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Angels Rush in Where Fools
Fear to Tread: State
Enforcement Against Patent
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I. INTRODUCTION

Nobody likes trolls—those mythical creatures, “considered dangerous to human beings,” who hide under bridges waiting to prey on unsuspecting travelers.² Like their mythological namesakes, patent trolls—or, as they are known in more polite company, patent assertion entities (“PAEs”)—are fearsome to many a business. Patent trolls have sued major technology companies like Apple, Hewlett-Packard, Samsung, and Google for years. Apple alone has faced over 170 lawsuits from patent trolls in the past five years.³

Patent trolls, it is often said, seek only to extort licensing fees for patents that they do not practice (or ever intend to practice), but that they claim have been infringed. As Kent Walker, Google’s Senior Vice President and General Counsel, has put it:

Trolls use the threat of time-consuming and expensive litigation to extort settlements, even where their claims wouldn’t hold up in court.

This kind of patent troll litigation has grown like a particularly noxious weed, increasing four-fold since 2005. By some estimates it cost the U.S. economy nearly \$500 billion over the past two decades. And the problem is growing.⁴

“Growing,” indeed. According to a June 2013 presidential report, “[t]he increase in the number of suits filed [by patent trolls] for patent infringement has . . . been accompanied by an increasingly large number of suits threatened. . . . Conservative estimates place the number of threats in the last year alone [2012] at a minimum of 60,000 and more likely at over 100,000.”⁵ Of late, patent trolls have begun to issue demand letters to businesses across the country—often start-up and small companies, or “downstream” technology users—accusing them of infringing patents that the trolls hold and demanding licensing fees to avoid infringement litigation.

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² Wikipedia, Troll, <http://en.wikipedia.org/wiki/Troll> (last visited Jan. 2, 2014).

³ Neil Hughes, *Patent ‘trolls’ hit Apple with 171 lawsuits in last 5 years*, APPLEINSIDER (Aug. 28, 2013, 9:36 AM), <http://appleinsider.com/articles/13/08/28/patent-trolls-hit-apple-with-171-lawsuits-in-last-5-years>.

⁴ See Kent Walker, *Innovation, Not Litigation*, GOOGLE PUBLIC POLICY BLOG (Dec. 4, 2013, 3:50 PM), <http://googlepublicpolicy.blogspot.com/2013/12/innovation-not-litigation.html>.

⁵ EXECUTIVE OFFICE OF THE PRESIDENT, PATENT ASSERTION AND U.S. INNOVATION 6 (2013) (“PRESIDENTIAL REPORT”) (citing Colleen V. Chien, *Patent Assertion Entities, Presentation to the DOJ/FTC hearing on PAEs*, Washington, D.C. (Dec. 10, 2012)), available at http://www.law.berkeley.edu/files/Panel_17b_Documents.pdf.

“Although the amount of money extracted from each company is small, the number of potential defendants makes this strategy potentially profitable overall.”⁶

Patent trolls “significantly retard innovation in the United States and result in economic ‘dead weight loss’ in the form of reduced innovation, income, and jobs for the American economy.”⁷ Thus, they have commanded the attention of both federal and state authorities. The FTC has invited public comments concerning their practices as part of a recently launched Commission review of PAEs.⁸ Senators John Cornyn and Patrick Leahy have introduced separate bills designed to address perceived abuses by PAEs.⁹ President Obama himself has weighed in: “[They] don’t actually produce anything themselves. They’re just trying to essentially leverage and hijack someone else’s idea to see if they can extort some money out of them.”¹⁰

Nothing has yet been done at the federal level, however. And like nature itself, State Attorneys General abhor a vacuum. The “first-movers”—the AGs in Minnesota, Nebraska, Vermont, and New York,—have each attempted to curb the ability of patent trolls to issue cease and desist or demand letters to businesses within their States. Can they do it—inasmuch as patent law is itself constitutionally based and, therefore, potentially preemptive of state enforcement? The answer is, predictably, an unequivocal “maybe.” We chart the path to maybe-land below. We first describe recent state activity, and then discuss the case law on federal patent preemption. We conclude by revisiting state efforts to curb patent troll abuse against the backdrop of preemption case law.

II. STATES CHALLENGE THE TROLLS

A. Minnesota

In 2012, the Minnesota Attorney General began investigating MPHJ Technology Investments, LLC (“MPHJ”) for violations of state consumer protection laws. MPHJ sent demand letters to small businesses in Minnesota, alleging that the companies infringed MPHJ patents for “using basic office equipment to scan documents to e-mail.”¹¹ In its demand letters, MPHJ sought a licensing fee of between \$1,000 and \$1,200 per employee. The State AG’s investigation resulted in a 2013 settlement with MPHJ in the form of an Assurance of Discontinuance (“AOD”)—the first ever against a patent troll.¹² Among other things, under the

⁶ *Id.* at 10.

⁷ *Id.* at 12 n.5.

