the earlier-instituted proceeding. *Target Corp. v. Destination Maternity Corp.*, IPR2014-00508, Paper No. 28 (PTAB Feb. 12, 2015),

### 1.17. Petitioner Standing in Post-Grant Proceedings

Rep. Goodlatte (R-VA)’s **H.R. 9 (“Innovation Act”)** (as reported) would require the petitioner of an IPR or PGR to certify that the petitioner and its real parties in interest—

- (A) do not own and will not acquire a financial instrument (including a prepaid variable forward contract, equity swap, collar, or exchange fund) that is designed to hedge or offset any decrease in the market value of an equity security of the patent owner or an affiliate of the patent owner, during a period following the filing of the petition to be determined by the Director; and
- (B) have not demanded payment, monetary or otherwise, from the patent owner or an affiliate of the patent owner in exchange for a commitment not to file a petition under section 311 with respect to the patent that is the subject of the petition, unless the petitioner or the real party in interest of the petitioner has been sued for or charged with infringement of the patent, during a period to be determined by the Director.

Sen. Coons (D-DE)’s **S. 631 (“STRONG Patents Act of 2015”)** (introduced) would limit who can file an IPR or PGR petition. An IPR petition could only be filed if the petitioner or its real party in interest or privy has been sued for infringement or “charged with infringement” (defined as a “real and substantial controversy regarding infringement of a patent such that the petitioner would have standing to bring a declaratory judgment action in Federal court”). A PGR petition could only be filed if the petitioner or its real party in interest or privy demonstrates a reasonable possibility of being sued for infringement or charged with infringement, or demonstrates a competitive harm related to the validity of the patent.

### 1.18. Post-Grant Patent Owner Evidence and Claim Amendments

Rep. Goodlatte (R-VA)’s **H.R. 9 (“Innovation Act”)** (as reported), Sen. Grassley (R-IA)’s **S.1137 (“PATENT Act”)** (as reported), and Sen. Coons (D-DE)’s **S. 631 (“STRONG Patents Act of 2015”)** (introduced) would each give patent owners a greater ability to file evidence in the preliminary stage of an IPR or PGR, as well as greater flexibility with respect to motions to amend claims.

- Preliminary Evidence and Reply. All three bills would allow a patent owner, as part of its preliminary patent owner response, to file supporting evidence in the form of affidavits or declarations. **S. 1137**, unlike the other two bills, would also allow the patent owner to file “such other information as the Director may require by regulation.” All three bills give the Board

discretion to allow the petitioner to file a reply to the patent owner's preliminary response. Only **S. 632** provides for a patent owner to file a surreply to the petitioner's reply.

- **Claim Amendments.** S. 1137 and S. 631 expressly address a patent owner's motion to amend claims. **S. 1137** states that a patent owner's motion to amend claims must (A) be made in the patent holder's first paper following institution (other than a request for rehearing) and not later than 30 days after the institution of the proceeding, unless otherwise agreed to by the parties; (B) narrow the scope of the cancelled claim and may not introduce new subject matter; and (C) respond to a ground of unpatentability involved in the trial. If these conditions (A) through (C) are met, then S. 1137 states that the petitioner shall bear the burden of proving a proposition of unpatentability of the substitute claim by a preponderance of the evidence.

**S. 631** provides that a patent owner's first motion to amend claims "shall be granted if the proposed number of substitute claims is reasonable." S. 631 allows additional motions to amend to be granted upon the joint request of the petitioner and the patent owner to materially advance the settlement of a proceeding, or upon the request of the patent owner for good cause shown. S. 631 places on the petitioner the burden of proving the unpatentability of a proposed amended claim by a preponderance of the evidence.

**H.R. 9** does not expressly address motions to amend claims; however, H.R. 9 would require the USPTO to additionally consider "the rights to due process of the patent owner and the petitioner" when promulgating rules governing IPR and PGR, which is seen by some as a nod towards liberalizing motions to amend claims.

### 1.19. Denial of Post-Grant Petitions on Same Patent

Rep. Goodlatte (R-VA)'s **H.R. 9 ("Innovation Act")** (as reported), Sen. Grassley (R-IA)'s **S.1137 ("PATENT Act")** (as reported), and Sen. Coons (D-DE)'s **S. 631 ("STRONG Patents Act of 2015")** (introduced) each address the issue of follow-on petitions or multiple USPTO proceedings involving the same patent.

**H.R. 9** would require the USPTO to designate as "precedential" various decisions of the PTAB in which follow-on petitions for IPR or CBM were denied under 35 U.S.C. § 325(d)-(e): *Dell Inc. v. Electronics and Telecomms. Research Inst.*, IPR2015-00549, Paper 10 (PTAB Mar. 26, 2015); *Zimmer Holdings, Inc. v. Bonutti Skeletal Innovations LLC*, IPR2014-01080, Paper 17 (PTAB Oct. 31, 2014); *Prism Pharma Co., Ltd. v. Choongwae Pharma Corp.*, IPR2014-00315, Paper 14 (PTAB July 8, 2014); *Unilever, Inc. v. The Procter & Gamble Co.*, IPR2014-00506, Paper 17 (PTAB July 7, 2014).

**S. 1137** would specify that the USPTO may deny a petition for IPR or PGR "if the Director determines that institution would not serve the interests of justice," taking into account factors including "whether the grounds of unpatentability on prior art or arguments set forth in the petition are the same or substantially the same as those considered and decided in a prior judicial proceeding, or in a prior proceeding before the Office involving the same claim or claims (including a decision by the Director not to institute a proceeding under this chapter), and whether there is another proceeding or matter involving the same patent pending before the Office."

**S. 632** would prevent the USPTO from instituting an IPR of a patent while the patent is the subject of a reissue proceeding or reexamination proceeding.

## 1.20. Post-Grant Presumption on Validity

Both Sen. Grassley (R-IA)'s **S.1137 ("PATENT Act")** (as reported), and Sen. Coons (D-DE)'s **S. 631 ("STRONG Patents Act of 2015")** (introduced) provide that the presumption of validity shall apply to a patent challenged in an IPR or PGR. However, only **S. 631** would change the burden of proof, by requiring the petitioner to prove a proposition of unpatentability of a previously issued claim by clear and convincing evidence.

## 1.21. Post-Grant Panel Composition

Both Sen. Grassley (R-IA)'s **S.1137 ("PATENT Act")** (as reported), and Sen. Coons (D-DE)'s **S. 631 ("STRONG Patents Act of 2015")** (introduced) address the issue of who within the USPTO should be involved in the institution decision of an IPR and PGR and who should adjudicate the trial after institution. **S. 1137** requires the USPTO to prescribe a regulation that provides for not more than 1 individual who participated in the institution decision to be permitted to adjudicate the IPR or PGR. **S. 1137** also states that the individual involved in the institution decision may be a designee of the Director who is not otherwise a member of the PTAB. **S. 632** provides that a member of the PTAB who participates in the decision to institute an IPR or PGR shall be ineligible to hear the review.

## 1.22. Changes to *Ex Parte* Reexamination

Sen. Coons (D-DE)'s **S. 631 ("STRONG Patents Act of 2015")** would make two changes to *ex parte* reexamination. First, a person requesting *ex parte* reexamination would need to identify all of its real parties in interest. This change would prevent reexam requests from being filed anonymously. Second, the bill would add a 1-year deadline such that a requester would need to file its reexam request within 1 year of the requester or its real party in interest or privy being served with an infringement complaint.

## 1.23. Covered Business Method Review Expansion

The **White House** June 2013 "fact sheet" expresses support for expanding the CBM program to include a "broader category of computer-enabled patents."

None of the current bills pending in Congress contain a provision to expand the CBM program, other than to make a technical correction to broaden the "Scope of Prior Art" available in CBM. Both Rep. Goodlatte (R-VA)'s **H.R. 9 ("Innovation Act")** (as reported) and Sen. Grassley (R-IA)'s **S.1137 ("PATENT Act")** (as reported) would add pre-AIA § 102(e) prior art to the categories of prior art that can be raised in a CBM petition. In addition, H.R. 9 would allow the USPTO to waive the filing fee for a CBM petition.

Proposals in prior Congresses would have made more significant changes to the CBM program, including eliminating the program's 9-year sunset and expanding the categories of business method patents that could be challenged in CBM. See Sen. Schumer (D-NY)'s **S. 866 ("Patent Quality Improvement Act of 2013")** (introduced May 6, 2013); Rep. Issa (R-CA)'s **H.R. 2766 ("STOP Act")** (introduced July 22, 2013).

In September 2015, the USPTO issued its 4-year implementation report as required by the AIA, titled *Study and Report on the Implementation of the Leahy-Smith America Invents Act*. The report states: "The USPTO recommends adhering to the sunset period and discontinuing CBM proceedings on September 16, 2020."

### 1.24. Limiting CBM Review to CBM Claims

The USPTO has taken the position that a single patent claim directed to a “covered business method” renders all claims of the patent eligible for a CBM review. Rep. Goodlatte’s **second discussion draft**, circulated in September 2013, would have overruled the USPTO’s interpretation by expressly limiting CBM review “only for those claims in a patent that qualify the patent as a covered business method patent.” This provision, however, was omitted from Rep. Goodlatte’s H.R. 3309, introduced in the 113<sup>th</sup> Congress, and as well as from Rep. Goodlatte’s H.R. 9, introduced in the current 114<sup>th</sup> Congress. Currently, no pending bill contains such a provision.

### 1.25. Section 101 Challenges in Post-Grant Review

Some have questioned whether patent eligibility under 35 U.S.C. § 101 can be raised in a petition for PGR or CBM. For example, some have argued that § 101 cannot be raised because § 101 is, technically speaking, a “requirement” and not a “condition for patentability” as that term is used in 35 U.S.C. § 282(b)(2). The USPTO, by contrast, has taken the position that § 101 can be raised in PGR or CBM. In *Versata Dev. Group, Inc. v. SAP Am., Inc.*, 793 F.3d 1306 (Fed. Cir. 2015), the Federal Circuit agreed with the USPTO that § 101 can be raised in a petition for PGR or CBM. Currently, no pending bill addresses this issue.

### 1.26. Privy Estoppel in CBM Review

Through an apparent legislative error, the estoppel provision specific to CBM applies only to the “petitioner” and the “petitioner’s real party in interest” – but not to the petitioner’s “privy”. See AIA § 18(a)(1)(D). By contrast, the estoppel in IPR and PGR apply to all three entities: the petitioner, real party in interest, and privy. See 35 U.S.C. §§ 315(e)(2), 325(e)(2). Currently, no pending bill addresses this issue.

