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PATENT INFRINGEMENT DEMAND LETTERS: DOES *NOERR-PENNINGTON* OR THE FIRST AMENDMENT PREEMPT STATE-LAW LIABILITY FOR MISLEADING STATEMENTS?

Eric J. Riedel[†]

Demand letters enhance the efficiency of patent infringement resolution, since patent owners can use them to notify others of potentially infringing activity and to initiate a patent licensing agreement. In a few cases, however, demand letters have been used not as a means to enforce patent rights but, rather, as a tool to extract the “nuisance value” of an infringement claim.¹ Where the cost of the license is less than the cost of investigating and litigating a claim of infringement, recipients of a demand letter may pay a licensing fee without even evaluating the merits of the claim.

To illustrate, Company X owns a patent that it claims covers a technology widely used in everyday business. But after settling an infringement suit when it became clear that its patent would be invalidated, Company X designs a licensing campaign intended to monetize its patent in a way that minimizes the risk of further judicial scrutiny.

The licensing program consists of three rounds of demand letters. And before issuing a single license for its patent, Company X sends the first round of letters to tens of thousands of small businesses, ones that it believes are unfamiliar with the patent system and without resources to sustain litigation. The letter states that the recipient business has been identified as a company that appears to be using Company X’s patented technology. And it states that based on prior agreements, it has determined that a fair price for a license negotiated in good faith is a payment of \$1000 per employee.

The second and third letters, unlike the first, are sent in the name of Company X’s law firm. The second letter states that since Company X has

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1. See D. Rosenberg & S. Shavell, *A Model in Which Suits Are Brought for Their Nuisance Value*, 5 INT’L REV. L. & ECON. 3, 3 (1985) (defining a suit brought for its nuisance value as one where “the plaintiff is able to obtain a positive settlement from the defendant even though the defendant knows the plaintiff’s case is sufficiently weak that he would be unwilling or unlikely actually to pursue his case to trial.”).

received no response to its prior letter, it therefore must assume that the recipient business infringes and needs a license, which Company X is willing to negotiate. Similarly, the third letter states that if the recipient company does not respond within two weeks, Company X will initiate a lawsuit. The letter even includes a draft complaint, and recommends that the recipient show the complaint to legal counsel. Three months after sending the third letter, however, Company X does not file a single complaint.

The licensing tactics described in the example above are based on an actual business model. In 2012 a company named MPHJ Technology Investments (MPHJ) sent demand letters to more than 16,000 small businesses across the country, claiming that each business was infringing on its patent for scan-to-email technology.² Local businesses receiving these letters complained, and in response, state legislatures enacted so-called “patent trolling legislation,” which regulates the contents of any demand letter asserting a claim of patent infringement.³

This Note argues that these new laws are often superfluous because states *should* already have the ability under unfair competition and consumer protection laws to impose liability for false and misleading statements used in commerce.⁴ From the above illustration, for example, the claim that the \$1000 licensing fee had been based on good faith negotiations and the claim that Company X intended to initiate litigation were both objectively false.

Only the state of Vermont has used consumer protection law to bring a claim against MPHJ for its licensing practices.⁵ This dearth of litigation is

2. Scan-to-email technology refers to the process of electronically sending scanned documents directly to an email account. *See* Complaint ¶ 17, *In re MPHJ Tech. Invs., LLC*, No. C-4513 (F.T.C. Mar. 13, 2015), <https://www.ftc.gov/enforcement/cases-proceedings/142-3003/mphj-technology-investments-llc-matter> [<https://perma.cc/W76T-DMLR>] [hereinafter FTC Complaint].

3. *See* Jonathan Griffin, *2015 Patent Trolling Legislation*, NAT'L CONF. ST. LEGISLATURES (Aug. 12, 2015), <http://www.ncsl.org/research/financial-services-and-commerce.aspx> [<https://perma.cc/E8YF-5EAR>].

4. *But see* Paul R. Gugliuzza, *Patent Trolls and Preemption*, 101 VA. L. REV. 1579, 1645 (2015) (arguing that, unlike anti-trolling statutes, laws prohibiting unfair and deceptive trade practices may not permit plaintiffs to recover damages, and do not allow for the award of attorney fees).

5. In July 2103, the attorney general of Nebraska sent a cease and desist order to Farney Daniels PC, the law firm representing MPHJ, ordering it to stop sending demand letters to Nebraska businesses. However, for reasons distinguishing this case from litigation in Vermont and following the logic of Section III.B, *infra*, the District of Nebraska ordered an injunction blocking the cease and desist order because the order was made before any charge was ever investigated, which violated Farney Daniels's constitutional rights. *See Activision TV, Inc. v. Pinnacle Bancorp, Inc.*, 976 F. Supp. 2d 1157, 1166 (D. Neb. 2013), dismissed (Nov. 22, 2013); Allissa Wickham, *'Patent Trolls' Secure Victory Against Nebraska*

likely a consequence of Federal Circuit precedent stating that the Petition Clause of the First Amendment preempts any state-law liability based on an assertion of one's patent rights, a standard derived from the Supreme Court's *Noerr-Pennington* doctrine, which originated in the context of antitrust.⁶ The Federal Circuit grants an exception only where the assertion is a "sham," meaning that the infringement claim is both objectively baseless and subjectively made in bad faith.⁷ The Federal Circuit's standard is problematic, and unlikely to survive Supreme Court scrutiny, if applied to state-law liability for claims based on statements tangential to a claim of patent infringement. Although the Federal Circuit has not decided such a case, the Northern District of Illinois addressed the question in *In re Innovatio IP Ventures*,⁸ holding that the Petition Clause preempted state-law claims based on misrepresentations in the demand letter because those representations did not affect the outcome of the infringement claim.⁹

This Note dissects the evolution of petitioning immunity (i.e., preemption based on the Petition Clause) and concludes that this immunity does not apply to statements tangential to a claim of patent infringement contained in a demand letter. Part I discusses the role of demand letters in patent litigation and how these letters can be leveraged to extract licensing fees that are arguably unjustified—a practice that this Note refers to as demand letter extortion. It also compares Little FTC Acts and anti-trolling statutes, both of which impose liability for false and misleading statements in demand letters. Part II chronicles the Supreme Court and the federal circuit courts' jurisprudence on petitioning immunity, focusing on the constitutional and statutory justifications for the *Noerr-Pennington* doctrine,¹⁰ the doctrine's "sham" litigation exception, and how *Noerr* has

AG, LAW 360 (Sep. 3, 2014), <http://www.law360.com/articles/573068/patent-trolls-secure-victory-against-nebraska-ag> [<https://perma.cc/PK64-VDYB>].

6. ABA SECTION OF ANTITRUST LAW, MONOGRAPH 25, THE *NOERR-PENNINGTON* DOCTRINE 55 (2009).

7. *Globetrotter Software, Inc. v. Elan Computer Grp., Inc.*, 362 F.3d 1367, 1377 (Fed. Cir. 2004).

8. *In re Innovatio IP Ventures, LLC Patent Litig.*, 921 F. Supp. 2d 903 (N.D. Ill. 2013).

9. *See id.* at 911 ("*Noerr-Pennington* has been extended beyond the antitrust laws, where it originated, and is today understood as an application of the first amendment's speech and petitioning clauses."); *id.* at 921 ("[T]his court will adopt the rule that only misrepresentations material enough to affect the outcome of a litigation proceeding are sufficient to render petitioning activity a sham.")

10. "The *Noerr-Pennington* doctrine is a judicially created immunity that shields an antitrust defendant from liability for injuries resulting from concerted or individual conduct that is reasonably calculated or genuinely intended to petition government decision-makers

been applied beyond antitrust. Part III argues that the Federal Circuit, in interpreting *Noerr-Pennington*, has conflated the policy justifications underlying preemption based on the Petition Clause with preemption based on federal patent law.¹¹ This Part also evaluates whether the *Noerr-Pennington* doctrine extends petitioning immunity to assertions of patent infringement, concludes that this right extends only to the assertion itself, and proposes two alternative exceptions to petitioning immunity in the context of demand letters. Finally, this Part discusses *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, the most recent Supreme Court case addressing *Noerr-Pennington*, to support the assertion that *Noerr* requires both a constitutional and a statutory foundation. Part IV asserts that separate tests for preemption based on the Petition Clause and federal patent law would once again permit state regulation of the content of demand letters, negating the perceived need for state anti-trolling statutes.

I. STATE-LAW LIABILITY FOR FALSE OR MISLEADING STATEMENTS IN DEMAND LETTERS

Demand letters play an important role in the efficient functioning of the patent system. But these letters can be used to extract licensing fees from unsuspecting end users of widely used technologies. In the absence of a federal response to a few high-profile cases of such abuse, states have taken action on their own, with more than half of states enacting laws to curb aggressive licensing schemes, and the state of Vermont bringing suit for violations of state consumer protection laws.¹²

A. ROLE OF DEMAND LETTERS IN PATENT LITIGATION

Demand letters are a form of pre-suit communication sent by a patent owner that put the recipient on notice of the existence of the sender's patent

for redress." ABA SECTION OF ANTITRUST LAW, HANDBOOK ON THE SCOPE OF ANTITRUST 77 (2015).

11. See generally Marin R. Scordato, *Federal Preemption of State Tort Claims*, 35 U.C. DAVIS L. REV. 1, 10 (2001) (discussing the sources of federal preemption—including the Supremacy Clause which prohibits states from enforcing a state law that conflicts with a valid federal law or regulation).

12. The FTC as well as several state attorneys general have reached settlements with MPHJ. See, e.g., Joe Mullin, *FTC Ends First Case Against a "Patent Troll" with a Slap on the Wrist*, ARS TECHNICA (Nov. 7, 2014), <http://arstechnica.com/tech-policy/2014/11/ftc-ends-first-case-against-a-patent-troll-with-a-slap-on-the-wrist> [<https://perma.cc/5CEX-KJBA>]; Ashby Jones, *New York State Cracks Down on 'Patent Trolls'*, WALL ST. J. (Jan. 13, 2014), <http://www.wsj.com/articles/SB10001424052702303819704579319071070777820> [<https://perma.cc/53VH-D24M>].

rights and the possibility of infringement.¹³ These letters can also contain additional information communicating the patent owner's state of mind, such as information about counsel that has been retained and the patent owner's willingness to consider entering into a licensing agreement.¹⁴ But sending a demand letter is not required.¹⁵ Patent owners can file and serve a complaint on an accused infringer without providing advanced notification of infringing activity.¹⁶ Or they can file a complaint and send a demand letter and a courtesy copy of the complaint to the accused infringer instead of serving the complaint.¹⁷ Although demand letters are not specifically mentioned in the federal patent statute, § 287 of the statute requires proof of notification of infringement as a prerequisite for damages.¹⁸

B. DEMAND LETTER EXTORTION AS A BUSINESS MODEL

Patent owners can use lawsuits to leverage a settlement where the cost of obtaining a license to their patents is significantly less than the cost of investigating and litigating the claim of infringement.¹⁹ This behavior is based on “patent nuisance fee economics,” which incentivizes assertion of patents because the high cost of defending a lawsuit is often enough to induce a settlement.²⁰ Similarly, leveraging the threat of litigation through

13. DON W. MARTENS ET AL., PRE-LITIGATION PATENT ENFORCEMENT § 3:2 (2015–2016 ed. 2015).

14. *Id.*

15. *Id.* § 3:3.

16. *Id.* (explaining that a “plaintiff has 120 days [from the filing date] to serve [a] complaint,” which gives the patent owner almost four months to settle the matter before needing to serve the complaint, assuming the recipient chooses not to answer the complaint upon receipt).