⁸ Edward Wyatt, *F.T.C. Votes for Inquiry Into Patent Businesses*, N.Y. TIMES, Sept. 28, 2013, at B1, available at <http://www.nytimes.com/2013/09/28/business/ftc-targets-patent-companies.html>.

⁹ Senator Cornyn’s proposed bill, The Patent Abuse Reduction Act of 2013, S. 1013 (May 22, 2013), would give defendants more information about the firms suing them and would limit the types of documents that defendants would have to produce in discovery. Senator Leahy’s proposed bill, The Patent Transparency and Improvements Act of 2013, S. 1720 (Nov. 18, 2013), would declare explicitly that bad faith demand letters are an unfair and deceptive trade practice and thus subject to FTC enforcement authority.

¹⁰ Gene Sperling, *Taking on Patent Trolls to Protect American Innovation*, THE WHITE HOUSE BLOG (June 4, 2013, 1:55 PM), <http://www.whitehouse.gov/blog/2013/06/04/taking-patent-trolls-protect-american-innovation>.

¹¹ Press Release, Minn. Att’y Gen. Office, Attorney General Lori Swanson Announces First-in-the-Nation Order to Stop Delaware Company from “Patent Trolling” in Minnesota (Aug. 20, 2013), <http://www.ag.state.mn.us/Consumer/PressRelease/130820StopPatentTrolling.asp>.

¹² *Id.*

AOD, MPHJ agreed to “cease its patent enforcement campaign in the State of Minnesota and cannot resume such business activities in Minnesota without permission of the Attorney General.”¹³

B. Nebraska

The Nebraska Attorney General has similarly entered the fray. In mid-2013, the AG issued a cease and desist order against the law firm of Farney Daniels P.C., directing the firm to “immediately cease and desist the initiation of any and all new patent infringement enforcement efforts within the State of Nebraska pending the outcome of this office’s investigation”¹⁴ At the time, Farney Daniels represented Activision TV, Inc. in a patent infringement suit against Pinnacle Bancorp, Inc. in the District Court for the District of Nebraska, and had sued to enforce the same patents in other federal district courts.¹⁵ According to the Nebraska AG, however, pre-litigation demand letters by Farney Daniels contained “false, misleading, or deceptive statements” with respect to the infringement of certain patents, and these statements “could constitute a violation of the Nebraska Consumer Protection Act.”¹⁶

The Nebraska AG also included a civil investigative demand to Farney Daniels calling for such information as the identity of the patents that Farney Daniels had sought to enforce against Nebraska individuals or entities, the clients represented, and the persons charged with infringement.¹⁷ In turn, Farley Daniels filed a preliminary injunction motion against the Nebraska AG in its pending infringement case, seeking to enjoin the State AG from preventing the firm’s continued representation of Activision.¹⁸

The preliminary injunction briefing raised the federal preemption issue. Specifically, Farney Daniels argued that because federal patent laws generally immunize communications regarding patent rights from civil liability, the Nebraska AG was preempted from enforcing the State’s unfair trade practices laws.¹⁹ In response, the Nebraska AG argued that enforcing Nebraska’s unfair trade practices laws did not implicate the federal patent laws, and would not impair the federal court’s adjudication of the patent dispute.²⁰ The Court granted the injunction, holding that the Nebraska AG’s enforcement activity was an impermissible prior restraint on Farney Daniel’s First Amendment rights and that federal patent law preempted Nebraska state law because the Nebraska State AG had failed to show that the firm’s demand letters were sent in bad faith.²¹

¹³ *Id.*

¹⁴ Letter from David D. Cookson to Farney Daniels LLP (July 18, 2013) at 2 (“Nebraska AG Letter”).

¹⁵ Am. Compl., *Activision TV, Inc. v. Pinnacle Bancorp, Inc.*, No. 8:13-cv-00215 (D. Neb. Aug. 19, 2013) (Bataillon, J.) (“*Activision TV*”).

¹⁶ Nebraska AG Letter, *supra* note 14, at 1 (citing NEB. REV. STAT. § 59-1601 *et seq.* (Reissue 2010, Supp. 2012), and the Uniform Deceptive Trade Practices Act, NEB. REV. STAT. § 87-301 *et seq.* (Reissue 2008, Supp. 2010)).

¹⁷ *Id.* (attachment).

¹⁸ Mot. for Prel. Inj., *Activision TV*, ECF No. 8 (Aug. 19, 2013).

¹⁹ *Activision TV, Inc.’s Mem. of Law at 17, Activision TV*, ECF No. 9 (Aug. 19, 2013).

²⁰ Br. in Sup. of Mot. to Dismiss & in Opp. to Mot for Prel. Inj. at 16, 29-31, *Activision TV*, ECF No. 22 (Sept. 10, 2013).

²¹ Order at 12-14, ECF No. 41 (Sept. 30, 2013).