### 1.27. Filing Deadline for CBM Review

The AIA set various deadlines for filing a petition for PGR and IPR. PGR petitions must be filed within 9 months after either the issuance of a first-to-file patent or the issuance of a reissue patent whose claims have been broadened during reissue. IPR petitions must be filed within 1 year of being served with a complaint alleging infringement of a patent. By contrast, there is no deadline for a petitioner to file a CBM petition after being served with an infringement complaint, despite the fact that the petitioner’s standing to file a CBM petition requires it having been sued or charged with infringement of the patent. Currently, no pending bill addresses this issue.

### 1.28. Micro Entity Expansion

Both Sen. Grassley (R-IA)’s **S.1137 (“PATENT Act”)** (as reported) and Sen. Coons (D-DE)’s **S. 631 (“STRONG Patents Act of 2015”)** (introduced) would allow institutions of higher education and nonprofit research to qualify as a “micro entity” and thereby receive a 75% reduction in fees associated with filing and prosecuting US patent applications. A comparison of the micro-entity provisions of the bills is shown in the chart below.

Grassley – S. 1137 [as reported]	Coons – S. 632 [introduced]
<p><b>(d) Institutions Of Higher Education And Nonprofit Research Organizations.</b>—For purposes of this section, a micro entity shall include an applicant who certifies that—</p>	<p><b>(d) Institutions Of Higher Education.</b>—For purposes of this section, a micro entity shall include an applicant who certifies that—</p>
<p>(1) the applicant’s employer, from which the applicant obtains the majority of the applicant’s income, is an institution of higher education as defined in section 101(a) of the Higher Education Act of 1965 (20 U.S.C. 1001(a)), <u>or a comparable organization outside the United States;</u></p>	<p>(1) the applicant’s employer, from which the applicant obtains the majority of the applicant’s income, is an institution of higher education as defined in section 101(a) of the Higher Education Act of 1965 (20 U.S.C. 1001(a));</p>
<p>(2) the applicant has assigned, granted, conveyed, or is under an obligation by contract or law, to assign, grant, or convey, a license or other ownership interest in the particular applications to such an institution of higher education;</p>	<p>(2) the applicant has assigned, granted, conveyed, or is under an obligation by contract or law, to assign, grant, or convey, a license or other ownership interest in the particular applications to such an institution of higher education;</p>
<p>(3) the applicant is an institution of higher education as defined in section 101(a) of the Higher Education Act of 1965 (20 U.S.C. 1001(a)), <u>or a comparable organization outside the United States;</u></p>	<p>(3) the applicant is an institution of higher education as defined in section 101(a) of the Higher Education Act of 1965 (20 U.S.C. 1001(a)); or</p>
<p>(4) the applicant is an organization described in section 501(c)(3) of the Internal Revenue Code of 1986 and exempt from taxation under section 501(a) of such Code, <u>or a comparable organization outside the United States,</u> that holds title to patents and patent applications on behalf of such an institution of higher education for the purpose of facilitating commercialization of the technologies of the patents and patent applications; or</p>	<p>(4) the applicant is an organization described in section 501(c)(3) of the Internal Revenue Code of 1986 and exempt from taxation under section 501(a) of such Code that holds title to patents and patent applications on behalf of such an institution of higher education for the purpose of facilitating commercialization of the technologies of the patents and patent applications.</p>
<p>(5) the applicant is an organization described in section 501(c)(3) of the Internal Revenue Code of 1986 and exempt from taxation under section 501(a) of such Code and certifies that—</p> <p>(A) the applicant performs, at least in part, research or development activities for the Federal Government; or</p> <p>(B) the applicant has assigned, granted, or conveyed, or is under an obligation by contract or law to assign, grant, or convey, a license or other ownership interest in the particular applications to an organization described in section 501(c)(3) of the Internal Revenue Code of 1986 and exempt from taxation under section 501(a) of such Code that performs, at least in part, research or development activities for the Federal Government.</p>	<p>[No such provision]</p>

## 1.29. Double Patenting

Rep. Goodlatte (R-VA)'s **H.R. 9 ("Innovation Act")** (as reported) contains a provision to codify, in some ways, the judge-made doctrine of "obviousness-type double patenting." The provision adds a new subsection (e) to Section 102, thereby creating a new category of so-called "Double-Patenting Prior Art." A first claimed invention, having an earlier effective filing date than a second claimed invention, "shall ... constitute prior art" against the second claimed invention, unless—(1) the second claimed invention is consonant with a requirement for restriction under the first sentence of section 121 with respect to the claims issued in the first patent; or (2) an election has been recorded in the Office by the owner of the second patent or the application on which the second patent issues disclaiming the right to bring or maintain a civil action under section 281 to enforce the second patent. The disclaimer in paragraph (2) shall not apply if—(A) the relief being sought in the civil action would not constitute a cause of action barred by res judicata had the asserted claims of the second patent been issued in the first patent; and (B) the owner of the first patent or the application on which the first patent issues has recorded an election limiting the enforcement of the first patent relative to the second patent in the manner described in this paragraph, the owner of the first patent is a party to the civil action, or a separate action under section 281 to enforce the first patent can no longer be brought or maintained.

## 1.30. Inventor's Oath in Continuing Applications

Both Rep. Goodlatte (R-VA)'s **H.R. 9 ("Innovation Act")** (as reported) and Sen. Grassley (R-IA)'s **S.1137 ("PATENT Act")** (as reported) would amend 35 U.S.C. § 115(a) by striking "shall execute" and inserting "may be required to execute." This change would allow the USPTO to decide whether and under what circumstances to require the filing of an inventor's oath or declaration as part of the filing of a patent application. For example, while the Leahy-Smith America Invents Act eliminated the requirement to submit a new inventor's oath or declaration in continuing applications if the oath or declaration was executed and filed in an earlier application, an oath or declaration filed pre-AIA does not necessarily serve as a basis to avoid filing a new oath or declaration in post-AIA continuing applications.

## 1.31. Priority Claims in Assignee-Filed Applications

Both Rep. Goodlatte (R-VA)'s **H.R. 9 ("Innovation Act")** (as reported) and Sen. Grassley (R-IA)'s **S.1137 ("PATENT Act")** (as reported) would make retroactive fixes, going back to September 16, 2012, for applications filed in the name of the assignee (rather than in the name of the inventors) and that claim priority to a provisional application under 35 U.S.C. § 119(e)(1) or non-provisional application under § 120. As amended, both statutory sections would accord the benefit of the earlier application's filing date to the later-filed application, regardless if the later-filed application was filed "by an inventor or inventors" (as was the case pre-AIA) or was filed by the assignee (as permitted after the AIA). These changes are made retroactive to September 16, 2012, the date the assignee-filing provision of 35 U.S.C. § 118 went into effect under the AIA.

In September 2015, the USPTO issued its 4-year implementation report as required by the AIA, titled *Study and Report on the Implementation of the Leahy-Smith America Invents Act*. The report states: "The USPTO recommends that the benefit provisions in 35 USC §119(e) and 35 USC §120 be amended to state that the application must name an inventor in common rather than that they must be filed by a common inventor." The report explains that this "statutory change is needed to avoid confusion as to

whether an assignee-filed nonprovisional application may claim the benefit of a prior-filed provisional or nonprovisional application.”

### 1.32. Federal Jurisdiction

Rep. Goodlatte (R-VA)’s **H.R. 9 (“Innovation Act”)** (as reported) contains a provision titled “Clarification of Jurisdiction,” which provides that a federal subject matter jurisdiction shall extend to any action or claim that (A) necessarily requires resolution of a disputed question as to the validity of a patent or the scope of a patent claim; or (B) is an action or claim for legal malpractice that arises from an attorney’s conduct in relation to an action or claim arising under an Act of Congress relating to patents. This provision is apparently intended to bring patent malpractice claims back under federal jurisdiction in the wake of the Supreme Court’s decision in *Gunn v. Minton*, 133 S. Ct. 1059 (2013) (holding that patent malpractice case brought in state court did not need to be brought in federal court).

### 1.33. Divided Infringement

Sen. Coons (D-DE)’s **S. 631 (“STRONG Patents Act of 2015”)** (introduced) would add a new subsection (j) to 35 U.S.C. § 271, which states: “For a finding of liability for actively inducing infringement of a process patent under subsection (b), or for contributory infringement of a process patent under subsection (c), it shall not be a requirement that the steps of the patented process be practiced by a single entity.”

In *Limelight Networks, Inc. v. Akamai Techs., Inc.*, 134 S. Ct. 2111 (2014), the Supreme Court held that active inducement under § 271(b) requires that some person must be liable for direct infringement under § 271(a). The following year, in *Akamai Technologies, Inc. v. Limelight Networks, Inc.*, 797 F.3d 1020 (Fed. Cir. 2015) (en banc), the Federal Circuit held direct infringement may occur where more than one actor is involved in practicing the steps of a patented process, so long as the acts of one are attributable to the other such that a single entity is responsible for the infringement, either because (1) the entity directs or controls others’ performance or (2) the actors form a joint enterprise.

### 1.34. Willful Infringement

Sen. Coons (D-DE)’s **S. 631 (“STRONG Patents Act of 2015”)** (introduced) would amend the damages provision of 35 U.S.C. § 284 by specifying that damages may be increased up to 3 times the amount found or assessed upon determining, by a “preponderance of the evidence,” that the infringement was “willful or in bad faith.”

In *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 136 S. Ct. 1923 (2016), the Supreme Court reversed the Federal Circuit’s two-part objective-subjective test for willful infringement, holding instead that § 284 allows district courts to punish the full range of culpable behavior, including where the infringer later develops a reasonable defense at trial. The Supreme Court also lowered the burden of proof for proving willfulness—from a “clear and convincing evidence” standard to a lower, “preponderance of the evidence” standard.

### 1.35. Prior User Defense

Both Rep. Goodlatte (R-VA)’s **H.R. 9 (“Innovation Act”)** (as reported) and Sen. Grassley (R-IA)’s **S.1137 (“PATENT Act”)** (as reported) would repeal subsections (f) and (g) of 35 U.S.C. § 273 involving the prior user defense. Subsection (f) states, “If the defense under this section is pleaded by a person who is

found to infringe the patent and who subsequently fails to demonstrate a reasonable basis for asserting the defense, the court shall find the case exceptional for the purpose of awarding attorney fees under section 285.” Subsection (g) states, “A patent shall not be deemed to be invalid under section 102 or 103 solely because a defense is raised or established under this section.”