17. *Id.*

18. 35 U.S.C. § 287(a) (2012). Specifically, § 287 states that where patentees do not mark their invention with the word “patent” or the abbreviation “pat.” and the number of the patent or a web address that contains the number, no damages shall be recoverable “except on proof that the infringer was notified of the infringement and continued to infringe thereafter.” *Id.*

19. See Robert W. Payne, *Fighting Patent Trolls: New Weapons Emerge*, BUS. L. TODAY (June 2015), http://www.americanbar.org/publications/blt/2015/06/01_payne.html [<https://perma.cc/VAB4-EXWH>] (stating that frightened companies often find that the “troll toll” is cheaper than the cost of fighting or investigating the issue).

20. See Colleen V. Chien, *Reforming Software Patents*, 50 HOUS. L. REV. 325, 342 (2012) (discussing patent nuisance fee economics—settlements driven by the cost of avoiding legal costs and remedies rather than the economic value of the patent); Michael J. Meurer, *Controlling Opportunistic and Anti-competitive Intellectual Property Litigation*, 44 B.C. L. REV. 509, 515 (2003) (“A defendant may settle an anti-competitive suit because the cost of a defense threatens the defendant’s solvency.”); Ranganath Sudarshan, *Nuisance-*

demand letters, patent owners can attempt to translate the “nuisance fee” into a licensing agreement without the cost of actually bringing a suit.²¹ This Note refers to this practice as “demand letter extortion.” Although it is not extortion in a legal sense,²² since sending demand letters is within the legal rights of patent owners, such acts certainly fit the dictionary definition of extortion: “to obtain from a person by force [or] intimidation.”²³

Four notable circumstances enable patent owners to exploit the nuisance value through demand letter extortion. First, the allegedly infringed patent appears to read on a commonly used technology. Second, the strength of the patent is irrelevant. Third, an asymmetry of information about patent law exists between the patent owner and the accused infringers. And fourth, the threat of litigation appears genuine. In explaining these characteristics, the licensing practices of MPHJ are used as an example.

First, where patent claims appear to read on commonly used technologies, owners of those patents can make objectively true statements about the possibility of infringement without having to investigate whether the accused product actually infringes their patent. And discussing the legal rights given to patent holders creates the appearance of a genuine infringement claim. For example, MPHJ based its allegations of infringement on statements such as, “Our research . . . has led us to the conclusion that an overwhelming majority of companies like yours utilize systems that are set up to practice at least one of the scenarios [claimed in the patent].”²⁴ And it added, “Infringers who continue to infringe in the face

Value Patent Suits: An Economic Model and Proposal, 25 SANTA CLARA COMPUTER & HIGH TECH. L.J. 159, 161–62 (2008).

21. Tactics used in demand letter extortion are a variation of those used by companies that Professor Lemley and Mr. Melamed have termed “bottom-feeder trolls,” patent assertion entities who sue many defendants on the same patent, hoping to score a few quick settlements. Mark A. Lemley & A. Douglas Melamed, *Missing the Forest for the Trolls*, 113 COLUM. L. REV. 2117, 2126 (2013).

22. Extortion, BLACK’S LAW DICTIONARY (10th ed. 2014) (“The act or practice of obtaining something or compelling some action by *illegal means*, as by force or coercion.”) (emphasis added).

23. *Extort*, MERRIAM-WEBSTER ONLINE, <http://www.merriam-webster.com/dictionary/extort> [<https://perma.cc/ZNV5-B8AG>] (defining extort as “obtain[ing] from a person by force, intimidation, or undue or illegal power”); *Extortion*, MERRIAM-WEBSTER ONLINE, <http://www.merriam-webster.com/dictionary/extortion> [<https://perma.cc/PUB7-4PRS>]; see Erin Coe, *4 Ways to Knock Out a Frivolous Patent Suit in East Texas*, LAW 360, ¶¶ 7–9 (Nov. 9, 2015), http://www.law360.com/ip/articles/723519?nl_pk=593224bc-13ec-4c6d-b3cb-e0f5a1ecfa62&utm_source=newsletter&utm_medium=email&utm_campaign=ip [<https://perma.cc/AK5L-S3VG>] (discussing hallmark signs of a patent owner who is a bad actor or an extortionist).

24. Complaint Ex. A at 3, *In re MPHJ Tech. Invs., LLC*, No. C-4513 (F.T.C. Mar. 13, 2015), <https://www.ftc.gov/enforcement/cases-proceedings/142-3003/mphj-technology>

of an objectively high risk of infringement of a valid patent can be forced to pay treble (triple) the actual damages, as well as the patent owner's litigation costs²⁵ Statements such as these attempt to convince the recipient that the accuser has a strong case for patent infringement, even though the accuser has not even investigated the claim.

Second, where a patent is valid and defensible, the holder usually sues upstream manufacturers to maximize the damage award.²⁶ But where a patent is weak, the owner is not interested in seeing the claim through to litigation.²⁷ Instead, that owner must rely on the nuisance fee, not the validity of the patent, to extract monetary value.²⁸ In the case of MPHJ, the New York State Attorney General found that the patent used in the licensing scheme had been acquired for one dollar, indicating that the underlying technology was essentially worthless.²⁹

-investments-llc-matter [<https://perma.cc/W76T-DMLR>] [hereinafter FTC Complaint Ex. A].

25. *Id.* at 5.

26. This is not always the case. For example, patent owners have sent small- and medium-sized businesses demand letters based on seemingly valid patents for wireless Internet technology. See Steven J. Vaughan-Nichols, *Patent Troll Innovatio IP Goes After Small Businesses*, ZDNET (Oct. 5, 2011), <http://www.zdnet.com/article/patent-troll-innovatio-ip-goes-after-small-businesses> [<https://perma.cc/PGW9-N67G>]. In response to demand letters sent by Innovatio to end users of Wi-Fi devices, the manufacturers of the allegedly infringing products brought suit and eventually agreed to pay Innovatio a licensing fee. *In re Innovatio IP Ventures, LLC Patent Litig.*, 921 F. Supp. 2d 903, 906 (N.D. Ill. 2013); Ryan Davis, *Motorola Strikes Deal with Innovatio in Wi-Fi Patent Case*, LAW 360 (Dec. 18, 2013), <http://www.law360.com/articles/496921/motorola-strikes-deal-with-innovatio-in-wi-fi-patent-case> [<https://perma.cc/8EXF-JJ8F>]; Joe Mullin, *Wi-Fi "Patent Troll" Will Only Get 3.2 Cents Per Router from Cisco*, ARS TECHNICA (Feb. 6, 2014), <http://arstechnica.com/tech-policy/2014/02/cisco-strikes-deal-to-pay-wi-fi-patent-troll-3-2-cents-per-router> [<https://perma.cc/Q88F-EGQR>].

27. See Chien, *supra* note 20, at 369 ("Nuisance suits' have a low or questionable expected recovery because the patent is weak or its economic value is low.").

28. See *id.* *Eon-Net LP v. Flagstar Bancorp* provides a rare example of such a case that was actually litigated. 653 F.3d 1314 (Fed. Cir. 2011) (litigating an award of attorney fees under § 285). Eon-Net filed over 100 lawsuits for patent infringement, and after filing, it offered a quick settlement at a price roughly 10% of the cost of litigation. See *id.* at 1327. The Federal Circuit held that this conduct was in bad faith because it exploited the high cost of litigation to extract a nuisance value settlement from the defendant. The court also held that Eon-Net strategically used low settlement offers to ensure that its baseless infringement allegations remained unexposed, allowing it to continue to collect additional nuisance value settlements. *Id.* (noting that it was clear why the vast majority of those accused by Eon-Net chose to settle, since the defendant expended over \$600,000 in attorney fees and costs to litigate the case through claim construction, while the settlement offered by Eon-Net was in the range of \$25,000–\$75,000).

29. See Assurance of Discontinuance at 2, *In re Investigation* by Eric T. Schneiderman, Attorney General of the State of New York, of MPHJ Technology

Third, asserting claims of infringement against businesses with less familiarity with patent law increases the longevity of the licensing scheme. Such businesses are less likely to question the validity of the patent,³⁰ which is important because, when a patent is unlikely to be upheld in court, litigation jeopardizes the licensing scheme and cuts into profits. MPHJ selected businesses based on two criteria obtained from a business directory database: (1) an estimate of the number of employees, and (2) the business's standard industrial classification.³¹ The former likely acted as a proxy for the business's ability to sustain litigation, and the latter as a proxy for its familiarity with patent litigation.³²

Fourth, because no complaint is actually filed, litigation must appear imminent to pressure the recipient to respond. Demand letter extortion depends on the illusion of litigation unless the recipient either pays a licensing fee or proves they do not infringe.³³ MPHJ demanded that the recipient respond within two weeks of receipt of the third and final letter, or it would sue for patent infringement.³⁴ In fact, in the third letter it even included a copy of a draft complaint bearing the name of the recipient business.³⁵

Ultimately, where the cost of litigation makes the licensing fee appear reasonable, the recipient business owner may choose to pay the fee. MPHJ

Investments, LLC (signed Jan. 13, 2014) (No. 14-015), <http://www.ag.ny.gov/pdfs/FINALAODMPHJ.pdf> [<https://perma.cc/4L7J-H8LG>]; see also Joe Mullin, *Patent Trolls Want \$1,000—for Using Scanners*, ARS TECHNICA (Jan. 2, 2013) (describing the alleged activities of Project Paperless, the company that sold the patents to MPHJ), <http://arstechnica.com/tech-policy/2013/01/patent-trolls-want-1000-for-using-scanners/> [<https://perma.cc/MQ5T-SJU2>].

30. See Robin Feldman, *Intellectual Property Wrongs*, 18 STAN. J.L. BUS. & FIN. 250, 286–94 (2013) (discussing patent monetizers who have made a practice of targeting businesses with little information about patents and little ability to do anything but pay up); Meurer, *supra* note 20, at 514 (“A plaintiff with a weak lawsuit can successfully bluff a defendant because in the early stages of IP litigation the plaintiff is likely to have better information about the scope and validity of the IP rights.”).

31. FTC Complaint, *supra* note 2, ¶ 13 (finding that MPHJ targeted business with between twenty and ninety-nine employees and limited its search to fifty-four specific business codes).

32. Complaint ¶ 36, Vermont v. MPHJ Tech. Invs., LLC, 2014 WL 2178325 (D. Vt. Mar. 7, 2014) (No. 282-5-13 WNC) [hereinafter Vermont Complaint].

33. The first letter requires that companies prove non-infringement by providing: (1) copies of the user manuals for its office copying/scanning equipment, (2) the IP addresses and daily activity logs for all those devices, and (3) the registry of each of the email servers and file servers used by the company. FTC Complaint Ex. A, *supra* note 24, at 4.

34. FTC Complaint, *supra* note 2, ¶ 23.

35. *Id.* ¶ 24.

generally asked for approximately \$1000 per employee,³⁶ making its licensing fee range approximately \$20,000 to \$100,000 per business, a sum significantly less than \$600,000, the approximate cost of litigating a case through claim construction.³⁷ To prevent companies from using demand letters to exploit the nuisance fee of patent litigation, states have turned not only to existing law, but also to enacting new laws to prevent these licensing practices.

C. STATE-LAW OPTIONS FOR DETERRING THE MASS MAILING OF DEMAND LETTERS

By late 2013, Congress was debating several patent reform bills,³⁸ but it had not yet legislated a solution to disruptive licensing campaigns, such as Innovatio's, which began in 2011,³⁹ or MPHJ's, which began in 2012.⁴⁰ In response, states took action, passing their own legislation. This Section discusses two of the legal options available to states: (1) "Little FTC" Acts and (2) newly enacted state anti-trolling laws.

1. *State Law: Little FTC Statutes*

Vermont as well as twenty other states and the District of Columbia have "Little FTC" Acts prohibiting deceptive and unfair business practices in the marketplace.⁴¹ These laws are modeled after Section 5 of the Federal Trade Commission (FTC) Act, and often direct state courts to use FTC rulings and federal court decisions to guide their interpretations of the law.⁴²

36. *See id.* ¶ 30.