C. Vermont

Our third State, Vermont, has taken perhaps the most aggressive position concerning patent trolls. First, in 2013, the Vermont Attorney General filed an action against MPHJ in Vermont State Court, asserting unfair and deceptive acts in violation of the Vermont Consumer Protection Act.²² MPHJ's conduct included the following practices:

1. Stating that litigation would be brought against demand letter recipients, when MPHJ was neither prepared nor likely to bring litigation.
2. Using legal counsel to imply that MPHJ had performed sufficient pre-litigation due diligence on the patent infringement claims.
3. Targeting small businesses that were unlikely to have the resources to fight patent-litigation.
4. Sending demand letters that threatened suit with no independent evidence that recipients were infringing its patents.
5. Requesting in the demand letters burdensome information on any business that claimed it was not infringing MPHJ's patents.²³

MPHJ removed the action to federal district court and moved to dismiss for lack of personal jurisdiction.²⁴ Vermont cross-moved to remand back to state court and to stay a decision on MPHJ's motion to dismiss.²⁵ The parties' motions are pending.

In addition to the Vermont AG's lawsuit, the State legislature enacted legislation that specifically prohibits bad faith assertions of patent infringement as a matter of Vermont consumer protection law.²⁶ This is the first such state statute. In its findings supporting the new law, the Vermont legislature found that "[a]busive patent litigation, and especially the assertion of bad faith infringement claims, can harm Vermont companies. A business that receives a letter asserting such claims faces the threat of expensive and protracted litigation and may feel that it has no choice but to settle and pay a licensing fee, even if the claim is meritless."²⁷

Vermont's new law amends the State Consumer Protection Act by expressly prohibiting bad faith assertions of patent infringement. While the statute does not define "bad faith patent assertion," the law enumerates various factors, some of which may be included in a demand letter and some of which may not be, that the court may consider in analyzing the element of bad faith. The factors range from letter details about the patent (such as number, ownership, and coverage), to the patent holder's pre-letter due diligence in asserting claims of infringement, to license

²² Compl., Vermont v. MPHJ Tech. Invs. LLC, No. 282-5-13, (Vt. Super. Ct. May 8, 2013).

²³ *Id.* at ¶ 56.

²⁴ See Notice of Removal, Vermont v. MPHJ Tech. Invest. LLC, No. 2:13-cv-00170-wks (D. Vt. June 7, 2013), ECF No. 1; Mot. to Dismiss Pursuant to Fed. R. Civ. P. 12(b)(2), (D. Vt. Sept. 17, 2013), ECF No. 16.

²⁵ Mot. to Remand, (D. Vt. July 8, 2013), ECF No. 9; Mot. to Stay Briefing & Decision on Mot. to Dismiss, (D. Vt. Sept. 27, 2013), ECF No. 20.

²⁶ 2013 Vt. Legis. Serv. 20, codified as VT. STAT. ANN. tit. 9, §§ 4195-4199. For ease of reference, a copy of the law accompanies this article as an Appendix.

²⁷ VT. STAT. ANN. tit. 9, § 4195(a)(6).

amounts demanded and the basis for them, to the patent holder's practices generally in asserting infringement.²⁸

Furthermore, Vermont's law also specifies factors that the court may consider as indicating an absence of bad faith ("good" faith, presumably). These non-bad faith factors include providing statutorily prescribed or letter recipient-requested patent information, negotiating with the letter recipient, practicing the patent, or, indeed, even being "an institution of higher education."²⁹ Neither enumerated list is exclusive, as each also allows for consideration of "[a]ny other factor the court finds relevant."³⁰

The Vermont legislation authorizes a private right of action in which targets of bad faith patent assertion claims can receive equitable relief, damages, costs, and fees (including reasonable attorney's fees), and exemplary damages "equal to \$50,000.00 or three times the total of damages, costs, and fees, whichever is greater."³¹ The Vermont AG also is authorized to investigate bad faith patent infringement assertions and to bring civil suits.³²

D. New York

Most recent of all, on January 13, 2014 the New York AG announced a settlement with MPHJ for making allegedly deceptive patent claims against New York businesses.³³ According to the AG's investigation findings, between September 2012 and May 2013, MPHJ, through 100 subsidiaries, sent over 1,000 letters to New York businesses, asserting "likely" patent infringement by the letter recipient, and offering to negotiate a patent license.³⁴ Over 500 of the letters stated that MPHJ "had a positive experience from the business community to [its] licensing program, when in fact: (1) "no business had yet entered into a license agreement" covering the patents, and (2) "[o]nly a handful" of businesses targeted by the patents' prior owner in an earlier round of letters had agreed to settle infringement claims or to license the patents.³⁵ Many of the letters asserted that \$1,200 was "a fair price for a negotiated license" even though the royalty agreed to by a few licenses "was significantly less than \$1200"³⁶

MPHJ followed up its first round of letters with two other rounds, sent by its outside counsel, the last of which included a draft patent infringement complaint. In yet another round of letters, MPHJ advised that various developments caused it to suspend its licensing program, and that letter recipients could consider the matter closed unless MPHJ contacted them again.³⁷ In sum, despite having targeted hundreds of New York businesses, MPHJ never "filed a single

²⁸ *Id.* § 4197(b)(1)-(8).

²⁹ *Id.* § 4197(c)(1)-(6).