The AIA created a “prior user” defense to patent infringement where the defendant had been practicing the invention at least 1 year before the effective filing date of the patent. Some have called for this defense to be expanded by eliminating the 1-year cutoff date and by allowing “substantial preparations” for manufacture and use (prior to the actual manufacture and use) to qualify as grounds for invoking the defense. Currently, no pending bill would eliminate the 1-year cutoff or would expand the defense to include “substantial preparations.”

### 1.36. Patent Office Funding and Fee-Setting Authority

Both Rep. Goodlatte (R-VA)’s **H.R. 9 (“Innovation Act”)** (as reported) and Sen. Grassley (R-IA)’s **S.1137 (“PATENT Act”)** (as reported) would extend the 7-year sunset of the USPTO’s fee-setting authority. **H.R. 9** would extend the period by an additional 10 years (for a total of 17 years). **S. 1137** would extend it by an additional 7 years (for a total of 14 years).

Sen. Coons (D-DE)’s **S. 631 (“STRONG Patents Act of 2015”)** (introduced) would establish a revolving fund to which all fees collected by the USPTO would be credited. The fund would be available to the Director, without fiscal year limitation, to cover all administrative and operating expenses associated with the services, programs, activities, and duties of the USPTO.

Rep. Conyers (D-MI)’s **H.R. 1832 (“Innovation Protection Act”)** (introduced) proposes a revolving fund identical to the fund proposed in S. 632. Additionally, H.R. 1832 would require an annual report to Congress on the previous fiscal year spending and plans for modernizing the USPTO. The Director would also be required to notify the Committees on Appropriations of both houses of the amount of funds available for that fiscal year at the beginning of each fiscal year.

In September 2015, the USPTO issued its 4-year implementation report as required by the AIA, titled *Study and Report on the Implementation of the Leahy-Smith America Invents Act*. The report includes a recommendation to: “Remove the [7-year] sunset period and make authority to adjust patent and trademark fees by rule permanent.” The report also includes two additional recommendations regarding the procedural formalities the USPTO must follow when exercising its fee-setting authority: (1) “Specify that the 30-day requirement is applicable to a ‘formal’ fee proposal. Replace the 30-day time period for a public hearing with a 45-day time period”; and (2) Change the effective date to start from the date published in the Federal Register, but maintain the requirement to publish proposed changes in both the Federal Register and the Official Gazette.” Regarding USPTO funding, the report recommends “eliminating the requirement for a detailed spending plan to accompany a reprogramming notification to transfer funds to the operating reserve” and also “encourages Congress to expeditiously review any submitted spending plans to enable the smooth transfer of funds from the PTFRF [Patent and Trademark Fee Reserve Fund].” As the report explains, “Delays of any significant period of time may create unnecessary uncertainty in USPTO’s budgeting process or delay planned expenditures detailed in the spend plan.”

### 1.37. Deputy Director

Both Rep. Goodlatte (R-VA)'s **H.R. 9 (“Innovation Act”)** (as reported) and Sen. Grassley (R-IA)'s **S.1137 (“PATENT Act”)** (as reported) would amend the 35 U.S.C. § 3(b)(1) in the following way: “The Secretary of Commerce, upon nomination by the Director, shall appoint a Deputy Under Secretary of Commerce for Intellectual Property and Deputy Director of the United States Patent and Trademark Office who shall be ~~vested with the authority to act in the capacity of the~~ serve as Acting Director in the event of the absence or incapacity of the Director or in the event of a vacancy in the office of the Director.”

During the period of 2001 to 2013, the USPTO has published 66 Federal Register notices signed by an “Acting Director” of the USPTO. Similarly, in *Randall Mfg. v. Rea*, 733 F.3d 1355 (Fed. Cir. 2013), the case caption identifies the respondent as the “Acting Director” of the USPTO. In each of these instances, the office of the Director was vacant due to resignation, rather than incapacity or other absence.

### 1.38. Bankruptcy Protection

Both Rep. Goodlatte (R-VA)'s **H.R. 9 (“Innovation Act”)** (as reported) and Sen. Grassley (R-IA)'s **S.1137 (“PATENT Act”)** (as reported) include a provision making U.S. bankruptcy law applicable to cross-border bankruptcy cases involving IP licenses.

### 1.39. Reverse-Payment Settlements

Both Sen. Klobuchar (D-MN)'s **S. 2019 (“Preserve Access to Affordable Generics Act”)** (introduced) and Sen. Sanders (I-VT)'s **S. 2023 (“Prescription Drug Affordability Act of 2015”)** (introduced) would authorize the FTC to initiate an enforcement proceeding against parties to any agreement resolving or settling a patent infringement claim in connection with the sale of a drug product, and would presume that an agreement has anticompetitive effects if an abbreviated new drug application (“ANDA”) filer receives anything of value, including an exclusive license, and the ANDA filer agrees to limit or forego research, development, manufacturing, marketing, or sales of the ANDA product for any period of time.

### 1.40. Patents For Humanity

Both Sen. Leahy (D-VT)'s **S. 1402 (“Patents for Humanity Program Improvement Act”)** (as passed in the Senate on May 26, 2016) and Sen. Grassley (R-IA)'s **S.1137 (“PATENT Act”)** (as reported) would expand the USPTO’s “Patents for Humanity” program (published at 77 Fed. Reg. 6544) by allowing the holder of an acceleration certificate issued under the program to “transfer (including by sale) the entitlement to such acceleration certificate to another person.” Under the existing program, selected winners receive a “certificate” that can be redeemed to accelerate an *ex parte* reexamination proceeding, including one appeal to the PTAB from that proceeding; a patent application, including one appeal to the PTAB from that application; or an appeal to the PTAB of a claim twice rejected in a patent application or reissue application or finally rejected in an *ex parte* reexamination. Under the USPTO’s program, however, certificates awarded are not transferrable to third parties.

### 1.41. Section 145 Repeal

Under 35 U.S.C. § 145, an applicant whose claims have been finally rejected may sue the USPTO in district court, where the applicant can introduce new evidence in support of patentability. Rep. Goodlatte’s **H.R. 3309** (introduced in the 113<sup>th</sup> Congress) would have repealed § 145. However, this

provision was struck from H.R. 3309 by an amendment introduced on the House floor by Rep. Rohrbacher (R-CA), which prevailed over Rep. Goodlatte's opposition by a recorded vote of 260-156 in favor of retaining § 145. Currently, no pending bill addresses this issue.

#### 1.42. FCC Infringement Immunity

Some telecommunications companies have been sued for infringing patents that cover wireless technologies used by emergency first responders, where the infringing aspects of this technology are necessary to comply with Federal Communications Commission (FCC) regulations. Sen. Cardin (D-MD) introduced **S. 1478** in the 113<sup>th</sup> Congress which would immunize companies that supply this technology and would instead create an exclusive right of action for patent infringement against the government in the U.S. Court of Federal Claims. Currently, no pending bill addresses this issue.

#### 1.43. Car Parts Immunity

Rep. Issa (R-CA)'s **H.R. 1057** (introduced) and Sen. Hatch (R-UT)'s **S. 560** (introduced), both titled **"Promoting Automotive Repair, Trade, and Sales" or "PARTS" Act**, would provide infringement immunity with respect to a design patent that claims a component part of a motor vehicle as originally manufactured. Specifically, a person would not be liable for patent infringement if the person were to: (1) make, test, or offer to sell within the United States, or import into the United States, any article of manufacture that is similar or the same in appearance to the component part claimed in such design patent if the purpose of such article is for the repair of a motor vehicle to restore its appearance to as originally manufactured, or (2) use or sell within the United States any such same or similar articles for such restorations more than 30 months after the claimed component part is first offered for public sale as part of a motor vehicle in any country.

#### 1.44. Seed Patent Immunity

In the 113<sup>th</sup> Congress, Rep. Kaptur (D-OH) introduced **H.R. 193 ("Seed Availability and Competition Act of 2013")** which would provide an exemption from patent infringement for any person who retains seeds harvested from the crops grown from patented seeds if the person registers with the Secretary of Agriculture and pays fees set by the Secretary. Such person would not be bound by any contractual limitation or any requirement to pay royalties. Currently, no pending bill addresses this issue.

#### 1.45. Ending Pre-GATT Patent Term

In the 112<sup>th</sup> Congress, Rep. Smith (R-TX) introduced a technical corrections bill **HR. 6621** that contained a provision to retroactively eliminate the 17-year term of pre-GATT patents. This provision, however, was eventually removed from the bill, which was signed into law as Public Law 112-29 (AIA Technical Corrections Act). Currently, no pending bill addresses this issue.

#### 1.46. Study on Business Method Patent Quality

Both Rep. Goodlatte (R-VA)'s **H.R. 9 ("Innovation Act")** (as reported) and Sen. Grassley (R-IA)'s **S.1137 ("PATENT Act")** (as reported) would require the Comptroller General of the United States to conduct a study on the volume and nature of litigation involving business method patents. The study shall focus on examining the quality of business method patents asserted in suits alleging patent infringement, and may include an examination of any other areas that the Comptroller General determines to be relevant.

### 1.47. Study on Secondary Patent Market

Both Rep. Goodlatte (R-VA)'s **H.R. 9 ("Innovation Act")** (as reported) and Sen. Grassley (R-IA)'s **S.1137 ("PATENT Act")** (as reported) would require the USPTO to conduct a study (A) to develop legislative recommendations to ensure greater transparency and accountability in patent transactions occurring on the secondary market; (B) to examine the economic impact that the patent secondary market has on the United States; (C) to examine licensing and other oversight requirements that may be placed on the patent secondary market, including on the participants in such markets, to ensure that the market is a level playing field and that brokers in the market have the requisite expertise and adhere to ethical business practices; and (D) to examine the requirements placed on other markets.

### 1.48. Small Business Outreach and Study

Both Rep. Goodlatte (R-VA)'s **H.R. 9 ("Innovation Act")** (as reported) and Sen. Grassley (R-IA)'s **S.1137 ("PATENT Act")** (as reported) would require the USPTO, using existing resources, to develop "educational resources for small business to address concerns pertaining to patent infringement." Both bills also require the USPTO's existing small business outreach programs to provide education and awareness on abusive patent litigation practices. Both bills also would require the USPTO to create a website to notify the public when a patent case is brought in Federal court, including the mandatory information regarding ownership that the plaintiff is required to file in court, and any other information the Director determines to be relevant.

**H.R. 9** also requires the USPTO to conduct a study to examine the economic impact of the Innovation Act on the ability of individuals and small businesses owned by women, veterans, and minorities, to assert, secure, and vindicate the constitutionally guaranteed exclusive right to inventions and discoveries.