37. *See Eon-Net LP v. Flagstar Bancorp*, 653 F.3d 1314, 1327 (Fed. Cir. 2011); *see also* Vermont Complaint, *supra* note 32, ¶ 46 (estimating that litigating an unsuccessful patent-infringement action may cost the defendant at least one million dollars).

38. Dennis Crouch, *Patent Reform 2013: Pending Bills*, PATENTLY-O (Oct. 28, 2013), <http://patentlyo.com/patent/2013/10/patent-reform-2013-pending-bills.html> [<https://perma.cc/2MPM-5YAX>].

39. Joe Mullin, *Wi-Fi Patent Troll Hit with Racketeering Suit Emerges Unscathed*, ARS TECHNICA (Feb. 13, 2013), <http://arstechnica.com/tech-policy/2013/02/wi-fi-patent-troll-hit-with-novel-anti-racketeering-charges-emerges-unscathed> [<https://perma.cc/GG6E-VW8Q>].

40. FTC Complaint, *supra* note 2, ¶ 12.

41. Philip J. Carihfield, *Deceptive Advertising*, in 1 BUSINESS TORTS § 7.06[5] (Joseph D. Zamore et. al. 2015) (describing the scope of "Little FTC" Acts); *id.* § 7.06[5] n.74 (listing the states that have enacted "Little FTC" Acts: Florida, Illinois, Pennsylvania, Alabama, Alaska, Connecticut, Hawaii, Louisiana, Maine, Massachusetts, Mississippi, Montana, Nebraska, New Hampshire, North Carolina, Rhode Island, South Carolina, Vermont, Washington, West Virginia, Wisconsin).

42. *Id.* § 7.06[5]. Where state law refers directly to the federal FTC Act, it provides state-law protection against "[u]nfair methods of competition in or affecting commerce, and unfair or deceptive acts or practices in or affecting commerce." 15 U.S.C. § 45 (2012).

Little FTC Acts empower state attorneys general to bring claims against companies for unfair or deceptive business practices, and several also contain provisions for private action.⁴³ Additionally, twelve states have adopted provisions of the Uniform Deceptive Trade Practices Act⁴⁴ that prohibit, *inter alia*, business conduct that creates a likelihood of confusion or misunderstanding.⁴⁵

The Vermont litigation against MPHJ is based on the state's Little FTC Act, contained in its consumer protection code.⁴⁶ The attorney general opted not to pursue liability under the state's anti-patent troll act, which was signed into law shortly after the suit was filed, likely to keep the case out of federal court.⁴⁷ The complaint alleged that MPHJ "engaged in unfair and deceptive acts by sending a series of letters to many small businesses . . . [that] threatened patent litigation if the businesses do not pay licensing fees."⁴⁸ MPHJ removed the case to federal district court, but the Federal Circuit upheld remand of the case to state court.⁴⁹

2. State Law: Anti-trolling Legislation

As of October 2015, twenty-seven states had enacted legislation regulating assertions of patent infringement (i.e., demand letters) and creating a cause of action for assertions made in bad faith (i.e., patent

43. Carihfield, *supra* note 41, § 7.06[5].

44. *Id.* § 7.06[6].

45. See 815 ILL. COMP. STAT. 510/2 (1965).

46. Vermont Complaint, *supra* note 32, ¶ 1. Unfair competition law and consumer protection law refer to the same type of statutes; they are differentiated based on the section of the state code they are located in. See Carihfield, *supra* note 41, § 7.06[3] (discussing state statutes on deceptive advertising); Vt. Stat. Ann. tit. 9, § 2451a (defining a "consumer" broadly as, *inter alia*, "a person who . . . contracts for, or otherwise agrees to pay consideration for goods or services not for resale in the ordinary course of his or her trade or business but . . . in connection with the operation of his or her business").

47. *Id.* Although the complaint was filed before the passage of Vermont's anti-patent troll law, the attorney general likely chose not to amend the complaint to keep the case out of federal court. See Kelly Knaub, *Vt. Wins Bid to Keep Suit Against 'Patent Troll' in State Court*, LAW 360 (Sep. 28, 2015), <http://www.law360.com/articles/707955> [<https://perma.cc/3NDS-K6BJ>].

48. Vermont Complaint, *supra* note 32, ¶ 1.

49. Vermont v. MPHJ Tech. Invs., LLC, 803 F.3d 635, 642, 651 (Fed. Cir. 2015) (holding that (1) MPHJ's counterclaim arose under federal patent law, so the Federal Circuit had jurisdiction over the appeal and (2) the complaint did not refer to the Vermont Bad Faith Assertions of Patent Infringement Act, so there was no basis for removal).

trolling).⁵⁰ Vermont was the first state to pass such a law in May 2013,⁵¹ and the majority of states have used it as a model.⁵² These laws are generally crafted to avoid federal preemption,⁵³ but the efficacy of this effort is yet to be determined. Although preemption of these recent laws is outside the scope of this Note, several commentators and students have discussed it at length.⁵⁴

A brief review of the structure of these anti-trolling laws helps to illustrate the issue of demand letter extortion, because these laws attempt to balance the commercial interests of local businesses with the rights granted to patent owners under federal patent law.⁵⁵ For example, the main thrust

50. *Patent Progress's Guide to State Patent Legislation*, *Patent Progress* (Jan. 4, 2016), <http://www.patentprogress.org/patent-progress-legislation-guides/patent-progress-guide-state-patent-legislation> [<https://perma.cc/TBC8-RG5G>]; see also Griffin, *supra* note 3.

51. Eric Goldman, *Vermont Enacts the Nation's First Anti-patent Trolling Law*, *FORBES* (May 22, 2013), <http://www.forbes.com/sites/ericgoldman/2013/05/22/vermont-enacts-the-nations-first-anti-patent-trolling-law> [<https://perma.cc/U2JE-2VPA>].

52. Rebecca Schoff Curtin, *Slapping Patent Trolls: What Anti-trolling Legislation Can Learn from the Anti-SLAPP Movement*, 18 *STAN. TECH. L. REV.* 39, 56 (2014) (categorizing state anti-trolling laws into three general categories: the Vermont model, the Oklahoma model, and the Virginia model, and stating that the vast majority of states follow the Vermont model).

53. The preamble of the Vermont statute limits the scope of the law to the contents of a demand letter, and not the validity of the patent. See VT. STAT. ANN. tit. 9, § 4195(a) (“Vermont wishes to help its businesses avoid [litigation] costs by encouraging the most efficient resolution of patent infringement claims without conflicting with federal law [So] it is necessary that [Vermont businesses] receive specific information regarding how their product, service, or technology may have infringed the patent at issue.”).

54. See generally Gugliuzza, *supra* note 4; Hayden W. Gregory, *States Go After Patent Trolls—How Far Can They Go?*, 6 *NO. 6 LANDSLIDE 2* (2014); Craig Drachtman, Note, *Taking on Patent Trolls: The Noerr-Pennington Doctrine's Extension to Pre-lawsuit Demand Letters and Its Sham Litigation Exception*, 42 *RUTGERS L. REC.* 229 (2014–2015); David Lee Johnson, Note, *Facing Down the Trolls: States Stumble on the Bridge to Patent-Assertion Regulation*, 71 *WASH. & LEE L. REV.* 2023 (2014); Elizabeth M. Thoman, Comment, *A Modern Adaptation of “Three Billy Goats Gruff”: Is Vermont’s “Bad Faith Assertions of Patent Infringement” Statute Strong Enough to Help Patent Owner’s Safely Cross the Bridge?*, 83 *U. CIN. L. REV.* 989 (2015).

55. See *Vermont House and Senate Approve Legislation Prohibiting Bad Faith Patent Infringement Claims*, *DOWNS RACHLIN MARTIN PLLC* (May 17, 2013), <http://www.drm.com/news/vermont-house-and-senate-approve-legislation-prohibiting-bad-faith-patent-infringement-claims> [<https://perma.cc/FAJ6-7LCG>] (Downs Rachlin Martin PLLC helped the Vermont Legislature draft the legislation); *Vermont’s Governor Shumlin Signs Nation’s First Patent Protection Law Against Bad Faith Claims*, *VERMONT CHAMBER OF COMMERCE* (May 22, 2013), <http://www.vtchamber.com/wcnews/NewsArticleDisplay.aspx?articleid=401> [<https://perma.cc/DW7Z-VP6P>]; Jim Beesen, Op-ed, *How Patent Trolls Doomed Themselves by Targeting Main Street*, *ARS TECHNICA* (Sept. 12, 2013), <http://arstechnica.com/tech-policy/2013/09/op-ed-how-patent-trolls-doomed-themselves-by-targeting-main-street/> [<https://perma.cc/8J4G-PD4D>].

of the Vermont law is that “[a] person shall not make a bad faith assertion of patent infringement.”⁵⁶ Bad faith is determined based on a balancing test consisting of nine factors that a court may consider as evidence of a bad faith assertion and seven factors that the court may consider as evidence that the assertion was not made in bad faith.⁵⁷ These factors include both objective and subjective factors relating to the intent of the patent owner.⁵⁸ The law also provides public and private remedies for assertions of patent infringement made in bad faith.⁵⁹

State anti-trolling statutes, however, create a patchwork of state regulation with which patent owners must comply, and threaten the goal of uniformity in patent law.⁶⁰ These state laws are rendered superfluous if patent owners can be held liable under state Little FTC Acts for any false or misleading statement contained in a demand letter.

II. PETITIONING IMMUNITY AND THE *NOERR-PENNINGTON* DOCTRINE

The Petition Clause of the First Amendment states that “Congress shall make no law respecting . . . the right of the people . . . to petition the Government for a redress of grievances.”⁶¹ Case law interpreting this phrase is muddled⁶² because most cases rely on other First Amendment principles, such as the Free Speech Clause.⁶³ Complicating matters, many courts use the *Noerr-Pennington* doctrine as shorthand for petitioning immunity generally.⁶⁴ But *Noerr-Pennington* is actually rooted in both the Petition

56. VT. STAT. ANN. tit. 9, § 4197(a).

57. VT. STAT. ANN. tit. 9, § 4197(b), (c) (each category permits the court to consider any factor that it finds relevant).

58. *See id.*

59. VT. STAT. ANN. tit. 9, §§ 4198–99.

60. *See* Sharon Israel & Jeong Ah Joy Lee, *Navigating the Growing Patchwork of Fraudulent Patent Demand Letter Laws: Tips for Patent Owners and Accused Infringers*, INSIDE COUNSEL (Oct. 7, 2015) (stating that state anti-trolling laws may present a trap for persons or entities sending patent assertion letters), <http://www.insidecounsel.com/2015/10/07/navigating-the-growing-patchwork-of-fraudulent-pat> [https://perma.cc/DU9L-MS4E].

61. U.S. CONST. amend. I.

62. *See, e.g.*, Einer Elhauge, *Making Sense of Antitrust Petitioning Immunity*, 80 CALIF. L. REV. 1177, 1191 (1992) (explaining that “antitrust petitioning immunity remains a doctrine without any clear moorings”).

63. Carol Rice Andrews, *A Right of Access to Court Under the Petition Clause of the First Amendment: Defining the Right*, 60 OHIO ST. L.J. 557, 673 (1999) (contrasting the right to petition and the right to freedom of speech).

64. *See* *Cardtoons, L.C. v. Major League Baseball Players Ass’n*, 208 F.3d 885, 889–90 (10th Cir. 2000).

Clause *and* statutory interpretation.⁶⁵ Although it is clear that petitioning immunity extends to petitions made to all three branches of government unless the act of petitioning is a “sham,”⁶⁶ defining these terms is less certain. As discussed in Section II.C, *infra*, there is a split among the circuit courts as to (1) whether immunity extends to pre-suit communications made incident to a valid petition and (2) the conditions under which the “sham” litigation exception applies.

A. SUPREME COURT JURISPRUDENCE

The Supreme Court has applied *Noerr-Pennington* in two contexts: the Sherman Act⁶⁷ and the National Labor Relations Act.⁶⁸ But the Court did not extend *Noerr-Pennington* doctrine to acts of libel committed in a petition to the executive branch. Where the doctrine does apply, there is an exception for cases of “sham” petitioning,⁶⁹ but it is unclear if this is the only test for the sham exception.