³⁰ *Id.* § 4197(b)(9) & (c)(7).

³¹ *Id.* § 4199(b).

³² *Id.* § 4199(a).

³³ Assurance of Discontinuance, In the Matter of the Investigation of Eric T. Schneiderman, Attorney General of the State of New York, of MPHJ Technology Investments, LLC, Assur. No. 14-015 (Jan. 13, 2014) ("AOD"), <http://www.ag.ny.gov/pdfs/FINALAODMPHJ.pdf>.

³⁴ AOD, The Attorney General's Findings, at ¶ 5.

³⁵ *Id.* at ¶¶ 6-7.

³⁶ *Id.* at ¶¶ 9-10.

³⁷ *Id.* at ¶ 25.

patent infringement lawsuit against a New York business.”³⁸ In agreeing to settle the matter, MPHJ agreed to allow any New York licensee to void the license agreement and to receive a full refund of license payments.³⁹ MPHJ also agreed to comply with detailed patent assertion “guidelines” in its dealings with individual New Yorkers or “small or medium” New York businesses.⁴⁰ The settlement guidelines, in summary, include the following obligations:

- *Diligence and good faith obligations in contacting alleged infringers:* MPHJ may not assert patent infringement claims against New York persons unless it has taken reasonable, good faith efforts to substantiate the claim.⁴¹ These obligations, which apply to both the patent holder and its attorney, are designed to prohibit “mass mailings.”⁴²
- *Disclosure requirements:* MPHJ may not assert infringement unless it also provides information describing the basis for its claim “with reasonable specificity,” including information bearing on the patent’s “likely invalidity.”⁴³ MPHJ must also make disclosures concerning related patents, which could also be the subject of alleged infringement.⁴⁴
- *License fee information:* Where MPHJ seeks a specified fee, it must provide a “factual basis” for the amount sought.⁴⁵
- *Patent holder transparency:* MPHJ is prohibited from hiding its identity from alleged infringers.⁴⁶ Further, MPHJ must disclose any licensing agreement or covenant not to sue that it has made with a manufacturer, or any indemnity available from the manufacturer, which may affect MPHJ’s claims against targeted businesses.⁴⁷

Significantly, the New York AG also announced that the MPHJ guidelines represent “minimum standards” that patent trolls “seeking to contact New York businesses must follow to avoid liability for unlawful deceptive practices.”⁴⁸ Moreover, the guidelines “are not safe harbors” even if met, because the AG is prepared “to supplement [them] with additional requirement in future cases.”⁴⁹ Thus, although New York lacks the kind of specific legislation found in Vermont, the New York AG’s announced enforcement intention means that patent trolls who ignore the MPHJ guidelines do so at their peril.

³⁸ *Id.* at ¶ 19.

³⁹ AOD, Prospective Relief, at ¶ 1.

⁴⁰ *Id.* at ¶ 6. Essentially, businesses with 1,000 or more employees are excluded from coverage. *Id.* The guidelines themselves are at ¶¶ 9-15.

⁴¹ *Id.* at ¶¶ 9-10.

⁴² See Press Release, A.G. Schneiderman Announces Groundbreaking Settlement With Abusive ‘Patent Troll,’” (Jan. 14, 2014) (“NYAG Release”), <http://www.ag.ny.gov/press-release/ag-schneiderman-announces-groundbreaking-settlement-abusive-%E2%80%9Cpatent-troll%E2%80%9D>.

⁴³ AOD, Prospective Relief, ¶ 11.

⁴⁴ *Id.* at ¶¶ 15(a) and (b).

⁴⁵ *Id.* at ¶ 12.

⁴⁶ *Id.* at ¶ 13.

⁴⁷ *Id.* at ¶ 15(c).

⁴⁸ NYAG Release, *supra* note 43.

⁴⁹ *Id.*

E. Resulting Common Question

The Minnesota and New York AGs' efforts to address patent trolls have concluded, at least for the time being. Meanwhile, in Vermont the preemption issue remains unresolved. However, as noted above, the *Activision* court held that federal law preempted the Nebraska' AG's enforcement efforts. Because continued State interest in patent trolls is foreseeable, we consider whether or not the *Activision* court got it right. Can state enforcement survive a preemption challenge based on federal patent law?

III. OVERVIEW OF FEDERAL PREEMPTION ANALYSIS

Under the Supremacy Clause of the U.S. Constitution, “state law that conflicts with federal law is ‘without effect.’”⁵⁰ However, because “the States are independent sovereigns in our federal system,”⁵¹ federal preemption of state law should not be presumed. To the contrary, “the historic police powers of the States [are] not to be superseded by the Federal Act unless that was the clear and manifest purpose of Congress,” particularly when Congress “legislated . . . in a field which the States have traditionally occupied.”⁵² Thus, “[t]he purpose of Congress is the ultimate touchstone.”⁵³

Briefly, preemption analysis comes in three flavors: (1) explicit preemption, (2) field preemption, and (3) conflict preemption.⁵⁴ Explicit preemption is the easiest to identify: the federal law on its face unequivocally states its own preemptive effect. By contrast, field and conflict analysis are used where the federal statute is not explicit, thus requiring extra effort to divine whether or not Congress intended federal law to preempt state law.