Sen. Coons (D-DE)'s **S. 631 ("STRONG Patents Act of 2015")** (introduced) would require the USPTO to make available online at no charge all patent and trademark information that is available at the Public Search Facility of the USPTO's Alexandria location, including search tools and databases, informational materials, and training classes and materials.

### 1.49. Study on Government Owned Patents

Rep. Goodlatte (R-VA)'s **H.R. 9 ("Innovation Act")** (as reported) would require the USPTO to conduct a study on patents owned by the U.S. Government that—(A) examines how such patents are licensed and sold, and any litigation relating to the licensing or sale of such patents; (B) provides legislative and administrative recommendations on whether there should be restrictions placed on patents acquired from the United States Government; (C) examines whether or not each relevant agency maintains adequate records on the patents owned by such agency, specifically whether such agency addresses licensing, assignment, and Government grants for technology related to such patents; and (D) provides recommendations to ensure that each relevant agency has an adequate point of contact that is responsible for managing the patent portfolio of the agency.

### 1.50. Study on Patent Examination Quality

Rep. Goodlatte (R-VA)'s **H.R. 9 ("Innovation Act")** (as reported) would require the Comptroller General of the United States to conduct a study on patent examination at the USPTO and the technologies available to improve examination and improve patent quality. The study shall include: (A) an examination of patent quality at the Office; (B) an examination of ways to improve patent quality, specifically through technology, that shall include examining best practices at foreign patent offices and the use of existing off-the-shelf technologies to improve patent examination; (C) a description of how patents are classified; (D) an examination of procedures in place to prevent double patenting through filing by applicants in multiple art areas; (E) an examination of the types of off-the-shelf prior art databases and search software used by foreign patent offices and governments, particularly in Europe and Asia, and whether those databases and search tools could be used by the Office to improve patent examination; and (F) an examination of any other areas the Comptroller General determines to be relevant.

### 1.51. Study on Demand Letters

Rep. Goodlatte (R-VA)'s **H.R. 9 ("Innovation Act")** (as reported) would require the USPTO to conduct a study of the prevalence of the practice of sending patent demand letters in bad faith and the extent to which that practice may, through fraudulent or deceptive practices, impose a negative impact on the marketplace.

### 1.52. Study on Small Claims Patent Court

Both Rep. Goodlatte (R-VA)'s **H.R. 9 ("Innovation Act")** (as reported) and Sen. Grassley (R-IA)'s **S.1137 ("PATENT Act")** (as reported) would require the Administrative Office of the US Courts to conduct a study to examine the idea of developing a pilot program for patent small claims procedures within the judicial districts that are participating in the existing Patent Case Pilot Program established by Pub. L. 111-349. The study would examine (i) the necessary criteria for using small claims procedures; (ii) the costs that would be incurred for establishing, maintaining, and operating such a pilot program; and (iii) the steps that would be taken to ensure that the procedures used in the pilot program are not misused for abusive patent litigation.

In December 2012, the USPTO published a Federal Register notice requesting public comment on whether the United States should establish a small claims proceeding for patent enforcement in cases with low monetary damages. Among the question the USPTO asked was whether there is a need and desire for this type of proceeding, in what circumstances is this proceeding needed, and what features this proceeding should possess. The notice mentioned that in 1989-90, both the American Intellectual Property Law Association (AIPLA) and American Bar Association Intellectual Property Section (ABA-IP) expressed support for the creation of a small claims patent court.

### 1.53. Grace-Period Expansion

Rep. Sensenbrenner (R-WI)'s **H.R. 1791** (introduced) and Sen. Baldwin (D-WI)'s **S. 926** (introduced), both titled "**Grace Period Restoration Act of 2015**", would eliminate as prior art any disclosure by any person that is made within the 1-year grace period, if such disclosure is made before the claimed invention is publicly disclosed, 1 year or less before the effective filing date of the claimed invention, in a printed

publication by a “covered person” in a manner that satisfies the written-description and enablement requirements of § 112(a). A “covered person” is defined as the inventor, joint inventor, or another who obtained the claimed invention directly or indirectly from the inventor or joint inventor.

### 1.54. Secret Prior Art

The USPTO has interpreted the AIA’s changes to 35 U.S.C. § 102 as overruling *Metallizing Engineering Co. v. Kenyon Bearing & Auto Parts Co.*, 153 F.2d 516 (2d Cir. 1946) (holding that a patentee’s secret commercialization of its invention, more than 1 year before the effective filing date, constitutes prior art against the invention). The USPTO’s interpretation is being challenged on appeal at the Federal Circuit in *Helsinn Healthcare S.A. v. Dr. Reddy’s Labs. Ltd.*, No. 16-1284. Currently, no pending bill addresses this issue.

### 1.55. Patent-Related Tax Deduction

Rep. Schwartz (D-PA) introduced **H.R. 2605 (“Manufacturing Innovation in America Act”)** in the 113<sup>th</sup> Congress which would have reduced business taxes by more than half, to a 10 percent rate, for companies that manufacture patented products in the United States. The bill seeks to encourage companies to invent and own patents in the United States similar to the United Kingdom’s “Patent Box” tax scheme. Currently, no pending bill addresses this issue.

### 1.56. Pre-Issuance Submissions

The AIA created a mechanism for the public to file “third party submissions” of prior art and to have that art considered by the USPTO examiner during the pendency of a patent application. While the AIA requires this submission to include a “concise description of the asserted relevance of each submitted document,” the USPTO has interpreted the statute as prohibiting the submitting party from including any “arguments” or any “proposed grounds of rejection” in these submissions. A substantial number of third party submissions have been found defective for this reason. Moreover, the USPTO has interpreted the AIA as disallowing third party submissions in reexamination proceedings and reissue applications, even if the claims are being broadened during reissue. Currently, no pending bill addresses this issue.

### 1.57. Inventorship Challenges

The AIA eliminated subsection (f) of 35 U.S.C. § 102, which provided, “A person shall be entitled to a patent unless . . . he did not himself invent the subject matter sought to be patented.” Some thought that by eliminating this provision, the identity of the true inventor would no longer be relevant to patentability, which instead would be addressed solely in a derivation proceeding. The USPTO, however, has taken the position that inventorship is still relevant to patentability and may form the basis of a rejection under 35 U.S.C. § 101 (“Whoever invents or discovers...”). Currently, no pending bill addresses this issue.

### 1.58. Inventor’s Oath in Reissue Applications

In 2003, as part of the USPTO’s 21<sup>st</sup> Century Strategic Plan, the USPTO proposed eliminating the prohibition against assignees (rather than inventors) applying for a broadening reissue patent under 35 U.S.C. § 251(c). Although the AIA now permits applications to be filed by the assignee, the AIA did not

remove the requirement in § 251(c) that inventors must execute a new oath or declaration in a broadening reissue application. Currently, no pending bill addresses this issue.

### 1.59. Mandatory 18-Month Publication of Patent Applications

Congress may need to consider whether ratification of the Trans-Pacific Partnership (“TPP”) will require amending U.S. patent law to require mandatory publication of pending patent application within 18 months of the application’s filing date or, if priority is claimed, the application’s earliest priority date. Some believe that the absence of a non-publication request exception in Article 18.44 of the TPP—an exception that was included in earlier negotiating drafts—will bar the USPTO from continuing its practice of allowing applicants to request non-publication under 35 U.S.C. § 122(b)(2)(B).

## 2. Executive Agency Proposals

During 2013-2014, the White House announced 8 executive actions directed to patent issues. First, on June 4, 2013, the White House announced 5 executive actions “to help bring about greater transparency to the patent system and level the playing field for innovators.” Later, on February 20, 2014, the White House announced three more executive actions aimed at encouraging innovation and strengthening the “quality and accessibility of the patent system.” Below is a summary and status of each of the 8 executive actions directed to patents, as well other initiatives being undertaken across the Executive Branch.

### 2.1. Executive Action 1: Attributable Patent Ownership

Aimed at exposing “patent trolls” who “set up shell companies to hide their activities”, the USPTO began a rulemaking process to require patent applicants and owners to regularly update their “real party in interest” information at each point during the patent application process and throughout the term of an issued patent. However, after receiving feedback from the public, the USPTO decided not to implement a final rule. As Director Michelle K. Lee explaining, “after reading a lot of input and talking to a lot of stakeholders, [the USPTO has decided that] Congress is in the best position to enact rules on transparency, because you have better authority to ask for that kind of information at time of litigation.” *Hearing on H.R. 9, Committee on the Judiciary, House of Representatives, Serial No. 114-20, at p. 61 (April 14, 2015).*

### 2.2. Executive Action 2: Clarity in Patent Claims

Initially aimed at discouraging or curbing the use of functional claim language (e.g., “means plus function” language for software inventions), the USPTO shifted the focus of this initiative to examiner training and improving the clarity of the examination record. The USPTO also launched a “Glossary Pilot Program” to voluntarily encourage applicants to include a glossary of claim definitions in their patent specifications.

### 2.3. Executive Action 3: Empowering Downstream Users

In an effort to educate “unsuspecting retailers, consumers, and small businesses” that are accused of patent infringement, the USPTO created a website ([www.uspto.gov/patents-maintaining-patent/patent-](http://www.uspto.gov/patents-maintaining-patent/patent-)

*litigation/patent-litigation*) that provides information on: (1) the steps someone can take when they receive a patent infringement letter; (2) basic information about patents, including explaining what a patent is and how to find a copy of a patent; (3) how to determine who owns a patent; (4) how to find an attorney; and (5) how to determine if anyone else is being sued by the patent owner.

#### 2.4. Executive Action 4: Expanded Outreach and Focused Study

This executive action involves USPTO-led roundtables on “high tech patent issues” and an expansion of the USPTO’s Thomas Alva Edison Visiting Scholar Program whereby law school professors conduct scholarly research at the USPTO on either a full or part-time basis. Examples of roundtables topics include prior art access, glossaries, software partnership, and internet searching and use of crowdsourcing to locate prior art.

#### 2.5. Executive Action 5: Crowdsourcing Prior Art

This initiative seeks to use crowdsourcing to locate prior art that is otherwise not contained in the USPTO’s search databases. The USPTO conducted several roundtables and requested comments from the public on the topic and states that it will issue “proposed examiner search and crowdsourcing guidance.”