1. *Noerr-Pennington Doctrine: Immunity from Antitrust Litigation and the Right to Petition the Government*

Modern petitioning jurisprudence arose in the context of antitrust, taking its roots from both statutory interpretation and the First Amendment. Although the Court has wavered over time as to the significance of each of the constitutional and statutory justifications, *Octane Fitness*, discussed in Section III.E, *infra*, demonstrates that the Court continues to see petitioning immunity through both lenses.

In *Eastern Railroad Presidents Conference v. Noerr Motor Freight, Inc.* (“*Noerr*”),⁷⁰ the Supreme Court first recognized antitrust immunity for petitioning activities, holding that “no violation of the [Sherman] Act can

While we do not question the application of the right to petition outside of antitrust, it is a bit of a misnomer to refer to it as the *Noerr-Pennington* doctrine; a doctrine which was based on two rationales. In our view, it is more appropriate to refer to immunity as *Noerr-Pennington* immunity only when applied to antitrust claims. In all other contexts, including the present one, such immunity derives from the right to petition.

Id.

65. *Id.*

66. *Cal. Motor Transp. Co. v. Trucking Unlimited*, 404 U.S. 508, 510 (1972).

67. *See, e.g., E. R.R. Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127, 135 (1961).

68. *See, e.g., Bill Johnson’s Rests. v. NLRB*, 461 U.S. 731 (1983).

69. *Profl Real Estate Inv’rs Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49, 60–61 (1993).

70. 365 U.S. 127 (1961).

be predicated upon mere attempts to influence the passage or enforcement of laws.”⁷¹ As for statutory interpretation, the Court stated that there is no basis in the legislative history of the Sherman Act to indicate that it was intended to regulate political activity.⁷² And invoking the Petition Clause, the Court held that construing the Sherman Act to regulate political activity would “raise important constitutional questions,” and that it “cannot . . . lightly impute to Congress an intent to invade [the freedoms protected by the Bill of Rights].”⁷³ In the second namesake case, *United Mine Workers of America v. Pennington*,⁷⁴ the Court affirmed that the right to petition extends to petitioning executive branch agencies.⁷⁵

2. *Limits of Noerr Immunity: The “Sham” Exception*

The sham exception applies when the government process, as opposed to the outcome of that process, is used as an anticompetitive weapon.⁷⁶ In other words, immunity is lost where the defendant’s anticompetitive objective would occur regardless of any action taken by the government.⁷⁷

In *California Motor Transport Co. v. Trucking Unlimited* (“*Motor Transport*”),⁷⁸ the Court held, for the first time, that *Noerr* immunity does not apply in cases of “sham” petitioning, a concept originally discussed as dicta in *Noerr*.⁷⁹ Further, it expanded *Noerr* immunity to all branches of government, including administrative agencies and courts, stating that “[t]he right of access to the courts is indeed but one aspect of the right of petition.”⁸⁰

71. *Id.* at 135. Although frequently referred to as “*Noerr* immunity,” most courts have treated the *Noerr-Pennington* doctrine as an affirmative defense. *See* ABA, *supra* note 6, at 107.

72. *Id.* at 137.

73. *Id.* at 138. Additionally, in dicta, the Court stated: “There may be situations in which a publicity campaign, ostensibly directed toward influencing governmental action, is a mere sham to cover what is actually nothing more than an attempt to interfere with the business relationships of a competitor and the application of the Sherman Act would be justified.” *Id.* at 144. This statement would later be the basis for the doctrine’s “sham” litigation exception.

74. 381 U.S. 657 (1965).

75. *Id.* at 670 (“Joint efforts to influence [executive branch] officials do not violate the antitrust laws even though intended to eliminate competition.”).

76. *City of Columbia v. Omni Outdoor Advert., Inc.*, 499 U.S. 365, 380 (1991); *see also* DANIEL A. CRANE, ANTITRUST 181 (Vicki Been et. al. eds., 2014).

77. Crane, *supra* note 76, at 181.

78. 404 U.S. 508 (1972).

79. *Id.* at 511, 516.

80. *Id.* at 510.

Importantly, the Court commented that a party cannot avail itself of First Amendment protections when its speech is “used as an integral part of conduct which violates a valid statute.”⁸¹ And it made clear that there was a sliding scale of immunity, stating that “[m]isrepresentations, condoned in the political arena, are not immunized when used in the adjudicatory process.”⁸² Even though one claim of misconduct may go unnoticed, “a pattern of baseless, repetitive claims may emerge which leads the factfinder to conclude that the administrative and judicial processes have been abused.”⁸³

In *Allied Tube & Conduit Corp. v. Indian Head, Inc.*,⁸⁴ the Court restricted the scope of petitioning activity, concluding that whether or not the government or a private party was the source of the restraint was a determinative factor.⁸⁵ In doing so, it distinguished between liability due to harm caused by government action, which receives immunity under *Noerr*, and harm caused by the direct effects of the marketplace, which receives no such immunity.⁸⁶ Furthermore, the Court placed weight on whether the restraint was imposed by a body accountable to the public, or by a private party with a financial stake in the outcome.⁸⁷

In *Professional Real Estate Investors, Inc. v. Columbia Pictures Industries, Inc.* (“*PRE*”), the Court sought to clarify its jurisprudence on the “sham” litigation exception,⁸⁸ outlining a two-part definition of “sham” litigation based on both an objective and a subjective test.⁸⁹ Litigation efforts are considered a “sham” only if the lawsuit is (1) “objectively baseless in the sense that no reasonable litigant could realistically expect success on the

81. *Id.* at 514.

82. *Id.* at 513.

83. *Id.*

84. 486 U.S. 492 (1988).

85. *See id.* at 492–93; *see also* FTC, ENFORCEMENT PERSPECTIVES ON THE *NOERR-PENNINGTON* DOCTRINE 8 (2006), <https://www.ftc.gov/policy/policy-actions/advocacy-filings/2006/10/ftc-staff-report-concerning-enforcement-perspectives> [<https://perma.cc/2A5L-K7TE>].

86. *See id.* at 501–02 (holding that petitioning of a standard-setting organization did not receive immunity since no government had conferred official authority on the National Fire Protection Association, even though the organization’s recommendations would be adopted by governments as building code at a later date).

87. *Id.*; *see also* *FTC v. Superior Court Trial Lawyers Assoc.*, 493 U.S. 411, 424–25 (1990) (holding that *Noerr* immunity did not apply because the harm was entirely the result of the boycott, a harm that would have occurred regardless of whether the legislature had acted, and that even where petitioning activity is genuine (i.e., not a “sham”), it is not necessarily immune from antitrust liability under *Noerr*).

88. ABA, *supra* note 6, at 27.

89. 508 U.S. 49, 61 (1993).

merits,” and (2) “an attempt to interfere *directly* with the business relationship of a competitor through the use of the governmental *process*—as opposed to the *outcome* of that process—as an anticompetitive weapon.”⁹⁰ Furthermore, only if the challenged litigation is objectively meritless may a court examine the subjective motivations behind the litigation.⁹¹

Of significance, the Court explicitly declined to decide whether or not *Noerr* immunity extends to cases where antitrust liability arises from acts of fraud or other misrepresentations.⁹² But it referred back to its statement in *Motor Transport* that “[m]isrepresentations, condoned in the political arena, are not immunized when used in the adjudicatory process.”⁹³

3. *Right to Petition the Government Outside of Antitrust*

The Supreme Court has applied the “sham” litigation test not only in cases concerning the Sherman Act but also in cases implicating the National Labor Relations Act (NLRA). In *Bill Johnson’s Restaurants v. NLRB*,⁹⁴ the Court, in discussing the extent of First Amendment protections, stated, “Just as false statements are not immunized by the . . . right to freedom of speech, baseless litigation is not immunized by the . . . right to petition.”⁹⁵ The Court held that, considering the First Amendment right to access the courts, the “sham” litigation exception articulated in *Motor Transport* applied in cases arising under the NLRA.⁹⁶

Later, in *BE&K Construction Co. v. NLRB*,⁹⁷ the Court, citing *PRE* and *Pennington*, linked the First Amendment concerns from antitrust to those concerning the NLRA, stating “while the burdens on speech at issue in this case are different from those at issue in *Professional Real Estate Investors*, we are still faced with a difficult constitutional question: namely, whether a class of petitioning may be declared *unlawful* when a substantial portion of it is subjectively *and* objectively genuine.”⁹⁸

90. *Id.* at 60–61 (citations omitted) (emphasis in original).

91. *Id.* at 60.

92. *Id.* at 61 n.6.

93. *Id.*

94. 461 U.S. 731 (1983).

95. *Id.* at 743 (citing *Herbert v. Lando*, 441 U.S. 153, 171 (1979); *Gertz v. Robert Welch, Inc.*, 418 U.S. 323, 340 (1974)).

96. *See Bill Johnson’s Rests.*, 461 U.S. at 744. The Court created a “reasonable-basis inquiry” and held that “the Board may not halt the prosecution of a state-court lawsuit, regardless of the plaintiff’s motive, unless the suit lacks a reasonable basis in fact or law.” *Id.* at 748.

97. 536 U.S. 516 (2002).

98. *Id.* at 535.

However, the Court did not apply *Noerr* in a suit for libelous statements made in a petition to the executive branch. In *McDonald v. Smith*,⁹⁹ while the plaintiff was being considered for the position of United States Attorney, the defendant wrote letters to President Reagan that allegedly contained false, slanderous, and derogatory statements about the plaintiff.¹⁰⁰ The Court reasoned that, since First Amendment rights are inseparable, the speech in the defendant's letters should be afforded the same constitutional protections as all other expressions.¹⁰¹ The Court cited *Motor Transport* and *Bill Johnson's Restaurants* in asserting that petitioning immunity is not absolute, but it did not apply *Noerr* immunity nor did it apply an objectively baseless test.¹⁰² Instead, even though the statements were made as part of a genuine petition, the Court applied the "malice" standard for common law damages for libel.¹⁰³

B. THE FEDERAL CIRCUIT'S APPLICATION OF *NOERR-PENNINGTON* TO DEMAND LETTERS

Until 2004, eleven years after *PRE*, the Federal Circuit applied traditional preemption analysis in cases involving state-law claims based on pre-suit assertions of patent infringement. But in *Globetrotter Software, Inc. v. Elan Computer Group, Inc.*,¹⁰⁴ the Federal Circuit adopted the *Noerr-Pennington* doctrine and sham litigation exception as its test for federal preemption of state-law liability stemming from an assertion of patent rights. This change in jurisprudence shifted the focus of preemption of these claims from the federal patent law to the Petition Clause.¹⁰⁵

1. *Pre-Globetrotter: Preemption Based on Bad Faith Includes Objective and Subjective Factors*

Prior to *Globetrotter* the Federal Circuit applied preemption analysis based on federal patent law.¹⁰⁶ In the case *Zenith Electronics Corp. v. Exzec, Inc.*, the court addressed whether or not federal patent law preempts state-

99. 472 U.S. 479 (1985).

100. *Id.* at 480–81.

101. *Id.* at 485.

102. *Id.* at 484.

103. *Id.* at 485.

104. 362 F.3d 1367 (Fed. Cir. 2004).

105. See generally Marin R. Scordato, *Federal Preemption of State Tort Claims*, 35 U.C. DAVIS L. REV. 1 (2001) (discussing the traditional sources for the doctrine of federal preemption).