Field preemption turns on whether state law seeks to “regulate[] conduct in a field that Congress intended the Federal Government to occupy exclusively.”⁵⁵ Congressional intent to preempt the “field” may be inferred from a “‘scheme of federal regulation . . . so pervasive as to make reasonable the inference that Congress left no room for the States to supplement it’ or where an Act of Congress ‘touch[es] a field in which the federal interest is so dominant that the federal system will be assumed to preclude enforcement of state laws on the same subject.’”⁵⁶

Conflict preemption relies less on inference and exists when the state law actually clashes directly with federal law—where, for example, it is impossible for a private party to comply with

⁵⁰ *Cipollone v. Liggett Group, Inc.*, 505 U.S. 504, 516 (1992) (quoting *Maryland v. Louisiana*, 451 U.S. 725, 746 (1981)). See generally U.S. Const. art. VI, cl. 2 (“This Constitution, and the Laws of the United States which shall be made in Pursuance thereof; and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the Land; and the Judges in every State shall be bound thereby, any Thing in the Constitution or Laws of any State to the Contrary notwithstanding.”).

⁵¹ *Medtronic, Inc. v. Lohr*, 518 U.S. 470, 485 (1996).

⁵² *Id.* at 485 (quoting *Rice v. Santa Fe Elevator Corp.*, 331 U.S. 218, 230 (1947)).

⁵³ *Medtronic*, 518 U.S. at 485. See also *Allegan, Inc. v. Athena Cosmetics, Inc.*, No. 2013-1286, slip op. at 8 (Fed. Cir. Dec. 30, 2013) (holding that the California Unfair Competition Law was not preempted by the Federal Food, Drug, and Cosmetic Act in part because Congress expressed no desire to supplant the States' traditional authority to regulate health and safety).

⁵⁴ *Hunter Douglas*, 153 F.3d at 1332 (citing *English v. Gen. Elec. Co.*, 496 U.S. 72, 78-79 (1990)).

⁵⁵ *English*, 496 U.S. at 79.

⁵⁶ *Id.* (quoting *Rice*, 331 U.S. at 230).

both bodies of law.⁵⁷ In addition, state law may be preempted when it “stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress.”⁵⁸

Although preemption has three flavors, they are not “rigidly distinct.”⁵⁹ For instance, sometimes field preemption blends with conflict preemption because a “state law that falls within a preempted field conflicts with Congress’ intent (either express or plainly implied) to exclude state regulation.”⁶⁰

IV. JUDICIAL RESPONSE TO PATENT LAW PREEMPTION ARGUMENTS

Although constitutionally anchored in the “patent clause,”⁶¹ federal patent law is not explicitly preemptive. Therefore, field or conflict preemptions determine whether a state law can stand. Typically, the courts begin by analyzing the purpose of the federal patent laws.

The federal patent law system embodies “a carefully crafted bargain for encouraging the creation and disclosure of new, useful, and nonobvious advances in technology and design in return for the exclusive right to practice the invention for a period of years.”⁶² While an inventor may keep his invention a secret—and thereby reap the benefits of his invention indefinitely— “[i]n consideration of its disclosure and the consequent benefit to the community,” the inventor can receive a patent that (where valid) guarantees at least 17 years of exclusive enjoyment.⁶³

Thus, the patent law reflects “a careful balance between the need to promote innovation and the recognition that imitation and refinement through imitation are both necessary to invention itself and the very lifeblood of a competitive economy.”⁶⁴ Moreover, just as patent law defines that which is subject to protection, so too it frees from restriction that which is unpatentable, and that for which a patent has expired, so as “to assure that ideas in the public domain remain there for the free use of the public.”⁶⁵ Accordingly, federal patent law preempts

⁵⁷ *English*, 496 U.S. at 79. See, e.g., *Florida Lime & Avocado Growers, Inc. v. Paul*, 373 U.S. 132, 142-43 (1963) (holding that a California law governing the sale of mature avocados based upon oil content was preempted because it conflicted with federal regulations that placed no significance on oil content to determine the maturity of avocados).

⁵⁸ *Hines v. Davidowitz*, 312 U.S. 52, 67 & 74 (1941) (holding that a Pennsylvania law requiring aliens to register obstructed the federal goal of “provid[ing] a standard for alien registration in a single integrated and all-embracing system in order to obtain the information deemed to be desirable in connection with aliens.”). See also *Maryland*, 451 U.S. at 747.

⁵⁹ *Hunter Douglas*, 153 F.3d at 1332 (quoting *English*, 496 U.S. at 79 n.5).

⁶⁰ *Id.*

⁶¹ U.S. Const. art. I, cl. 8 (“The Congress shall have Power . . . [t]o promote the Progress of Science and useful Arts, by securing for limited Times to . . . Inventors the exclusive Right to their . . . Discoveries”).