#### 2.6. Executive Action 6: More Robust Technical Training and Expertise

Under this initiative, the USPTO has expanded its existing Patent Examiner Technology Training Program that brings in outside technical experts to give topical lectures to patent examiners on issues in their fields. In particular, the USPTO has “simplified the process of a scientist or engineer to volunteer their time to provide technical training to examiners,” is also “leverag[ing] all possible ways to make training possible such as through the use of the satellite office locations as lecture venues, webcasting, and other online resources.”

#### 2.7. Executive Action 7: Patent Pro Bono and Pro Se Assistance

Under this initiative, the USPTO has posted educational resources for pro se applicants seeking to file patent applications, and has encouraged law schools and bar associations to give free legal advice to small inventors interested in securing patent protection for their inventions. According to the USPTO’s website, the agency has appointed a full-time Pro Bono Team to work with the AIA Pro Bono Advisory Council to extend coverage to all 50 states.

#### 2.8. Executive Action 8: Strengthen Enforcement of ITC Exclusion Orders

The only one of the eight executive actions not delegated to the USPTO, this initiative is intended to “make the enforcement of exclusion orders issued by the International Trade Commission more transparent, effective, and efficient.” In February 2015, the ITC announced a pilot program aimed at providing more efficient determinations on the scope of remedial orders it issues with respect to redesigns and new products introduced after the original ITC investigation has been completed. Separately, Customs & Border Protection is proposing to amend its rules governing the enforcement of

ITC exclusion orders by creating an *inter partes* proceeding that would allow both the patent owner and the accused infringer to address whether an imported product is covered by an exclusion order.

## 2.9. ITC Domestic Industry

In June 2013, the ITC announced that it had “launched a pilot program to test whether earlier rulings on certain dispositive issues in section 337 investigations could limit unnecessary litigation,” and specifically pointed to “the existence of a domestic industry” as one issue to be decided within 100 days of instituting an investigation.

## 2.10. FTC Investigations of Patent Assertion Entities

In September 2013, the FTC published a Federal Register notice seeking public comment on proposed information requests to “PAEs and other entities asserting patents in the wireless communication sector, including manufacturers and non-practicing entities and organizations engaged in licensing.” The notice states that the FTC is conducting this study pursuant to its authority under Section 6(b) of the FTC Act. The proposed information request, which the FTC said it expects to send to approximately 25 PAEs and 15 other entities, would include the following questions:

- How do PAEs organize their corporate legal structure, including parent and subsidiary entities? (Request B)
- What types of patents do PAEs hold, and how do they organize their holdings? (Request C & D)
- How do PAEs acquire patents, and how do they compensate prior patent owners? (Request E)
- How do PAEs engage in assertion activity (i.e. demand, litigation, and licensing behavior)? (Request F)
- What does assertion activity cost PAEs? (Request G); and
- What do PAEs earn through assertion activity? (Request H)

The FTC has not yet published the results of the above-described Section 6(b) study.

In 2013, the FTC began an investigation of MPHJ, a patent assertion entity that sent thousands of letters to small businesses alleging infringement of patents on networked scanners. MPHJ’s letters allegedly demanded payment of a royalty and threatened legal action if the business did not agree to the demand. No suits were ever filed against businesses that failed to respond to the letters. In addition, MPHJ allegedly falsely represented that many other companies had already agreed to pay the royalty. The FTC claimed that MPHJ violated 15 U.S.C. § 45 by engaging in unfair or deceptive acts or practices in or affecting commerce. On November 6, 2014, the FTC announced that it had reached a settlement agreement with MPHJ. Under that agreement, MPHJ has agreed not to make false or unsubstantiated representations that a patent has been licensed to others or that it intends to initiate a lawsuit, and must comply with reporting requirements.

## 2.11. FTC/DOJ Licensing Guidelines

In August 2016, the FTC and DOJ Antitrust Division published a proposed update to the Antitrust Guidelines for the Licensing of Intellectual Property (also known as the IP Licensing Guidelines), which were originally issued in 1995. The proposed update is intended to “modernize” the IP Licensing

Guidelines in order to “accurately reflect intervening changes in statutory and case law” in the past 20-plus years. Public comments on the proposed update are due by September 26, 2016.

## 2.12. DOJ/USPTO Standard Essential Patents

In January 2013, the DOJ’s Antitrust Division and the USPTO released a policy statement titled “Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/Rand Commitments.” The statement generally disfavors the issuance of exclusion orders by the ITC in cases where a patent is essential to a technology standard and is encumbered with a commitment by the patent owner to license the patent on a fair, reasonable, and nondiscriminatory (F/RAND) basis. The statement identifies certain exceptions to this rule, such as “where the putative licensee is unable or refuses to take a F/RAND license and is acting outside the scope of the patent holder’s commitment to license on F/RAND terms,” and “if a putative licensee is not subject to the jurisdiction of a court that could award damages.”

On August 3, 2013, the U.S. Trade Representative (USTR) relied in part on the DOJ/USPTO policy statement when it vetoed the ITC’s exclusion order against Apple involving a Samsung patent encumbered with a FRAND commitment.

## 2.13. USPTO Report on AIA Implementation

In September 2015, the USPTO issued its 4-year implementation report as required by the AIA, titled *Study and Report on the Implementation of the Leahy-Smith America Invents Act*. In addition to reporting on the manner in which the USPTO has implemented the AIA, the study recommended that Congress make the following legislative changes:

Topic	Recommendation
Enrollment and Discipline	Allow disciplinary proceedings to commence 18 months after misconduct was first made known to USPTO rather than one year, and clarify timing related to concurrently pending court cases.
Oath and Declaration	Amend the benefit provisions to state that the application must name an inventor in common rather than that they must be filed by a common inventor.
Same Party Joinder	Clarify joinder provisions for inter partes and post-grant review proceedings to state that same party joinder is permitted.
Correction of Real-Party-in-Interest	Allow for timely correction of real party in-interest identification where error arose without deceptive intent.
Fee-Setting Sunset Provision	Remove the sunset period and make authority to adjust patent and trademark fees by rule permanent.
Fee-Setting Public Advisory Committee Hearings	Specify that the 30-day requirement is applicable to a “formal” fee proposal. Replace the 30-day time period for a public hearing with a 45-day time period.
Fee-Setting Effective Date of Fee Changes	Change the effective date to start from the date published in the Federal Register, but maintain the requirement to publish proposed changes in both the Federal Register and the Official Gazette.
USPTO Funding Detailed Spending Plan	Eliminate the requirement for a detailed spending plan to accompany a reprogramming notice to transfer funds to the operating reserve.

## 2.14. USPTO International Harmonization

The USPTO held a roundtable in November 2014 to obtain public input on the topic of international harmonization of substantive patent law. Among other topics, the roundtable focused on the harmonization of (a) the definition and scope of prior art, (b) the grace period, and (c) the standards for assessing novelty and obviousness/inventive step. The USPTO issued a “Report and Recommendation” based on this roundtable which made two recommendations: (1) “USPTO should continue engagement with key jurisdictions to advance harmonization discussions on issues related to prior art and its application during examination, giving due consideration to the views of stakeholders as expressed at the Roundtable and in written submissions”; and (2) “USPTO should consider separating issues that are more suitable for harmonization at the legal level from those where work at an administrative or practice level might be more fruitful.”

## 2.15. USPTO Post-Grant Rulemaking

In April 2016, the USPTO published a final rule that amended the procedures governing IPR, PGR, and CBM proceedings before the PTAB. Specifically, the amended procedures:

- Allow patent owners to file, with their preliminary patent owner response, testimonial evidence in the form of declarations or affidavits;
- Add a Rule 11-type certification for papers filed in a proceeding;
- Clarify that the PTAB will use a district court-style claim construction standard for patents that will expire during a proceeding and therefore, cannot be amended, while maintaining the use of the “broadest reasonable interpretation” standard for all other patents; and
- Replace the page limit with a word count limit for major briefings.

The USPTO also said that it would amend its Office Patent Trial Practice Guide to reflect these rule changes and developments in practice concerning how the USPTO handles motions to amend, motions for additional discovery, real party-in-interest and privy issues, and confidential information.

The USPTO also said that it will continue to refine the rules as needed to promote fairness and efficiency in PTAB proceedings.

## 2.16. OIG Report on USPTO Examiner Time and Attendance

In August 2016, the Department of Commerce’s Office of the Inspector General (“OIG”) issued a report titled: *Analysis of Patent Examiners’ Time and Attendance*, Investigative Report No. 14-0990. The report found that the USPTO paid examiners over \$18.3 million in wages and benefits for hundreds of thousands of hours that OIG could not confirm took place. OIG’s recommendations were for the USPTO:

- (1) to reevaluate its examiner production goals for each art unit and revise them, to the extent necessary, to reflect efficiencies in work processes from automation and other enhancements;
- (2) to require all examiners to provide supervisors with their work schedules, regardless of performance and ratings;
- (3) to reinstate the USPTO requirement that employees use their USPTO- issued ID badges to exit the USPTO facilities through the controlled-access turnstiles during weekday working hours;
- (4) to require all teleworkers to remain logged into the USPTO network during their working hours when the network is available to the teleworker

- (5) to review its policies, procedures, and practices pertaining to overtime hours to identify and eliminate the areas susceptible to abuse; and
- (6) to consider deploying Small Office Home Office (SOHO) routers by all teleworkers.

## 2.17. GAO Report on Patent Examination Quality

In July 2016, the GAO published two reports on patent examination quality: *Patent Office Should Define Quality, Reassess Incentives, and Improve Clarity* (GAO-16-490) and *Patent Office Should Strengthen Search Capabilities and Better Monitor Examiners' Work* (GAO-16-479).

In the first report, the GAO's recommended the Secretary of Commerce to direct the USPTO:

- (1) to develop a consistent definition of patent quality, and clearly articulate this definition in agency documents and other guidance;
- (2) to further develop measurable, quantifiable goals and performance indicators related to patent quality as part of the agency's strategic plan;
- (3) to analyze the time examiners need to perform a thorough patent examination;
- (4) to analyze how current performance incentives affect the extent to which examiners perform thorough examinations of patent applications;
- (5) to establish a process to provide data on the results of the Patent Trial and Appeal Board (PTAB) proceedings to managers and staff in the USPTO's Technology Centers, and analyze PTAB data for trends in patent quality issues to identify whether additional training, guidance, or other actions are needed to address trends;
- (6) to evaluate the effects of compact prosecution and other agency application and examination policies on patent quality; and
- (7) to consider whether to require patent applicants to include claim clarity tools--such as a glossary of terms, a check box to signal functional claim language, or claim charts--in each patent application.