106. See *Zenith Elecs. Corp. v. Exzec, Inc.*, 182 F.3d 1340, 1355 (Fed. Cir. 1999) ("Preemption can occur in any one of three ways—explicit, field, or conflict preemption.").

law liability based on a claim of patent infringement.¹⁰⁷ Consolidating prior preemption analysis, the court held that to avoid patent law preemption of state claims, “bad faith must be alleged and ultimately proven, even if bad faith is not otherwise an element of the tort claim.”¹⁰⁸ As to the standard for “bad faith,” the court held that “exactly what constitutes bad faith remains to be determined on a case by case basis,” and noted that bad faith may encompass subjective as well as objective considerations.¹⁰⁹

2. *Post-Globetrotter: Preemption Based on Bad Faith Requires Objective Baselessness and Subjective Bad Faith*

In *Globetrotter*, the Federal Circuit shifted the focus of preemption from patent law to the Petition Clause. Abandoning the *Zenith* standard of “bad faith,” developed under federal patent law preemption, the court imported the Supreme Court’s “sham” litigation test from *PRE* (“the *PRE* standard”), which is rooted in the Petition Clause and statutory interpretation. This shift effectively bifurcated the test for preemption into two distinct parts: one for “objective baselessness” and one for “subjective bad faith.”¹¹⁰

Justifying its decision to import the *PRE* standard into patent law from antitrust, the Federal Circuit provided four reasons. First, patent holders must be allowed to inform potential infringers of infringing activity.¹¹¹ Supporting this assertion, the court cited the Supreme Court, which had reasoned—in 1913—that patents would be of little value if a potential infringer could not be notified of their actions.¹¹² Second, because other circuit courts had applied the *Noerr* and *PRE* line of cases to bar state-law liability for pre-suit communications, the Federal Circuit reasoned that

107. Liability in *Zenith* was based on claims of infringement, not any statement ancillary to those claims. *Id.* at 1343. The plaintiff, Exzec, alleged that *Zenith* should be liable under state unfair competition law for two false statements: (1) that Exzec’s product infringes *Zenith*’s patents, and (2) that Exzec could not manufacture a noninfringing product. *Id.*

108. *Zenith*, 182 F.3d at 1355 (citing *Dow Chem. Co. v. Exxon Corp.*, 139 F.3d 1470, 1476–77 (Fed. Cir. 1998); *Hunter Douglas, Inc. v. Harmonic Design, Inc.*, 153 F.3d 1318, 1336–37 (Fed. Cir. 1998)).

109. *Id.* at 1354–55 (citing *Mikohn Gaming Corp. v. Acres Gaming, Inc.*, 165 F.3d 891, 896 (Fed. Cir. 1998)).

110. *See generally* 6A CHISUM ON PATENTS § 19.06[2] (2015).

111. *Globetrotter Software, Inc. v. Elan Computer Grp., Inc.*, 362 F.3d 1367, 1377 (Fed. Cir. 2004).

112. *Id.* at 1374 (citing *Virtue v. Creamery Package Mfg. Co.*, 227 U.S. 8, 37–38 (1913) (“Patents would be of little value if infringers of them could not be notified of the consequences of infringement, or proceeded against in the courts. Such action, considered by itself, cannot be said to be illegal.”)).

Noerr should apply to demand letters in patent cases.¹¹³ Third, the same First Amendment principles supporting *Noerr* immunity in antitrust apply to immunity from state-law liability.¹¹⁴ And fourth, in *Golan v. Pingel Enterprises, Inc.*,¹¹⁵ a prior Federal Circuit case that prohibited a finding of bad faith when the information about potential infringement was “objectively accurate,” had already established a similar precedent.¹¹⁶ For these reasons, the court concluded that *Noerr* applied because state-law claims based on assertions of infringement were preempted under federal patent law *and* the First Amendment.¹¹⁷

According to the Federal Circuit, both petitioning immunity and the federal patent law preempt state-law tort liability so long as an assertion of patent infringement was not made in “bad faith.”¹¹⁸ Applying the *PRE* standard, “bad faith” requires proof of both objective and subjective components.¹¹⁹ Absent a showing that the infringement allegations are objectively baseless, the allegations of patent infringement are not in “bad faith.”¹²⁰

113. *Id.* at 1376 (citing *Coastal States Mktg., Inc. v. Hunt*, 694 F.2d 1358, 1367 (5th Cir. 1983); *A.D. Bedell Wholesale Co. v. Philip Morris, Inc.*, 263 F.3d 239, 252–53 (3d Cir. 2001); *Primetime 24 Joint Venture v. Nat’l Broad. Co.*, 219 F.3d 92, 100 (2d Cir. 2000); *McGuire Oil Co. v. Mapco, Inc.*, 958 F.2d 1552, 1560 (11th Cir. 1992)).

114. *Id.*

115. 310 F.3d 1360 (Fed. Cir. 2002).

116. *Globetrotter*, 362 F.3d at 1377. The court in *Golan* evaluated “bad faith” by asking whether the patent owner had a reasonable basis upon which to believe that the plaintiff’s products infringed. *See Golan*, 310 F.3d at 1371. The court outlined its standard for preemption under the patent law as follows:

[P]atentees do not violate the rules of fair competition by making accurate representations, and are allowed to make representations that turn out to be inaccurate provided that they make them in good faith. Nevertheless, if the party challenging such statements under state . . . law presents clear and convincing evidence that the infringement allegations are objectively false, and that the patentee made them in bad faith, viz., with knowledge of their incorrectness or falsity, or disregard for either, the statements are actionable and are not protected by the existence of a patent.

Id. (citation omitted). The court found that evidence of a disingenuous threat to file suit was insufficient, concluding that the intention to file suit is only one factor in determining bad faith, and that asserting one’s patent rights is permitted under the patent laws “in the absence of falsity or incorrectness, or disregard for either.” *Id.* at 1372.

117. *Globetrotter*, 362 F.3d at 1377 (“Our decision to permit state-law tort liability for only objectively baseless allegations of infringement rests on both federal preemption and the First Amendment.”).

118. *Globetrotter*, 362 F.3d at 1374–75.

119. *See id.* at 1376–77.

120. *See id.*

The *PRE* standard for sham litigation is based on the rationale that a litigant with probable cause to institute a lawsuit cannot be acting in bad faith.¹²¹ In the first part of the test, infringement allegations are “objectively baseless” when “no reasonable litigant could reasonably expect success on the merits.”¹²² Under this “reasonableness” standard,¹²³ state-law claims will be preempted unless they are a “sham”—that is, unless there is clear and convincing evidence that the patent owner had no reasonable basis to believe that (1) the patent rights were invalid at the time an accusation was made, or (2) the accused did not infringe any asserted patent claim.¹²⁴ But unlike under *Zenith* and its predecessors,¹²⁵ the Federal Circuit has yet to encounter a case where the infringement claims were subject to state-law liability, because it has not yet found a claim to be objectively baseless.¹²⁶

The second part of the test is subjective bad faith, which relates to the mindset of the patent owner in enforcing his or her patent rights.¹²⁷ Although the subjective component has received scant analysis, the Federal Circuit has designated broad categories of behaviors as exclusively related to subjective bad faith. Such behaviors include: (1) failing to examine a competitor’s product prior to making allegations of infringement,¹²⁸ (2) failing to seek expert advice or opinion before making accusations of infringement,¹²⁹ (3) not making infringement claims against makers of

121. See *Dominant Semiconductors Sdn. Bhd. v. OSRAM GmbH*, 524 F.3d 1254, 1261 (Fed. Cir. 2008).

122. *GP Indus., Inc. v. Eran Indus., Inc.*, 500 F.3d 1369, 1374 (Fed. Cir. 2007) (citing *Prof'l Real Estate Inv'rs, Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49, 60 (1993)).

123. See *Matthews Int'l Corp. v. Biosafe Eng'g, LLC*, 695 F.3d 1322, 1332 (Fed. Cir. 2012) (applying a reasonableness standard to determine whether or not the patent owner’s infringement allegations were objectively baseless).

124. See *800 Adept, Inc. v. Murex Sec., Ltd.*, 539 F.3d 1354, 1370 (Fed. Cir. 2008) (citing *Golan v. Pingel Enters., Inc.*, 310 F.3d 1360, 1371 (Fed. Cir. 2002)).

125. See *Zenith Elecs. Corp. v. Exzec, Inc.*, 182 F.3d 1340, 1343 (Fed. Cir. 1999); *Hunter Douglas, Inc. v. Harmonic Design, Inc.*, 153 F.3d 1318, 1318 (Fed. Cir. 1998); *Dow Chem. Co. v. Exxon Corp.*, 139 F.3d 1470, 1470 (Fed. Cir. 1998).

126. See *Gugliuzza*, *supra* note 4, at 1627 (stating that since *Globetrotter*, the Federal Circuit has barred state law claims in all but one case). In the case where the Federal Circuit found a material issue of fact pertaining to objectively baselessness, there was an issue as to whether or not the defendant had an exclusive license to the patents it referenced in letters to the plaintiff’s distributors and retailers. *Breckenridge Pharm. v. Metabolite Labs.*, 444 F.3d 1356, 1360, 1368 (Fed. Cir. 2006).

127. See *Prof'l Real Estate Inv'rs*, 508 U.S. at 60 (“Only if challenged litigation is objectively meritless may a court examine the litigant’s subjective motivation.”).

128. See *GP Indus.*, 500 F.3d at 1375.

129. See *Dominant Semiconductors Sdn. Bhd. v. OSRAM GmbH*, 524 F.3d 1254, 1263–64 (Fed. Cir. 2008) (holding that failure to perform sufficient analysis prior to bringing an infringement claim at the International Trade Commission was arguably relevant to subjective intent, but not objectively baseless); *GP Indus.*, 500 F.3d at 1375.

similar products,¹³⁰ and (4) having a reasonable basis for knowing that a patent was invalid at the time an infringement claim was made.¹³¹ In sum, these categories indicate that everything short of knowledge that a claim of infringement is false would likely be considered subjective bad faith. Determining whether these categories of behavior align with Supreme Court precedent on subjective bad faith requires a review of other circuits' treatment of pre-suit correspondence.

C. OTHER CIRCUIT COURTS' APPLICATION OF *NOERR-PENNINGTON* TO PRE-SUIT CORRESPONDENCE

Circuit courts have all applied the *Noerr-Pennington* doctrine beyond the context of antitrust, applying it to state-law business torts¹³² as well as other state and common law claims.¹³³ The courts differ, however, on (1) the extent to which *Noerr* immunity applies beyond direct petitions to the government and (2) exceptions to the doctrine.

1. *Split on Whether or Not Noerr Immunity Extends to Pre-suit Communications*

Several circuit courts have extended petitioning immunity to threats of litigation.¹³⁴ The Ninth Circuit, for example, extended *Noerr* to conduct that is incidental to a petition if the petition itself receives immunity.¹³⁵ The court reasoned that although demand letters are not themselves petitions, they may still receive immunity under the Petition Clause "so as to preserve

130. See *GP Indus.*, 500 F.3d at 1375.

131. See *800 Adept, Inc. v. Murex Sec., Ltd.*, 539 F.3d 1354, 1370–71 (Fed. Cir. 2008) (holding that allegations that the patent owner knew at the time it made allegations of infringement that prior art would anticipate its patent were relevant only to the question of subjective bad faith).

132. See, e.g., *IGEN Int'l, Inc. v. Roche Diagnostics GmbH*, 335 F.3d 303, 310 (4th Cir. 2003) ("[A]lthough originally developed in the antitrust context, the [*Noerr-Pennington*] doctrine has now universally been applied to business torts.").

133. See ABA, *supra* note 6, at 117–18.

134. See, e.g., *McGuire Oil Co. v. Mapco, Inc.*, 958 F.2d 1552, 1560 (11th Cir. 1992) (holding that concerted threats of litigation are protected under *Noerr*); *Coastal States Mktg., Inc. v. Hunt*, 694 F.2d 1358, 1367 (5th Cir. 1983) (holding that petitioning immunity extends to generalized threats to litigate a claim).