⁶² *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 150-51 (1989).

⁶³ *Id.* at 151. At the time of the *Bonito Boats* decision, the patent term was 17 years. For patent applications filed on or after June 8, 1995, the term was amended to 20 years from the date on which the application was filed. See Uruguay Round Agreements Act of 1994, § 532(a)(1), Pub. L. 103-465, 109 Stat. 4809, amending 35 U.S.C. § 154(a)(2). Subject to various limitations, 35 U.S.C. § 154(b)(1)(B) provides that no patent application will remain pending before the Patent and Trademark Office for more than three years.

⁶⁴ *Id.* at 146.

⁶⁵ *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 262 (1979).

state laws that offer “patent-like protection’ to discoveries unprotected under federal patent law.”⁶⁶

For example, in *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*,⁶⁷ the plaintiff, a vessel manufacturer, sought to bar sale of a competing product under a Florida statute that prohibited the unauthorized use of a process known as “direct molding” to manufacture a vessel hull. The plaintiff, however, had marketed its own hull freely and without patent protection for years, and that activity rendered the plaintiff’s manufacturing process unpatentable.⁶⁸ The Supreme Court unanimously held that the plaintiff could not rely on the protection conferred by the Florida statute because it conflicted with federal patent law.

As the Court explained, the Florida law “prohibits the entire public from engaging in a form of reverse engineering of a product in the public domain.”⁶⁹ But reverse engineering, the Court emphasized, “may act as a spur to the inventor, creating an incentive to develop inventions that meet the rigorous requirements of patentability. The Florida statute substantially reduces this competitive incentive, thus eroding the rule of free competition upon which the attractiveness of the federal patent bargain depends.”⁷⁰ In other words, Florida’s statute conflicted with federal patent law by creating property rights in an invention that the patent law deemed non-patentable. Hence, federal preemption applied.

The federal patent laws, however, do not necessarily displace all state laws and state-created causes of action. *Dow Chemical Co. v. Exxon Corp.*⁷¹ is an example of conflict, rather than field, preemption operating. In *Dow*, the Federal Circuit upheld the plaintiff’s state law unfair competition claims for intentional inference with current and prospective contractual relations, even though each claim required showing that the patents involved were unenforceable due to inequitable conduct.⁷² The Court noted that the state’s unfair competition law was directed to tortious conduct in the marketplace, and sought the “maintenance of orderly contractual relations.”⁷³ Because the state law “regulate[d] conduct in a different field from federal patent law,”⁷⁴ it was “not preempted merely because patents and patent issues are presented in the substance of those contracts.”⁷⁵

In a later decision, *Hunter Douglas Inc. v. Harmonic Design, Inc.*,⁷⁶ the Federal Circuit read Supreme Court precedent to confirm that “federal patent law issues housed in a state law

⁶⁶ *Ultra-Precision Mfg., Ltd. v. Ford Motor Co.*, 411 F.3d 1369, 1377-78 (Fed. Cir. 2005) (quoting *Bonito Boats*, 489 U.S. at 156 (1989)).

⁶⁷ 489 U.S. 141 (1989).

⁶⁸ See 35 U.S.C. § 102, as amended by the Leahy-Smith America Invents Act of 2011, Pub. L. 112-29, 125 Stat. 284.

⁶⁹ *Bonito Boats*, 489 U.S. at 160-61 (citation omitted).

⁷⁰ *Id.* at 161.

⁷¹ 139 F.3d 1470 (Fed. Cir. 1998).

⁷² *Id.* at 1472 n.1, 1475 n.3.

⁷³ *Id.* at 1478.

⁷⁴ *Id.* at 1477.

⁷⁵ *Id.* at 1478.

⁷⁶ 153 F.3d 1318 (Fed. Cir. 1998), *overruled in part on other grounds by* *Midwest Indus., Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356, 1359 (Fed. Cir. 1999).

cause of action are capable of being adjudicated, even if there is no accompanying federal claim.”⁷⁷ This precedent demonstrated not only the substantial difference between the patent laws and state unfair competition laws, but also that “regulation of business affairs is traditionally a matter for state regulation.”⁷⁸

At the same time, however, the *Hunter Douglas* court recognized that federal patent law preempts state tort law from imposing liability for either: (1) conduct before the Patent and Trademark Office unless accompanied by fraud or sham patent prosecution;⁷⁹ or (2) publicizing a patent in the marketplace unless accompanied by allegations that the patentee acted in bad faith.⁸⁰ This second prong is germane to evaluating whether States may invoke their unfair competition or consumer protection laws against the conduct that has sparked their interest in patent trolls to date—sending demand or cease and desist letters to alleged infringers. Under prevailing authority, federal preemption under the patent laws has the stronger hand, and will be trumped only where the patent holder’s conduct is objectively baseless.