In the second report, the GAO's recommended the USPTO:

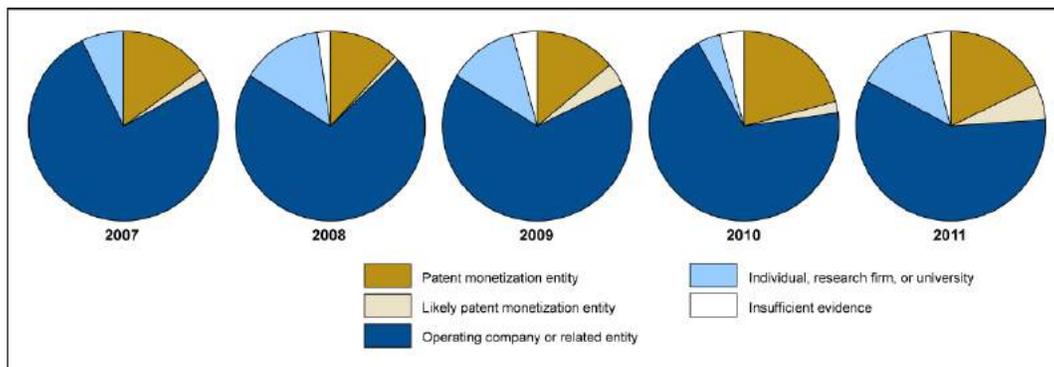
- (1) to work with the European Patent Office (EPO) to identify a target level of consistency of Cooperative Patent Classification decisions between USPTO and EPO and develop a plan to monitor consistency to achieve the target;
- (2) to develop and periodically update a documented strategy to identify key sources of nonpatent literature for individual technology centers and to assess the optimal means of providing access to these sources, such as including them in USPTO's search system;
- (3) to develop written guidance on what constitutes a thorough prior art search within each technology field (i.e., mechanical, chemical, electrical), technology center, art area, or art unit, as appropriate, and establish goals and indicators for improving prior art searches;
- (4) to ensure that sufficient information is collected in reviews of prior art searches to assess the quality of searches at the technology center level, including how often examiners search for U.S. patents, foreign patents, and nonpatent literature;
- (5) to use the audits and supervisory reviews to monitor the thoroughness of examiners' prior art searches and improvements over time;
- (6) to specifically assess the time examiners need to conduct a thorough prior art search for different technologies; and

- (7) assess whether the technical competencies of examiners in each technology center match those necessary; develop strategies to address any gaps identified, such as a technical training strategy; and establish measures to monitor progress toward closing any gaps.

## 2.18. GAO Study on Non-Practicing Entities

The GAO was tasked under the AIA to study the consequences of patent litigation by non-practicing entities and patent monetization entities (PMEs). GAO released its report in August 2013. The GAO found that PME do not file the majority of patent infringement lawsuits and that the change in the number of suits brought by PMEs in the last 5 years was “not statistically significant.” Rather, the majority of patent infringement suits continue to be brought by practicing entities. (See Fig. 4 of GAO report below.) Moreover, in the software space, operating companies account for 59% of all lawsuits filed involving software patents, whereas PMEs account for 41%.

Figure 4: Estimated Patent Infringement Lawsuits by Type of Plaintiff, 2007 to 2011



Source: GAO analysis of Lex Machina data.

## 2.19. SBA Report on First-to-File

AIA § 3(l) required the Small Business Administration (SBA) to conduct a study of the effects on small businesses of switching to a first-to-file system. The report was due to Congress on September 16, 2012, but was not issued until June 15, 2015. The SBA’s report, titled *The Leahy-Smith America Invents Act: A Preliminary Examination of Its Impact on Small Businesses*, found no consensus in its literature review on the effects of the AIA’s switch to first-to-file. The report did find, based on Canada’s similar experience, that “the patenting of smaller companies declined relative to larger companies after Canada’s switch to first-to-file became effective.” However, due to the “complexity of and ambiguities within the AIA,” the report concluded that “the impact of the [AIA] legislation on small businesses is yet to be determined.” The report recommended a follow-up study to be performed in 3 to 5 years.

## 3. Judicial Developments

The following significant cases are pending before the U.S. Supreme Court and the Federal Circuit.

### 3.1. *Samsung v. Apple Design Patents*

In March 2016, the Supreme Court granted Samsung’s petition for writ of certiorari as to the question: “Where a design patent is applied to only a component of a product, should an award of infringer’s

*profits be limited to those profits attributable to the component?”* The U.S. Government filed an amicus brief supporting neither party but arguing that: (1) Section 289 of the Patent Act of 1952 does not permit apportionment of damages based on the extent to which the infringer’s profit on the relevant “article of manufacture” was attributable to the infringing design, and (2) to calculate the total profit due under Section 289, the fact-finder must identify the “article of manufacture” to which the infringing design has been applied, and that article will not always be the finished product sold to end-users. The case is set for oral argument on October 11, 2016.

### 3.2. *SCA Hygiene Laches Defense*

In May 2016, the Supreme Court granted SCA Hygiene Products Aktiebolag’s petition for writ of certiorari as to the question: *“Whether and to what extent the defense of laches may bar a claim for patent infringement brought within the Patent Act’s six-year statutory limitations period, 35 U.S.C. § 286.”* In an en banc decision below in this same case, the Federal Circuit held that, unlike in copyright cases, the laches defense may be used to bar patent infringement claims accruing within the six-year limitations period under § 286.

### 3.3. *Life Technologies Single-Component Supply*

In June 2016, the Supreme Court granted Life Technologies’ petition for writ of certiorari as to the question: *“Whether the Federal Circuit erred in holding that supplying a single, commodity component of a multi-component invention from the United States is an infringing act under 35 U.S.C. § 271(f)(1), exposing the manufacturer to liability for all worldwide sales.”* The Federal Circuit had held that Life Technologies is liable for patent infringement for worldwide sales of a multi-component kit made abroad because a single, commodity component of the kit was shipped from a Life Technologies’ U.S. facility to its own foreign facility. In May 2016, the U.S. Government filed a brief urging the Supreme Court to grant certiorari as to the above question, in response to a call for the views of the Solicitor General.

### 3.1. *TC Heartland Venue*

In July 2016, the Supreme Court granted TC Heartland’s application to extend time to file a petition for writ of certiorari until September 12, 2016. In April 2016, the Federal Circuit denied TC Heartland’s petition for writ of mandamus, agreeing with the U.S. District Court for the District of Delaware that venue was proper in that district because TC Heartland “resides” in that district within the meaning of 28 U.S.C. § 1440(b), as interpreted in *VE Holding Corp. v. Johnson Gas Appliance Co.*, 917 F.2d 1574 (Fed. Cir. 1990) (holding that a corporation “resides” in any district where it would be subject to personal jurisdiction).

### 3.1. *Aqua Products Burden of Proof for Claim Amendments*

The en banc Federal Circuit is scheduled to hear oral argument on December 9, 2016 in *In re Aqua Products, Inc.*, No. 2015-1177. In August 2016, the Federal Circuit granted Aqua Products’ petition for rehearing en banc and ordered briefing on the following questions:

- (1) *“When the patent owner moves to amend its claims under 35 U.S.C. § 316(d), may the PTO require the patent owner to bear the burden of persuasion, or a burden of production, regarding*

*patentability of the amended claims as a condition of allowing them? Which burdens are permitted under 35 U.S.C. § 316(e)?”*

- (2) *“When the petitioner does not challenge the patentability of a proposed amended claim, or the Board thinks the challenge is inadequate, may the Board sua sponte raise patentability challenges to such a claim? If so, where would the burden of persuasion, or a burden of production, lie?”*

### 3.2. *Helsinn v. Teva Secret Commercialization*

The Federal Circuit is scheduled to hear oral argument on October 4, 2016 in *Helsinn Healthcare S.A. v. Teva Pharmaceuticals USA, Inc.*, No. 16-1284. The case involves a question of first impression regarding whether the amendments made to 35 U.S.C. § 102 by the Leahy-Smith America Invents Act overrule *Metallizing Eng’g Co. v. Kenyon Bearing & Auto Parts Co.*, 153 F.2d 516 (2d Cir. 1946) (holding that a patentee’s secret commercialization of its invention, more than 1 year before the effective filing date, constitutes prior art against the invention). Both the USPTO and the district court below have interpreted the newly added language in § 102, “or otherwise available to the public,” as modifying each of the preceding categories of prior art in that sentence (“in public use, on sale”), and therefore an inventor’s public use or sale of an invention is prior art against the invention only if the use or sale made the invention “available to the public.” In May 2016, the U.S. Government filed an amicus brief in support of appellee Helsinn.

## 4. State Law Developments

### 4.1. State Legislation

More than half the 50 states have enacted or introduced a law in their legislatures to it make illegal for a person to send “bad faith” patent demand letters to residents of their states. Most of these states define “bad faith” using a list of non-exhaustive factors, such as failing to identify the patent owner or patent number in the demand letter, failing to conduct an infringement analysis before sending the letter, demanding an unreasonable royalty amount, or demanding a response within an unreasonably short period of time. Some states provide an exemption for universities and their technology transfer organizations, as well as exemptions for pharmaceutical litigation under 35 U.S.C. § 271(e)(2) or 42 U.S.C. § 262.

#### 4.1.1. Alabama

In 2014, Alabama enacted **S.B. 121**. The law allows courts to consider, as one factor weighing against a finding of bad faith, that the letter was sent by an institution of higher education or a technology transfer organization owned or affiliated with such an institution. The law exempts demand letters or civil actions that include a claim for relief arising under 35 U.S.C. § 271(e)(2).

#### 4.1.2. Arizona

In 2016, Arizona enacted **H.B. 2386**. The law prohibits the making of false accusations of patent infringement by outlining factors as evidence of bad faith and factors as evidence of good faith. The law allows courts to consider, as one factor weighing against a finding of bad faith, that the letter was sent

by an institution of higher education or a technology transfer organization affiliated with such an institution. The law exempts demand letters that include a claim for relief arising under 35 U.S.C. § 271(e)(2) or 42 U.S.C. § 262.

#### 4.1.3. California

In 2015, the California legislature filed Assembly Joint Resolution **AJR 9** with the Secretary of State that would “urge the President and the Congress of the United States to craft a balanced and workable approach to reduce incentives for and minimize unnecessary patent litigation while ensuring that legitimate patent enforcement rights are protected and maintained.”

#### 4.1.4. Colorado

In 2015, Colorado enacted **H.B. 1063**. The law exempts institutions of higher education, their associated technology transfer entities, as well as a claim for relief arising under 35 U.S.C. § 271(e)(2) after an objectively good faith investigation.