135. *Freeman v. Lasky, Haas & Cohler*, 410 F.3d 1180, 1184 (9th Cir. 2005). The incidental conduct rule is based on the Supreme Court's statement that a "restraint cannot form the basis for antitrust liability if it is 'incidental' to a valid effort to influence government action." *Allied Tube & Conduit Corp. v. Indian Head, Inc.*, 486 U.S. 499 (1988) (citing *E. R.R. Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127, 136 (1961)).

the breathing space required for the effective exercise of the rights it protects.”¹³⁶

The Tenth Circuit, on the other hand, extends petitioning immunity only to petitions made to “the Government,”¹³⁷ reasoning that the “clear language of the First Amendment” prevails over any policy argument in favor of granting immunity to private threats of litigation.¹³⁸ In the Tenth Circuit, therefore, statements threatening litigation are subject to liability under state statutory and common law,¹³⁹ unless preempted under some other basis.

2. *Different Exceptions to Noerr Immunity*

Some circuit courts apply two other exceptions in addition to the sham exception when the petitioning involves the courts. Two circuits have limited the sham exception articulated in *PRE* to cases involving a single act of petitioning, and apply a pattern of misconduct exception in cases involving a series of legal proceedings.¹⁴⁰ And several circuits permit a misrepresentation exception when a party knowingly made misrepresentations to a judicial body.¹⁴¹

The Ninth and Second Circuits apply *PRE*'s “sham” litigation test only where there is a single act of petitioning.¹⁴² Where a defendant is accused of

136. *Sosa v. DIRECTV, Inc.*, 437 F.3d 923, 933 (9th Cir. 2006); *see also* *BE&K Const. Co. v. NLRB*, 536 U.S. 516, 525 (2002) (“[T]he right to petition extends to all departments of the Government, and [] the right of access to the courts is . . . but one aspect of the right of petition.”) (citations omitted).

137. *Cardtoons, L.C. v. Major League Baseball Players Ass’n*, 208 F.3d 885, 891–92 (10th Cir. 2000) (emphasizing *McDonald* and noting that “statements made in a letter threatening litigation are not absolutely protected by the petition clause”).

138. *Id.* at 893.

139. *Id.* (holding that private threats of litigation do not receive petitioning immunity because they are not a petition made to the government).

140. *See, e.g.*, *Mercatus Grp., LLC v. Lake Forest Hosp.*, 641 F.3d 834, 843 (7th Cir. 2011); *Baltimore Scrap Corp. v. David J. Joseph Co.*, 237 F.3d 394, 401–02 (4th Cir. 2001) (citing *Cheminor Drugs, Ltd. v. Ethyl Corp.*, 168 F.3d 119, 123–24 (3d Cir. 1999)); *Primetime 24 Joint Venture v. Nat’l Broad. Co.*, 219 F.3d 92, 101 (2nd Cir. 2000); *USS-POSCO Indus. v. Contra Costa Cty. Bldg. & Const. Trades Council, AFL-CIO*, 31 F.3d 800, 811 (9th Cir. 1994).

141. *See, e.g.*, *Kearney v. Foley & Lardner, LLP*, 590 F.3d 638, 646 (9th Cir. 2009); *Kottle v. Nw. Kidney Ctrs.*, 146 F.3d 1056, 1060–61 (9th Cir. 1998).

142. *Primetime 24*, 219 F.3d at 101 (citing *USS-POSCO*); *USS-POSCO Indus. v. Contra Costa Cty. Bldg. & Const. Trades Council, AFL-CIO*, 31 F.3d 800, 811 (9th Cir. 1994) (interpreting *PRE*). In *USS-POSCO*, the Ninth Circuit concluded that *PRE* and *Motor Transport* dealt with different questions, stating, “We’re not persuaded that *Professional Real Estate Investors* effectively overrules *California Motor Transport*. Far from criticizing or limiting *California Motor Transport*, the *Professional Real Estate Investors* majority cites it with approval.” *Id.* at 810.

bringing a whole series of legal proceedings, a pattern of misconduct exception is permitted, and the test is prospective, not retrospective.¹⁴³ The relevant question becomes whether there is a pattern of misconduct, i.e., the legal filings were made, not out of a genuine interest in redressing grievances, but as part of a “pattern or practice” of successive legal actions undertaken “essentially for purposes of harassment.”¹⁴⁴ And, where the legal proceedings were brought without regard to the merits of the claim and for the purpose of a competitive advantage, it is immaterial that some of the claims might have merit.¹⁴⁵

Several courts apply varying forms of a misrepresentation exception. Under the Ninth Circuit rule, for example, litigation may be a sham where (1) a party knowingly made intentional representations to the court, and (2) those misrepresentations deprive the litigation of its legitimacy.¹⁴⁶ Other circuits, including the Third, Fourth, and Seventh Circuits, apply a more restrictive test, holding that if a misrepresentation exception exists, “it extends only to the type of fraud that deprives litigation of its legitimacy.”¹⁴⁷ According to this test, only misrepresentations that “infect the core” of the litigant’s case will deprive the litigant of the First Amendment Right to petition the government.¹⁴⁸ In the Seventh Circuit, for example, to render litigation a sham, misrepresentations must be (1) “intentionally made, with knowledge of [their] falsity,” and (2) “material, in the sense that [they] actually alter[] the outcome of the proceeding.”¹⁴⁹

The split in circuit court precedent discussed in this Section gives rise to two relevant questions. Should petitioning immunity extend to pre-suit communications? And if so, to what extent should immunity apply?

III. PETITIONING IMMUNITY SHOULD EXTEND TO THE RIGHT TO MAKE AN ASSERTION OF PATENT INFRINGEMENT

Whether petitioning immunity extends to the contents of a demand letter is a question that *Globetrotter* and its progeny are not equipped to

143. *Primetime 24*, 219 F.3d at 101.

144. *See id.*

145. *See id.*

146. *See Kearney*, 590 F.3d at 646; *Kottle*, 146 F.3d at 1060.

147. *Baltimore Scrap Corp. v. David J. Joseph Co.*, 237 F.3d 394, 401–02 (4th Cir. 2001) (citing *Cheminor Drugs, Ltd. v. Ethyl Corp.*, 168 F.3d 119, 123–124 (3d Cir. 1999)); *see Mercatus Grp., LLC v. Lake Forest Hosp.*, 641 F.3d 834, 843 (7th Cir. 2011).

148. *Baltimore Scrap Corp.*, 237 F.3d at 402; *Cheminor Drugs*, 168 F.3d at 123.

149. *See Mercatus Grp.*, 641 F.3d at 843.

address.¹⁵⁰ Specifically, there are two primary reasons why the fact patterns in previous cases applying petitioning immunity to pre-suit communications are different from those of demand letter extortion. First, prior questions of preemption turned on the truth of the infringement claim, whereas demand letter extortion involves liability based on statements regarding the value, or existence, of patent rights.¹⁵¹ Second, prior questions involved pre-suit communications that were sent to customers, distributors, or potential business partners of a competitor, whereas demand letter extortionists send communications directly to the alleged infringer.¹⁵² Therefore, in cases of demand letter extortion, because the harm is caused not only by the threat of litigation but also by false or misleading statements regarding the value of the patent, the First Amendment policy concerns justifying the Federal Circuit's adoption of the *PRE* standard do not apply. Responding to this distinction, this Part considers the statutory and constitutional underpinnings of extending petitioning immunity to assertions of patent infringement, considers the proper extent of petitioning immunity, and proposes two alternative exceptions to the doctrine.

A. APPLICATION OF *PRE* IN *MOTOROLA V. INNOVATIO* TWISTS
NOERR IMMUNITY BEYOND RECOGNITION

The Northern District Court of Illinois, applying Federal Circuit precedent, addressed the question of whether *Noerr* protects false or misleading statements in pre-suit demand letters.¹⁵³ In the case *In re Innovatio IP Ventures, LLC Patent Litigation*, a patent assertion entity sent demand letters to 8000 small- to medium-sized businesses. These letters alleged that the recipient's use of Wi-Fi technology infringed its patents, and they threatened to initiate "costly litigation" with anyone who did not

150. *But see* Chien, *supra* note 20, at 344 (describing the agrarian patent crisis of the late 1800s—a similar phenomenon—when patents were granted for slight changes in farm tools and royalty collectors would demand royalties from farmers).

151. *See, e.g.*, *Globetrotter Software, Inc. v. Elan Computer Grp., Inc.*, 362 F.3d 1367, 1368 (Fed. Cir. 2004) (alleging state-law counterclaims for tortious interference with prospective economic advantage and unfair competition arising from allegations of patent infringement sent to a company that was engaged in acquisition talks with the accused infringer); *Matthews Int'l Corp. v. Biosafe Eng'g, LLC*, 695 F.3d 1322, 1326 (Fed. Cir. 2012) (alleging multiple state-law claims based on claims that the defendant had made false accusations of patent infringement to the plaintiff's customers).

152. *See, e.g.*, *Golan v. Pingel Enters., Inc.*, 310 F.3d 1360, 1364–65 (Fed. Cir. 2002) (alleging unfair competition for cease-and-desist letters sent to the plaintiff's distributors stating that plaintiff's products infringed the defendant's patents).

153. *In re Innovatio IP Ventures, LLC Patent Litig.*, 921 F. Supp. 2d 903, 921 (N.D. Ill. 2013).

acquiesce to paying for a license.¹⁵⁴ The plaintiffs—the recipients of the demand letters—alleged that the demand letters contained misrepresentations regarding, *inter alia*, the number of licenses that had been issued for the patents, the value of the licenses, and the number of patents that had been held valid.¹⁵⁵

Applying the Seventh Circuit’s misrepresentation exception, discussed in Section II.C, *supra*, in conjunction with the Federal Circuit’s two-part test for sham litigation, the court adopted a rule that “only misrepresentations material enough to affect the outcome of a litigation proceeding are sufficient to render petitioning activity a sham.”¹⁵⁶ And applying this rule, it concluded that none of the alleged misrepresentations were “sufficiently central to Innovatio’s infringement claim to make its entire licensing campaign a sham.”¹⁵⁷ The court’s decision is problematic, however, because it tied preemption analysis to the plausibility of the claim of infringement. In other words, speech otherwise prohibited by state law was granted immunity solely because it was associated with a claim of patent infringement.¹⁵⁸

The holding in *In re Innovatio* is inconsistent with the Supreme Court’s precedent on petitioning immunity. In *McDonald*, for instance, the Court stated that speech contained in an act of petitioning is afforded the same constitutional protections as all other speech.¹⁵⁹ Yet in *In re Innovatio*, the district court granted blanket immunity in cases where liability was based on statements associated with assertions of patent infringement, effectively elevating the Petition Clause above the protections afforded to other speech. This holding exemplifies the distortions caused by the overextension of the *Noerr-Pennington* doctrine, and calls for a discussion of the appropriate limits for petitioning immunity and the *Noerr-Pennington* doctrine.

154. *Id.* at 907–08.

155. *Id.* at 920. For example, the complaint alleged that Innovatio’s representation that the patents had generated more than one billion dollars in settlements and licensing fees was a misrepresentation because almost ninety percent of the sum was based on a single settlement paid by Qualcomm, which was unrelated to the licensing program. *Id.* at 921.

156. *Id.* at 921.

157. *Id.*

158. See Gugliuzza, *supra* note 4, at 1631 (arguing that allowing patent holders to falsely threaten infringement litigation and to fabricate stories about past licensing success is tantamount to “a legal right to lie”).

159. *McDonald v. Smith*, 472 U.S. 479, 485 (1985) (holding that statements made in an act of petitioning should be judged under the “malice” standard for common law damages for libel).

B. THE FIRST AMENDMENT SHOULD IMMUNIZE PATENT OWNERS FROM STATE-LAW LIABILITY BASED ON ASSERTION OF PATENT INFRINGEMENT IN DEMAND LETTERS

Petitioning immunity granted under *Noerr-Pennington* should extend to the right to send demand letters because such a right is rooted in federal patent law and the First Amendment. Extending the right to petition to pre-suit communications of patent infringement, therefore, carries similar justifications as those given by the Supreme Court in *Noerr*.¹⁶⁰

1. *Statutory Basis in the Patent Act*

The Patent Act contains language indicating that Congress intended for patent owners to notify alleged infringers of infringing activity. As discussed in Section I.A, *supra*, the Patent Act states that “no damages shall be recover[able] . . . except on proof that the infringer was notified of the infringement and continued to infringe thereafter.”¹⁶¹ Based on this statutory language, Congress intended for patent owners to notify others of potentially infringing activities.