The Federal Circuit faced this issue squarely in *Globetrotter Software, Inc. v. Elan Computer Group, Inc.*,⁸¹ where the patent holder argued that federal law preempted state-law claims for unfair competition and tortious interference with economic advantage based on the patent holder’s pre-litigation communications. The Court held that in order to avoid preemption, the state-law claims needed to include a bad faith element:

A patentee that has a good faith belief that its patents are being infringed violates no protected right when it so notifies infringers.” Accordingly, a patentee must be allowed to make its rights known to a potential infringer so that the latter can determine whether to cease its allegedly infringing activities, negotiate a license if one is offered, or decide to run the risk of liability and/or the imposition of an injunction.⁸²

The *Globetrotter* court adopted a particular species of bad faith, however—one that requires objective, not subjective, baselessness—which the Court imported from *East Railroad*

⁷⁷ *Id.* at 1334 (citing *Hathorn v. Lovorn*, 457 U.S. 255, 266 n.18 (1982); *Pratt v. Paris Gaslight & Coke Co.*, 168 U.S. 255, 257-59 (1897)).

⁷⁸ *Hunter Douglas*, 153 F.3d at 1334 (citing *California v. ARC Am. Corp.*, 490 U.S. 93, 101 (1989)).

⁷⁹ *Hunter Douglas*, 153 F.3d at 1336. *See also* *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059 (Fed. Cir. 1998); *Abbott Labs. v. Brennan*, 952 F.2d 1346 (Fed. Cir. 1991); *Eastern R.R. Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127 (1961).

⁸⁰ *Hunter Douglas Inc.*, 153 F.3d at 1336. *See also* *Mikohn Gaming Corp. v. Acres Gaming, Inc.*, 165 F.3d 891, 897 (Fed. Cir. 1998) (“Federal precedent is that communications to possible infringers concerning patent rights is not improper if the patent holder has a good faith belief in the accuracy of the communication.”); *Virginia Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 869 (Fed. Cir. 1997) (“[A] patentee must be allowed to make its rights known to a potential infringer so that the latter can determine whether to cease its allegedly infringing activities, negotiate a license if one is offered, or decide to run the risk of liability and/or the imposition of an injunction.”); *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 709 (Fed. Cir. 1992) (stating that a patent holder “that has a good faith belief that its patents are being infringed violates no protected right when it so notifies infringers”). *Cf.* *Zenith Elecs. Corp. v. Exzec, Inc.*, 182 F.3d 1340, 1353-54 (Fed. Cir. 1999) (holding that a federal Lanham Act unfair competition claim did not conflict with federal patent laws *per se*, but requiring the addition of a “bad faith” element).

⁸¹ 362 F.3d 1367 (Fed. Cir. 2004).

⁸² *Id.* at 1374 (quoting *Virginia Panel Corp.*, 133 F.3d at 869).

*Presidents Conference v. Noerr Motor Freight, Inc.*⁸³ and its progeny. In *Noerr*, the Supreme Court held that conduct directed towards influencing legislative activity was immunized from antitrust liability unless it was a sham. The Supreme Court thereafter extended the immunity doctrine to litigation in the courts in *California Motor Transportation Co. v. Trucking Unlimited*.⁸⁴ Finally, in *Professional Real Estate Investors, Inc. v. Columbia Pictures Industries, Inc.*,⁸⁵ the Supreme Court added content to the sham exception by requiring that litigation activity be “objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits.”⁸⁶ Conduct amounting to “an objectively reasonable effort,” the Supreme Court further wrote, “cannot be sham regardless of subjective intent.”⁸⁷

The Federal Circuit in *Globetrotter* relied on these Supreme Court decisions, together with Court of Appeals rulings applying the *Noerr* doctrine not only to antitrust claims,⁸⁸ but also to business torts, writ large.⁸⁹ The *Globetrotter* court thus held that federal patent law preemption ought to depend on whether the patent holder’s pre-litigation communication was objectively baseless.⁹⁰ This required the communication’s recipient to “offer clear and convincing evidence that [the patent holder] *had no reasonable basis* to believe that the [accused infringing device] infringed [the holder’s] patents.”⁹¹

Applying this analysis, the Federal Circuit held that the alleged infringer’s state law unfair competition and tortious inference claims were preempted because the infringer failed to show objective baselessness—that the patents were either invalid or not infringed. Subjective evidence of the patent holder’s particular motivation in sending its demand letter was insufficient to avoid preemption.

The Supreme Court has yet to rule on this matter. However, *Globetrotter*’s analysis—requiring bad faith in the form of objective baselessness—represents the current state of the law.

⁸³ 365 U.S. 127 (1961).

⁸⁴ 404 U.S. 508 (1972).

⁸⁵ 508 U.S. 49 (1993).

⁸⁶ *Id.* at 60.

⁸⁷ *Id.* at 57.