#### 4.1.5. Connecticut

In 2014, the Connecticut Senate passed **S.B. 258** as amended by Senate Amendment Schedule A and was placed on the House Calendar. Under the bill, the fact that an institution of higher education or a technology transfer organization sent the letter is a factor that weighs towards good faith. The bill is silent with respect to demand letters involving 35 U.S.C. § 271(e)(2) or 42 U.S.C. § 262.

#### 4.1.6. Florida

In 2016, Florida enacted **S.B. 439**. The law exempts institutions of higher education, technology transfer organizations owned by or affiliated with an institution of higher education, and demand letters that include a claim for relief arising under 35 U.S.C. § 271(e)(2) or 42 U.S.C. § 262.

#### 4.1.7. Georgia

In 2014, Georgia enacted **H.B. 809**. The law allows courts to consider, as one factor weighing against a finding of bad faith, that the letter was sent by an institution of higher education or a technology transfer organization owned or affiliated with such an institution. The law exempts any demand letter or civil action that arises under 35 U.S.C. § 271(e)(2) or 42 U.S.C. § 262.

#### 4.1.8. Idaho

In 2014, Idaho enacted **S.B. 1354**. The law is silent with respect to demand letters sent by institutions of higher education, or technology transfer organizations. The law exempts any demand letters or assertions of patent infringement arising under 35 U.S.C. § 271(e)(2).

#### 4.1.9. Illinois

In 2014, Illinois enacted **S.B. 3405**. The law is silent with respect to demand letters sent by institutions of higher education, or technology transfer organizations, or claims arising under 35 U.S.C. § 271(e)(2).

On February 18, 2016, **S.B. 2887** was introduced to amend the 2014 law. The bill would define good faith and bad faith like many of the bills from other states. The bill would allow courts to consider, as one factor weighing against a finding of bad faith, that the letter was sent by an institution of higher

education or a technology transfer organization owned or affiliated with such institutions. The bill would exempt demand letters that claim relief arising under 35 U.S.C. § 271(e)(2) or 42 U.S.C. § 262.

#### 4.1.10. Indiana

In 2015, Indian enacted **H.B. 1102**. The law exempts institutions of higher education, technology transfer organizations owned by or affiliated with an institution of higher education, and demand letters that include a claim for relief arising under 35 U.S.C. § 271(e)(2) or 42 U.S.C. § 262.

#### 4.1.11. Iowa

On January 14, 2015, **S.B. 1028** was introduced in the Iowa Senate. The bill would allow courts to consider, as one factor weighing against a finding of bad faith, that the letter was sent by an institution of higher education or a technology transfer organization owned or affiliated with such an institution. The bill is silent with respect to demand letters involving 35 U.S.C. § 271(e)(2) or 42 U.S.C. § 262.

#### 4.1.12. Kansas

In 2015, Kansas enacted **S.B. 38**. The law does not discuss the treatment of demand letters sent by institutions of higher education or technology transfer organizations. The law exempts any demand letters or assertions of patent infringement arising under 35 U.S.C. § 271(e)(2).

#### 4.1.13. Kentucky

On January 7, 2016, **H.B. 190** was introduced in the Kentucky House. The bill would allow courts to consider, as one factor weighing against a finding of bad faith, that the letter was sent by an institution of higher education or a technology transfer organization owned or affiliated with such an institution. The bill would exempt any demand letter or claim arising under 35 U.S.C. § 271(e)(2) or 42 U.S.C. § 262.

#### 4.1.14. Louisiana

In 2014, Louisiana enacted **S.B. 255**. The law allows courts to consider, as one factor weighing against a finding of bad faith, that the letter was sent by an institution of higher education or a technology transfer organization owned by or affiliated with such an institution. The bill is silent with respect to demand letters involving 35 U.S.C. § 271(e)(2) or 42 U.S.C. § 262.

#### 4.1.15. Maine

In 2014, Maine enacted **S.P. 654**. The law allows courts to consider, as one factor weighing against a finding of bad faith, that the letter was sent by an institution of higher education or a technology transfer organization owned by or affiliated with such an institution. The law exempts any demand letter or assertion of infringement that arises under 35 U.S.C. § 271(e)(2) or 42 U.S.C. § 262.

On January 27, 2015, **H.P. 117** was introduced to the Maine House to amend the 2014 law by removing the exemption for claims arising under 35 U.S.C. § 217(e)(2) and 42 U.S.C. § 262. The bill failed in the House.

#### 4.1.16. Maryland

In 2014, Maryland enacted **S.B. 585**. The law allows courts to consider, as one factor weighing against a finding of bad faith, that the letter was sent by a representative of an institution of higher education or a

technology transfer organization affiliated with such an institution. The law exempts assertions of patent infringement arising under 35 U.S.C. § 271(e)(2) or 42 U.S.C. § 262.

#### 4.1.17. Massachusetts

On May 24, 2016, **S. 2367** was introduced in the Massachusetts Senate. The bill allows courts to consider, as one factor weighing against a finding of bad faith, that the letter was sent by an institution of higher education or a technology transfer organization owned or affiliated with such an institution. However, the bill exempts institutions of higher education and their technology transfer organizations, if the institution is incorporated under the laws of and has its principal offices in Massachusetts. The bill would also exempt 501(c)(3) non-profit organizations that are incorporated under the laws of and have principal offices in Massachusetts, and demand letters or assertions of infringement concerning subject matter governed by 7 U.S.C. § 136, et seq, 7 U.S.C. § 2321, et seq, 21 U.S.C. § 301, et seq, 35 U.S.C. § 161, et seq, 35 U.S.C. § 271(e)(2), and 42 U.S.C. § 262.

#### 4.1.18. Michigan

On June 9, 2016, **S. 289** passed the Michigan Senate. The bill exempts institutions of higher education, technology transfer organizations owned by or affiliated with an institution of higher education, and demand letters that include a claim for relief arising under 21 U.S.C. § 355, 35 U.S.C. § 271(e)(2), or 42 U.S.C. § 262.

#### 4.1.19. Minnesota

In 2016, Minnesota enacted **H.F. 1586**. The law exempts institutions of higher education, technology transfer organizations associated with institutions of higher education, and 501(c)(3) non-profit organizations. The law also exempts demand letters that include a claim for relief under 35 U.S.C. § 271(e)(2), 21 U.S.C. § 355, or 42 U.S.C. § 262.

#### 4.1.20. Mississippi

In 2015, Mississippi enacted **H.B. 589**. The law exempts any “state institution of higher learning,” any “agency of the State of Mississippi,” any “technology transfer organization that is owned or has a written affiliation agreement with a state institution of higher learning or an agency of the State of Mississippi, or is formed pursuant to Section 37-147-1,” and any person that licensed patent rights from such entities above, or any person seeking relief under 35 U.S.C. § 271(e)(2) or 42 U.S.C. § 262.

#### 4.1.21. Missouri

In 2014, Missouri enacted **H.B. 1374**. This law allows courts to consider, as one factor weighing against a finding of bad faith, that the letter was sent by an institution of higher education or a technology transfer organization owned or affiliated with such an institution. The law exempts any demand letter or assertion of patent infringement arising under 35 U.S.C. § 271(e)(2) or 42 U.S.C. § 262.

#### 4.1.22. Montana

In 2015, Montana enacted **S.B. 39**. The law exempts institutions of higher education, their technology transfer organizations, and demand letters that include a claim arising under 35 U.S.C. § 271(e)(2).

#### 4.1.23. Nebraska

On April 17, 2014, **L.B. 677** was “indefinitely postponed” in the Nebraska legislature. The bill would allow courts to consider, as one factor weighing against a finding of bad faith, that the letter was sent by an institution of higher education or a technology transfer organization owned or affiliated with such an institution. The bill is silent with respect to demand letters involving 35 U.S.C. § 271(e)(2) or 42 U.S.C. § 262.

#### 4.1.24. New Hampshire

In 2014, New Hampshire enacted **S.B. 303**. The law allows courts to consider, as one factor weighing against a finding of bad faith, that the letter was sent by an institution of higher education or a technology transfer organization owned or affiliated with such an institution. The law exempts any demand letter or assertion of patent infringement arising under 35 U.S.C. § 271(e)(2) or 42 U.S.C. § 262.

#### 4.1.25. New Jersey

On March 14, 2016, **A. 310** was introduced in the New Jersey legislature. The bill exempts institution of higher education and their technology transfer organizations. The bill also exempts demand letters related to a patent that is required or authorized under 35 U.S.C. § 271(e), 21 U.S.C. § 355, 42 U.S.C. § 262, or a “request for disclosure” authorized under 35 U.S.C. § 287(b)(4).

#### 4.1.26. North Carolina

In 2014, North Carolina enacted **S.B. 648**. The law allows courts to consider, as one factor weighing against a finding of bad faith, that the letter was sent by an institution of higher education or a technology transfer organization owned or affiliated with such an institution. However, the bill exempts institutions of higher education and their technology transfer organizations, if the institution is incorporated under the laws of and has its principal offices in North Carolina. The bill would also exempt 501(c)(3) non-profit organizations that are incorporated under the laws of and have principal offices in North Carolina, and demand letters or assertions of infringement concerning subject matter governed by 7 U.S.C. § 136, et seq, 7 U.S.C. § 2321, et seq, 21 U.S.C. § 301, et seq, 35 U.S.C. § 161, et seq, 35 U.S.C. § 271(e)(2), and 42 U.S.C. § 262.

#### 4.1.27. North Dakota

In 2015, North Dakota enacted **H.B. 1163**. The law allows courts to consider, as one factor weighing against a finding of bad faith, that the letter was sent by an institution of higher education or a technology transfer organization owned or affiliated with such an institution. The law exempts any demand letter sent by:

- a. Any corporation traded on a public stock exchange or any entity owned or controlled by such corporation;
- b. An owner of the patent which is using the patent in connection with the substantial research, commercial development, production, manufacturing, processing, or delivery of products or materials;
- c. Any institution of higher education as that term is defined in section 101 of the federal Higher Education Act of 1965 [20 U.S.C. 1001]; or

- d. Any technology transfer organization whose primary purpose is to facilitate the commercialization of technology developed by an institution of higher education.

#### 4.1.28. Ohio

On May 11, 2015, **H.B. 194** was introduced in the Ohio House. The bill would allow courts to consider, as one factor weighing against a finding of bad faith, that the letter was sent by an institution of higher education or a technology transfer organization owned or affiliated with such an institution. The bill is silent with respect to demand letters involving 35 U.S.C. § 271(e)(2) or 42 U.S.C. § 262.