2. *Support from First Amendment Policy Justifications*

The Supreme Court crafted the *Noerr-Pennington* doctrine, and its exception for “sham” litigation, to avoid chilling the exercise of the First Amendment right to *petition the government* for the redress of grievances.¹⁶² The question is whether the Petition Clause provides immunity for communications occurring before any petition to the government is made.

Several circuits attempting to effectuate the purpose of *Noerr* extend petitioning immunity to conduct “incidental to a petition” so that the right to petition is protected.¹⁶³ The Ninth Circuit’s “breathing space” argument, for example, reasons that petitioning immunity should overprotect baseless petitions to ensure patent holders can access the courts without fear of

160. See Alan Devlin, *Antitrust Limits on Targeted Patent Aggregation*, 67 FLA. L. REV. 775, 845 (2015) (arguing that *Noerr* immunity should not apply to pre-suit correspondence where the sender threatens suit based on targeted patent aggregation).

161. 35 U.S.C. § 287(a) (2012).

162. See *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1757 (2014); *Prof'l Real Estate Inv'rs, Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49, 56 (1993) (“Those who petition government for redress are generally immune from antitrust liability.”).

163. *Freeman*, 410 F.3d at 1184 (citing the Supreme Court’s statement in *Allied Tube* that “private action . . . cannot form the basis for antitrust liability if it is ‘incidental’ to a valid effort to influence governmental action,” 486 U.S. at 499); see also *McGuire Oil Co. v. Mapco, Inc.*, 958 F.2d 1552, 1560 (11th Cir. 1992) (citing *Coastal States Mktg., Inc. v. Hunt*, 694 F.2d 1358, 1367 (5th Cir. 1983)).

prosecution.¹⁶⁴ In fact, this stance is similar to the Federal Circuit's position that patents would be of little value if patent owners could not notify others of potential infringement.¹⁶⁵ And as stated by the Fifth Circuit, "If litigation is in good faith, a token of that sincerity is a warning that it will be commenced and a possible effort to compromise the dispute."¹⁶⁶ In the context of patent law, notifications of potentially infringing activity constitute an integral part of the process of petitioning the government. Accordingly, demand letters are arguably an integral part of the process of petitioning the courts, so they deserve the same protections as petitions generally.

The Tenth Circuit, in contrast, refuses to extend petitioning immunity to pre-litigation correspondence because potential state-law liability arising from assertions of patent infringement does not impede the *right* to bring an infringement suit.¹⁶⁷ This logic certainly applies to those statements in a demand letter that are not related to the assertion of patent infringement. But the threat of state-law liability may diminish the *incentive* for patent holders to enforce their patent rights. Because damages for infringement require proof that the infringer was notified of infringing activity,¹⁶⁸ any increase in potential liability based on such notification would limit the efficacy of petitioning to enforce one's patent rights. Therefore, the right to assert one's patent should receive constitutional protection because freedom to petition the court is integral to the property right that a patent conveys.

Alternatively, the right to notify an accused infringer of potentially infringing activity may have roots in the Intellectual Property Clause of the Constitution.¹⁶⁹ As cited by the Federal Circuit in *Globetrotter*,¹⁷⁰ the Supreme Court has stated, "Patents would be of little value if infringers of them could not be notified of the consequences of infringement Such action considered by itself cannot be said to be illegal."¹⁷¹ So, arguably,

164. See *Sosa v. DIRECTV, Inc.*, 437 F.3d 923, 934 (9th Cir. 2006).

165. See *Globetrotter Software, Inc. v. Elan Computer Grp., Inc.*, 362 F.3d 1367, 1374 (Fed. Cir. 2004).

166. *Coastal States*, 694 F.2d at 1367 (following its statement with the sentence: "This is the position taken by most of the courts that have considered the question.>").

167. See *Cardtoons, L.C. v. Major League Baseball Players Ass'n*, 208 F.3d 885, 892 (10th Cir. 2000) ("The plain language of the First Amendment protects only those petitions which are made to 'the Government.'").

168. See 35 U.S.C. § 287(a) (2012) ("In the event of failure so to mark, no damages shall be recovered by the patentee in any action for infringement, except on proof that the infringer was notified of the infringement and continued to infringe thereafter").

169. U.S. CONST. art I, § 8, cl. 8.

170. *Globetrotter*, 362 F.3d at 1374.

171. *Virtue v. Creamery Package Mfg. Co.*, 227 U.S. 8, 37–38 (1913).

notification of infringement is protected under the Constitution as a means “[t]o promote the Progress of Science and useful Arts, by securing for . . . Inventors the exclusive Right to their . . . Discoveries.”¹⁷² In sum, statutory and constitutional justifications support extending petitioning immunity to assertions of patent infringement, but not to statements tangential to such assertions because those statements extend beyond conduct incidental to a petition.

C. CURRENT TESTS FOR PREEMPTION BASED ON *NOERR-PENNINGTON* AND PETITIONING IMMUNITY ARE ILL-SUITED FOR CASES OF DEMAND LETTER EXTORTION

The problem with the Federal Circuit’s adoption of *Noerr-Pennington* in the context of patent infringement is that the court grounds its decision in both federal patent law *and* petitioning immunity.¹⁷³ But in the case of demand letters, statements tangential to a claim of infringement are too far removed to be “incidental” to a petition to the government. But the *Globetrotter* standard, as well as the misrepresentation exception, ignores this difference, shielding otherwise unlawful statements from state-law liability.

Demand letters are entitled to minimal protection under *Noerr* because they are a form of correspondence between private parties, not petitions addressed to the legislature.¹⁷⁴ Although *Globetrotter*’s adoption of *PRE*’s sham litigation standard, requiring preemption of state law unless the claim of infringement is both objectively and subjectively baseless,¹⁷⁵ reasonably protects those who are exercising their patent rights in good faith, applying this standard to statements tangential to a claim of infringement shields otherwise unlawful commercial conduct from state-law liability. In fact, statements tangential to a claim of infringement, such as those about the value of a patent, are not even “incidental” to any future petition.¹⁷⁶ As such, they are not entitled to the same protection as the claim of infringement. *Globetrotter*, however, arguably extends to the entirety of a demand letter

172. U.S. CONST. art I, § 8, cl. 8.

173. Gugliuzza, *supra* note 4, at 1616 (“Although the Federal Circuit has sometimes framed [] decisions [on a state’s ability to regulate patent enforcement] as involving preemption under the Supremacy Clause, the core issue is actually petitioning immunity under the First Amendment.”).

174. *See Allied Tube & Conduit Corp. v. Indian Head, Inc.*, 486 U.S. 492, 499 (1988) (holding that *Noerr* immunity depends on the “source, context, and nature” of the harm).

175. *See supra* Section II.B.2; *see generally* 6A CHISUM ON PATENTS § 19.06 (2015).

176. *See McDonald v. Smith*, 472 U.S. 479, 485 (1985) (“The right to petition is guaranteed; the right to commit libel with impunity is not.”).

the same constitutional protection as those protections afforded to petitions made to the legislative branch.

Globetrotter essentially extends immunity from state-law liability to the contents of a demand letter whenever there is a plausible claim of infringement. The test demands such reach because an assertion of patent rights is deemed a “sham” only if the patent owner knew that (1) the patent rights were invalid at the time the accusation was made, or (2) the accused’s product obviously did not infringe.¹⁷⁷ Illustrating the possible breadth of this test, MPHJ, in its Memorandum in Support of Its Motion for Summary Judgment, claimed that under *Globetrotter* and its progeny, the objectively baseless standard shields all of its licensing activities from state liability.¹⁷⁸ This statement is likely true because Federal Circuit precedent¹⁷⁹ classifies licensing practices, such as MPHJ’s, as administrative-like activities, which are indicative of subjective bad faith only.¹⁸⁰

Such far-reaching immunity conflicts with *McDonald*, which states that while the right to petition is guaranteed under the First Amendment, the right to deceive is not.¹⁸¹ Immunizing deceptive conduct in pre-suit communications implies that these communications receive the same

177. See 800 Adept, Inc. v. Murex Sec., Ltd., 539 F.3d 1354, 1370 (Fed. Cir. 2008) (“To prove . . . objective[] baseless[ness], [the plaintiff] was required to offer clear and convincing evidence that [the defendant] had no reasonable basis to believe that its patent claims were valid or that they were infringed . . .”).

178. MPHJ Tech. Invs., LLC’s Memorandum in Support of Its Motion for Summary Judgment Under Rules 12(d) & 56 at 19, Vermont v. MPHJ Tech. Invs., LLC (2014) (No. 2:13-CV-00170), 2014 WL 2420054.

[T]he State has contended that it could meet its burden to establish objective baselessness by presenting evidence of at least the following: (1) that MPHJ made threats to sue without having an intent to sue, threatened to sue in two weeks, and threatened to sue if recipients did not pay money; (2) that MPHJ had done an insufficient pre-suit investigation prior to sending the letters and “indiscriminately” sent the letters; . . . [and] (5) that MPHJ made allegedly false statements about responses and royalties it had received from prior parties The problem for the State is that none of these points relate to validity or infringement As a result, the State plainly cannot now contend that their allegations can prove objectively baselessness on the part of MPHJ’s patent enforcement activity.

Id.

179. See *supra* Section II.B.2.

180. See, e.g., Dominant Semiconductors Sdn. Bhd. v. OSRAM GmbH, 524 F.3d 1254, 1263–64 (Fed. Cir. 2008) (holding that failure to perform sufficient analysis prior to bringing an infringement claim at the International Trade Commission was arguably relevant to subjective intent, but not objectively baseless).

181. See *McDonald*, 472 U.S. at 485.

protections under *Noerr* as those given to acts in the political arena. But the Supreme Court clearly states that private communications are given substantially less protection than political speech.¹⁸²

Furthermore, the harm Vermont's attorney general alleged in *Vermont v. MPHJ Technology Investment, LLC* resulted from the direct effects of the marketplace, not government action.¹⁸³ This harm, based on "unfair and deceptive acts," would have occurred regardless of whether MPHJ filed suit. And, as held by the Supreme Court in *Allied Tube* and *FTC v. Superior Court Trial Lawyers Association*,¹⁸⁴ immunity under *Noerr* extends only to harm caused by government action. In sum, although *Globetrotter* effectively protects patent owners' right to assert their patent rights, the First Amendment policy justifications supporting *Noerr-Pennington* do not support extending immunity beyond these assertions.

Just like *Globetrotter's* two-part sham litigation test, the misrepresentation exception potentially extends petitioning immunity beyond assertions of patent infringement. As illustrated by *In re Innovatio*,¹⁸⁵ the misrepresentation exception inextricably links preemption of state-law claims based on misleading statements in demand letters to the validity of the patent owner's infringement claim.¹⁸⁶ But where such statements pertain to the value of patent rights, such statements will never affect the underlying claim of infringement. As a result, applying the misrepresentation exception test shields otherwise unlawful commercial conduct from state-law liability. An alternative test that balances the rights of patent owners with the rights of states to regulate business transactions would better effectuate the purpose of the *Noerr-Pennington* doctrine in cases of demand letter extortion.

182. See *Cal. Motor Transp. Co. v. Trucking Unlimited*, 404 U.S. 508, 513 (1972) ("Misrepresentations, condoned in the political arena, are not immunized when used in the adjudicatory process.").

183. See Vermont Complaint, *supra* note 31, ¶¶ 56–57.

184. 493 U.S. 411 (1990); see *supra* Section II.A.1.