⁸⁸ *Globetrotter Software*, 362 F.3d at 1376 (citing *Primetime 24 Joint Venture v. Nat’l Broad. Co.*, 219 F.3d 92, 100 (2d Cir. 2000); *A.D. Bedell Wholesale Co. v. Philip Morris Inc.*, 263 F.3d 239, 252-53 (3d Cir. 2001); *Coastal States Mktg., Inc. v. Hunt*, 694 F.2d 1358, 1367 (5th Cir. 1983); *McGuire Oil Co. v. Mapco, Inc.*, 958 F.2d 1552, 1560 (11th Cir. 1992)). *See also* 1 PHILIP E. AREEDA & HERBERT HOVENKAMP, ANTITRUST LAW ¶ 205e (“*Noerr* protects the right to petition the government. Although a mere threat directed at one’s competitor to sue or to seek administrative relief does not involve or ‘petition’ the government, it would be anomalous and socially counterproductive to protect the right to sue but not the right to threaten suit.”).

⁸⁹ *IGEN Int’l, Inc. v. Roche Diagnostics GmbH*, 335 F.3d 303, 310 (4th Cir. 2003); *South Dakota v. Kan. City S. Indus., Inc.* 880 F.2d 40, 50-51 (8th Cir. 1989).

⁹⁰ *Globetrotter Software*, 362 F.3d at 1376.

⁹¹ *Id.* at 1377 (emphasis in original) (quoting *Golan v. Pingel Enter., Inc.*, 310 F.3d 1360, 1371 (Fed. Cir. 2002)). *See also* *Dominant Semiconductors Sdn. Bhd. v. OSRAM GmbH*, 524 F.3d 1254, 1260 (Fed. Cir. 2008) (“To be objectively baseless, the infringement allegations must be such that ‘no reasonable litigant could reasonably expect success on the merits.’”) (quoting *GP Indus., Inc. v. Eran Indus. Inc.*, 500 F.3d 1369, 1374 (Fed. Cir. 2007)); *800 Adept, Inc. v. Murex Secs. Ltd.*, 539 F.3d 1354, 1370 (Fed. Cir. 2008) (objective baselessness requires “clear and convincing evidence” that the patentee had “no reasonable basis to believe that its patent claims were valid or that they were infringed”).

Absent objective baselessness in the patent troll's assertion of its rights, federal patent law preempts state unfair competition law and other state-law claims. "Subjective considerations of bad faith are irrelevant if the [challenged pre-litigation] assertions are not objectively baseless."⁹²

V. STATE EFFORTS AGAINST PATENT TROLLS REVISITED

As we noted earlier, in *Activision* the District of Nebraska held that federal patent law preempted the State AG's enforcement activity because there was no showing that Farney Daniels asserted its clients' patent claims in bad faith under the *Globetrotter* test of objective baselessness.⁹³ Indeed, although the Nebraska AG argued against preemption, it did not cite *Globetrotter*, much less attempt to show that Farney Daniels (or its clients) knew or should have known that the patents-at-issue were either invalid or not infringed.⁹⁴ Instead of putting forth facts, the State AG relied on "word-plucking" from various decisions to support its central point—which was not really in dispute—that "[i]t could not have been Congress' intention to preempt all state unfair and deceptive trade practices laws just because an individual inserts the word 'patent' in an otherwise fraudulent scheme or because a scheme involved patents in some way."⁹⁵ In these circumstances, the *Activision* court's preemption holding was virtually pre-ordained.

In the Vermont AG's as yet unresolved deceptive trade practices litigation against MPHJ, the State asserted that various patent-related statements and omissions in MPHJ's demand letters were false and misleading. Thus, MPHJ allegedly: (1) had failed to show that letter recipients were infringing; and (2) used shell companies to make it difficult for letter recipients to determine both patent ownership and the entity with standing to sue for infringement.⁹⁶ To avoid preemption, these allegations could well require showing objective baselessness—that MPHJ had no reasonable basis for to believe that the demand letter recipients had infringed its patents.⁹⁷

However, the Vermont AG also emphasized allegedly false and misleading demand letter statements that were **not** directly connected to MPHJ's patent infringement assertions. These included MPHJ statements that: (1) most businesses chose to promptly acquire licenses for the patents; (2) MPHJ's licensing program was well-received by the business community; (3) recipients had received two prior letters when often they had not; and (4) MPHJ's proposed license of between \$900 and \$1200 per employee was a "fair price for a license negotiated in good faith" based on the response of "many" companies, when, in fact, the average license was under

⁹² *Dominant Semiconductors*, 524 F.3d at 1264 (quoting *GP Indus., Inc.*, 500 F.3d 1375). See also, e.g., Order at 14, *Activision TV*, ECF No. 41 (Sept. 30, 2013) (holding that patent holder bad faith was not shown); *ClearPlay, Inc. v. Nissim Corp.*, No. 07-81170, 2011 WL 3878363, at *8-9 (S.D. Fla. Sept. 2, 2011) (holding that federal patent law preempted claim under Florida's Deceptive and Unfair Trade Practices Act); *DeSena v. Beekley Corp.*, 729 F. Supp. 2d 375, 401 (D. Me. 2010) (holding that bad faith in the publication of the patent must be established to avoid preemption of Maine Uniform Deceptive Trade Practices Act); *In re Innovatio IP Ventures, LLC Patent Litig.*, 921 F. Supp. 2d 903, 914 (N.D. Ill. 2013).

⁹³