#### 4.1.29. Oklahoma

In 2014, Oklahoma enacted **H.B. 2837**. The law exempts institutions of higher education and any technology transfer organization whose primary purpose is to facilitate the commercialization of technology developed by an institution of higher education. The law also exempts any demand letter or civil action arising under 35 U.S.C. § 271(e)(2).

#### 4.1.30. Oregon

In 2014, Oregon enacted **S.B. 1540**. The law allows courts to consider, as one factor weighing against a finding of bad faith, that the letter was sent by an institution of higher education or a technology transfer organization owned by or affiliated with such an institution. The law is silent with respect to demand letters involving 35 U.S.C. § 271(e)(2) or 42 U.S.C. § 262.

#### 4.1.31. Pennsylvania

On February 4, 2014, **S.B. No. 1222** was introduced in the Pennsylvania Senate. The bill would allow courts to consider, as one factor weighing against a finding of bad faith, that the letter was sent by an institution of higher education or a technology transfer office organization or affiliated with such an institution. The bill was silent with respect to demand letters involving 35 U.S.C. § 271(e)(2) or 42 U.S.C. § 262.

#### 4.1.32. Rhode Island

In 2016, Rhode Island enacted **H. 7425** and **S. 2542**. The law would allow courts to consider, as one factor weighing against a finding of bad faith, that the letter was sent by an institution of higher education or a technology transfer organization owned or affiliated with such an institution. The law also exempts any demand letter or assertion of patent infringement under 35 U.S.C. § 271(e)(2).

#### 4.1.33. South Carolina

In 2016, South Carolina enacted **H. 3682**. The law exempts institutions of higher education and any technology transfer organization whose primary purpose is to facilitate the commercialization of technology developed by an institution of higher education. The law also exempts any demand letter or civil action arising under 35 U.S.C. § 271(e)(2).

#### 4.1.34. South Dakota

In 2014, South Dakota enacted **S.B. 143**. The law allows courts to consider, as one factor weighing against a finding of bad faith, that the letter was sent by an institution of higher education or a

technology transfer organization owned or affiliated with such an institution. The law exempts any demand letter sent by:

- a. Any corporation traded on a public stock exchange or any entity owned or controlled by such corporation;
- b. Any owner of the patent who is using the patent in connection with the production, manufacturing, processing, or delivery of products or materials;
- c. Any institution of higher education as that term is defined in section 101 of the Higher Education Act of 1965 (20 U.S.C. § 1001) as of January 1, 2014; or
- d. Any technology transfer organization whose primary purpose is to facilitate the commercialization of technology developed by an institution of higher education.

#### 4.1.35. Tennessee

In 2014, Tennessee enacted **H.B. 2117**. The law exempts institutions of higher education and any technology transfer organization whose primary purpose is to facilitate the commercialization of technology developed by an institution of higher education. The law also exempts any demand letter seeking a claim for relief arising under 35 U.S.C. § 271(e)(2).

#### 4.1.36. Texas

In 2015, Texas enacted **S.B. 1457**. The law is silent with respect to institutions of higher education, technology transfer organizations, and demand letters relating to 35 U.S.C. § 271(e)(2) or 42 U.S.C. § 262.

#### 4.1.37. Utah

In 2014, Utah enacted **H.B. 117**. The law allows courts to consider, as one factor weighing against a finding of bad faith, that the letter was sent by an institution of higher education or a technology transfer organization owned or affiliated with such an institution. The law exempts any demand letter or assertion of patent infringement arising under 35 U.S.C. § 271(e)(2).

#### 4.1.38. Vermont

In 2013, Vermont enacted **H-299**, becoming the first state to adopt an unfair competition law aimed specifically at bad faith assertions of patent infringement. The law allows courts to consider, as one factor weighing against a finding of bad faith, that the letter was sent by an institution of higher education or a technology transfer organization owned or affiliated with such an institution. The law is silent with respect to demand letters involving 35 U.S.C. § 271(e)(2) or 42 U.S.C. § 262.

#### 4.1.39. Virginia

In 2014, Virginia enacted **H.B. 375**. The law allows courts to consider, as one factor weighing against a finding of bad faith, that the letter was sent by an institution of higher education or a technology transfer organization owned by or affiliated with such an institution. The law exempts any demand letter or assertion of patent infringement arising under 35 U.S.C. § 271(e)(2) or 42 U.S.C. § 262.

#### 4.1.40. Washington

In 2015, Washington enacted **S.B. 5059**. The law allows courts to consider, as one factor weighing against a finding of bad faith, that the letter was sent by an institution of higher education or a technology transfer organization owned by or affiliated with such an institution. The law exempts any demand letter or civil action that includes a cause for relief arising under 35 U.S.C. § 271(e)(2), 7 U.S.C. § 136, 7 U.S.C. § 2321, 21 U.S.C. § 301, 35 U.S.C. § 161, 42 U.S.C. § 262, or 35 U.S.C. § 287.

#### 4.1.41. Wisconsin

In 2014, Wisconsin enacted **S.B. 498**. Unlike other states, the law requires any demand letter to include: a physical or electronic copy of the patent, and an identification of each claim of such patent being asserted and the target's product, service, process, or technology to which that claim relates. The bill exempts the following:

- A patent notification of an institution of higher education or of a technology transfer organization that is owned, controlled, or operated by, or associated with, an institution of higher education;
- A patent notification of a health care or research institution that has annual expenditures of at least \$10,000,000 and that receives federal funding;
- A patent notification attempting to enforce or assert a right in connection with a patent or pending patent on a device, or a component of that device, that is subject to approval by the federal food and drug administration or the federal department of agriculture; and
- A patent notification attempting to enforce or assert a right arising under 35 U.S.C. § 271(e)(2) or 42 U.S.C. § 262.

#### 4.1.42. Wyoming

In 2016, Wyoming enacted **S.F. 65**. The law exempts any institution of higher education or a technology transfer organization whose primary purpose is to facilitate the commercialization of technology developed by such an institution. The law is silent with respect to demand letters involving 35 U.S.C. § 271(e)(2) or 42 U.S.C. § 262.

### 4.2. State Executive Actions

Several state attorneys general have taken measures to stop bad faith patent assertion by conducting investigations and reaching settlement agreements under their state consumer protection laws.

#### 4.2.1. Minnesota

In August 2013, Minnesota's Attorney General, Lori Swanson, announced that her office had reached a settlement agreement with MPHJ Technology Investments, LLC, a patent assertion entity that sent thousands of demand letters to businesses. According to the attorney general's press release, "Under the Assurance of Discontinuance, which is believed to be the first settlement of its kind in the nation between an Attorney General and a patent troll, MPHJ Technology must cease its patent enforcement campaign in the State of Minnesota and cannot resume such business activities in Minnesota without the permission of the Attorney General." The Attorney General's Office began investigating MPHJ for violations of state consumer protection laws in the spring of 2013, after receiving complaints from several Minnesota small businesses that were targeted by the company.

### 4.2.2. Nebraska

In December 2014, U.S. District Judge Joseph F. Bataillon entered a judgment awarding \$725,000 in fees and costs against Nebraska's Attorney General, Jon Bruning, and in favor of MPHJ Technology Investments, LLC and Activision TV, Inc. (now ActiveLight, Inc.). Previously, in January 2014, Judge Bataillon granted MPHJ's motion for preliminary injunction against Attorney General Bruning "from taking any steps to enforce the cease and desist order issued to Farney Daniels on July 18, 2013, in any manner that would prevent or impede the Farney Daniels firm from representing MPHJ in connection with licensing and litigation of U.S. patents owned by MPHJ with respect to companies based in, or having operations in, Nebraska."

In July 2013, Attorney General Bruning sent a cease and desist letter to the Texas law firm Farney Daniels PC announcing that his office was investigating whether Farney Daniels had violated the state's unfair competition laws by representing patent assertion entities (including MPHJ and Activision) on whose behalf Farney Daniels had sent patent demand letters to persons in Nebraska. The letter demanded that Farney Daniels "immediately cease and desist the initiation of any and all new patent infringement enforcement efforts within the State of Nebraska pending the outcome of this office's investigation."

In August 2013, Activision TV, Inc. asked the court to enjoin Attorney General Bruning from enforcing his order. Activision said that Bruning's attempt to dictate who the firm could and could not represent is "a gross and unsupported interference with this court's prerogatives." "The order is outside the authority of the Nebraska AG, and without basis in Nebraska law," argued Activision. "Further, even if there were some Nebraska law which purported to grant the Nebraska AG authority to issue the Cease and Desist Order, which there is not, such Nebraska law would be preempted by the U.S. Constitution and federal law," argued Activision.

### 4.2.3. New York

In January 2014, New York's State Attorney General reached a settlement agreement with MPHJ Technology Investments, LLC pertaining to its demand letters sent to New York residents. According to the AG's press release, the settlement with MPHJ "imposes a variety of obligations on MPHJ that should serve as guidelines for all patent trolls engaged in similar patent assertion behavior," including:

(1) "*Diligence and Good Faith When Contacting Potential Infringers*. The guidelines require a patent holder to make a serious, good-faith effort to determine whether a targeted business actually engages in infringement before making an accusation. This prohibits the mass mailing of accusations of infringement to hundreds of businesses with little regard to the actual likelihood that the businesses infringed. The guidelines also forbid using a lawyer as a threatening mouthpiece for baseless allegations. If a patent troll communicates through an attorney, the attorney sending such letters must also make diligent efforts to ensure that there is a good-faith basis for believing that the targeted business infringed the patents."

(2) "*Providing Material Information So an Accused Infringer Can Evaluate the Claim*. When a patent holder accuses a business of infringing its patent, the guidelines require it to explain the basis for the claim in reasonable detail. This information will allow the recipient to assess whether the accusation has any foundation in light of the actual activities of the recipient's business. The guidelines also prohibit a

patent holder from trying to collect revenue for a patent that has been held invalid, and from failing to disclose material information that reveals the patent's likely invalidity."

(3) "No Misleading Statements about a License Fee. If a patent holder seeks to justify a specific licensing fee, it must clearly explain the factual basis for its proposed fee. This requirement prevents a patent troll from taking advantage of informational asymmetry to deceive businesses into paying more than a fair price for a license."

(4) "Transparency of the True Identity of the Patent Holder. The guidelines prohibit a patent troll from hiding its identity from its targets. This allows businesses that have been targeted by patent troll campaigns to find information about the patent troll. Ensuring transparency has a number of positive effects, including allowing targeted businesses to find and communicate with one another."

## ABOUT THE AUTHOR

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