185. *In re Innovatio IP Ventures, LLC Patent Litig.*, 921 F. Supp. 2d 903, 921 (N.D. Ill. 2013) ("[T]he Seventh Circuit has established that a misrepresentation can render an adjudicative proceeding a sham under *Noerr-Pennington* only if the misrepresentation is material enough to 'actually alter[] the outcome of the proceeding.'" (citation omitted)).

186. See *Mercatus Grp., LLC v. Lake Forest Hosp.*, 641 F.3d 834, 843 (7th Cir. 2011) (holding that to render litigation a sham, misrepresentations must be (1) "intentionally made, with knowledge of [their] falsity," and (2) "material, in the sense that [they] actually alter[] the outcome of the proceeding").

D. TWO ALTERNATIVE STANDARDS FOR BAD FAITH MAY PROVIDE
A BETTER TEST FOR CASES OF DEMAND LETTER EXTORTION

Given the shortcomings of combining preemption under the federal patent law with preemption under the Petition Clause, a more appropriate test provides flexibility in determining bad faith using objective *and* subjective factors. Therefore, assuming that petitioning immunity extends to assertions of patent infringement, the question is, what is the appropriate standard for a “sham” assertion of patent infringement? Two complementary standards are (1) the rule applied in *Zenith* and (2) the pattern of misconduct exception. The *Zenith* standard separates preemption based on petitioning immunity from preemption based on the federal patent law.¹⁸⁷ The pattern of misconduct exception permits state-law liability for an assertion of patent infringement where multiple assertions were made in bad faith.¹⁸⁸

1. *Return to Preemption Analysis Under Zenith*

If immunity under the Petition Clause is limited to notifications of patent infringement, claims arising from statements tangential to an infringement claim may still be preempted under federal patent law principles.¹⁸⁹ In essence, this is a return to the *Zenith* standard. Under *Zenith*, to avoid patent law preemption of state-law tort claims, “bad faith must be alleged and ultimately proven, even if bad faith is not otherwise an element of the tort,”¹⁹⁰ with the standard for “bad faith” being determined on a case-by-case basis using subjective as well as objective considerations.¹⁹¹ This standard focuses preemption analysis on the source of the alleged harm, which in cases of demand letter extortion is the false and misleading statements contained in the letter.

Because the *Zenith* standard is not based on the Petition Clause, false and misleading statements are judged under the same standard as

187. *See supra* Section II.B.1.

188. *See supra* Section II.C.2.

189. *See* David McGowan & Mark A. Lemley, *Antitrust Immunity: State Action and Federalism, Petitioning and the First Amendment*, 17 HARV. J.L. & PUB. POL’Y 293, 399 (1994) (arguing that *Noerr* immunity in the litigation context should extend to a right of access and no more).

190. *Zenith Elecs. Corp. v. Exzec, Inc.*, 182 F.3d 1340, 1355 (Fed. Cir. 1999) (citing *Hunter Douglas, Inc. v. Harmonic Design, Inc.*, 153 F.3d 1318, 1336–37 (Fed. Cir. 1998)).

191. *See id.* at 1354–55 (citing *Mikohn Gaming Corp. v. Acres Gaming, Inc.*, 165 F.3d 891, 896 (Fed. Cir. 1998)).

commercial speech.¹⁹² And where speech is used in a commercial context, if it is misleading, or concerns illegal activity, it is considered not legitimate and receives no constitutional protection.¹⁹³ In the case of MPHJ, for example, the false statement that the licensing fee of \$1000 per employee was derived through good faith negotiations would receive no protection under the First Amendment's Free Speech Clause. MPHJ's false statement, therefore, would be subject to liability under a state's Little FTC Act.

It is worth noting that state anti-trolling laws often conform to the *Zenith* standard of bad faith. State laws, such as the one passed by Vermont,¹⁹⁴ use objective and subjective factors to determine when patent holders should be liable for the contents of a demand letter. Decoupling petitioning immunity from federal patent law preemption and applying the *Zenith* standard would likely render these laws moot.

2. Possible Adoption of the Pattern of Misconduct Exception

Additionally, courts may choose to expand acceptance of the "pattern of conduct exception." This exception applies a prospective test linking preemption analysis to the intent of the patent owner where there are multiple petitions (or, in this context, multiple assertions of patent infringement).¹⁹⁵ Applying the Ninth and Second Circuits' standard, an assertion of infringement is made in bad faith (i.e., it is a sham) where demand letters are sent, not out of a genuine interest in redressing

192. Statements in demand letters about the value of patent rights generally fit the definition of commercial speech. See Victor Brudney, *The First Amendment and Commercial Speech*, 53 B.C. L. REV. 1153, 1155–56 (2012) (defining "narrow" commercial speech as consisting "of a communication that (1) proposes or offers explicitly or 'implicitly' a sale or exchange transaction in a specified commodity or service, and is made by the proposer (or its agents) as part of its business of profiting from such transactions, and (2) does no more than describe the terms of such proposal or simply identify the putative seller's products"). Professor Gugliuzza makes a similar proposal, arguing for a return to the "good faith" standard, where the law protects patent holders from state-law liability unless their allegations of infringement are unfair or deceptive. And in applying the good faith standard, courts should consider both subjective and objective considerations. Gugliuzza, *supra* note 4, at 1642.

193. See *Va. St. Bd. of Pharmacy v. Va. Citizens Consumer Council, Inc.*, 425 U.S. 748, 771–72 (1976) ("The First Amendment, as we construe it today does not prohibit the State from insuring that the stream of commercial information flow cleanly as well as freely."); DANIEL A. FARBER, *THE FIRST AMENDMENT* 169 (Robert C. Clark et. al. eds., 4th ed. 2014); see generally Jennifer E. Rothman, *Commercial Speech, Commercial Use, and the Intellectual Property Quagmire*, 101 VA. L. REV. 1929 (2015) (defining commercial speech in the context of intellectual property).

194. See *supra* Section I.C.2.

195. See James D. Hurwitz, *Abuse of Governmental Processes, the First Amendment, and the Boundaries of Noerr*, 74 GEO. L.J. 65, 100–02 (1985).

grievances but for the purpose of harassment, without regard to the fact that some of the claims might have merit.¹⁹⁶ Therefore, where the defendant is accused of bringing a whole series of legal proceedings, a “prospective” test applies.¹⁹⁷

This exception is based on *Motor Transport*, where the Supreme Court stated that where there is “a pattern of baselessness, repetitive claims may emerge which lead[] the factfinder to conclude that the . . . judicial processes have been abused.”¹⁹⁸ *Noerr* immunity protects petition activities resulting in harm due to government action, but not harm that occurs in the marketplace. Harm caused by repetitive claims can reasonably be considered the result of the plaintiff’s business decisions, not judicial action.

The misconduct test requires caution, however, because depending on the scope of infringement, patent owners may send demand letters to large numbers of end users for genuine infringement claims. These letters, legitimately sent for the purpose of monetizing patent rights, might, on a large enough scale, appear as harassment of local businesses. But a factfinder can find a “pattern of baselessness” only where the subjective factors indicating bad faith overwhelm the merits of the infringement claim—a significant threshold given the presumption of patent claim validity.¹⁹⁹ So where claims of infringement are objectively accurate and made in subjective good faith, there is no abuse of the judicial process.

For example, in the MPJH litigation, such a standard weighs a presumption that the patent claims are valid against the (1) empty threats to sue if recipients do not pay money; (2) absence of pre-suit investigation, (3) targeting of businesses who are unable to afford an attorney, and (4) false and misleading statements about the value of the patent rights. If the harm caused by the scale of the deception outweighed the right to assert the patent, petitioning immunity would no longer apply. And based on the combination of these factors, a court could conclude that, although MPHJ’s infringement claims may have merit, because the letters were not sent to address a “genuine” grievance, the company may still be liable under state law for claims based on receipt and contents of the demand letter.

196. See *Primetime 24 Joint Venture v. Nat’l Broad. Co.*, 219 F.3d 92, 101 (2d Cir. 2000); *USS-POSCO Indus. v. Contra Costa Cty. Bldg. & Const. Trades Council, AFL-CIO*, 31 F.3d 800, 811 (9th Cir. 1994).

197. *Primetime 24*, 219 F.3d at 101.

198. *Cal. Motor Transp. Co. v. Trucking Unlimited*, 404 U.S. 508, 513 (1972).

199. See 35 U.S.C. § 282 (2012); Sudarshan, *supra* note 20, at 174–75 (discussing the implications of the presumption of validity).

E. *OCTANE FITNESS* FURTHER SUPPORTS A MORE LIMITED APPLICATION OF *NOERR-PENNINGTON*

The most recent Supreme Court case interpreting *Noerr* was *Octane Fitness*.²⁰⁰ The Federal Circuit had applied *PRE*'s "sham" litigation test as the standard for determining whether a case was so "exceptional" that an award of attorney's fees was justified under § 285 of the Patent Act.²⁰¹

Overturing the Federal Circuit, the Court looked to the statutory and constitutional support for applying *PRE*. First, the Court held that the *PRE* standard was not rooted in the text of § 285, and it made little sense in the context of determining an award of attorney's fees. Second, the Court pointed out that the exception for "sham" litigation was crafted, specifically, "to avoid chilling the exercise of the First Amendment right to petition the government for the redress of grievances."²⁰² *PRE*, therefore, did not apply because the Court found no reason why shifting fees in an "exceptional" patent case would diminish the right to petition the government.²⁰³

The Court's evaluation of *Octane Fitness* likely reflects the way it would judge the merits of applying petitioning immunity to (1) demand letters and (2) the contents of a demand letter. As discussed in Section III.B, *supra*, in the case of patent infringement, demand letters find a statutory basis in § 287(a) of the federal patent statute. And petitioning immunity arguably serves to promote the ability of patent owners to access the courts in exercising their patent rights. As for contents of a demand letter, there is no statutory basis for such immunity and permitting state-law liability would have no greater impact on petitioning than the application of state law to other commercial speech. Based on these similarities, the Supreme Court

200. *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1749 (2014).

201. *Id.* at 1757. A unanimous Court defined the *Noerr-Pennington* doctrine and its "sham exception" as follows:

[D]efendants are immune from antitrust liability for engaging in conduct (including litigation) aimed at influencing decisionmaking [sic] by the government. But under a "sham exception" to this doctrine, "activity 'ostensibly directed toward influencing governmental action' does not qualify for *Noerr* immunity if it 'is a mere sham to cover . . . an attempt to interfere directly with the business relationships of a competitor [T]o qualify as a "sham," a "lawsuit must be objectively baseless" and must "concea[1] 'an attempt to interfere directly with the business relationships of a competitor In other words, the plaintiff must have brought baseless claims [in bad faith].

Id. at 1757 (quoting *Prof'l Real Estate Inv'rs, Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49, 51, 56, 60–61 (1993)).

202. *Id.*

203. *Id.*

would likely overturn any extension of *Noerr-Pennington* beyond the assertion of patent infringement.

IV. CONCLUSION

Extending petitioning immunity to threats of litigation possibly stretches the *Noerr-Pennington* doctrine beyond the bounds established by the Supreme Court. But in the case of patent infringement, the right to assert one's patent rights implicates a combination of statutory and constitutional moorings similar to those justifying petitioning immunity in antitrust. As such, the act of notification, but no other communication, should receive immunity from state-law liability under the Petition Clause. Courts, thereby, can protect patent owners' right to notify alleged infringers of potentially infringing activity, and at the same time, ensure that valid state-law claims are not improperly preempted based on their connection to a demand letter. Unlike current Federal Circuit precedent, this approach would enable states to apply traditional commercial regulations in the context of commercial speech contained in assertions of patent infringement.²⁰⁴ These reforms, therefore, should curb abuse of the judicial system through demand letter extortion and nullify the perceived need for state anti-trolling laws.

204. See Gugliuzza, *supra* note 4, at 1603–09 (discussing Supreme Court precedent on preemption under the federal patent law and the Supremacy Clause generally).

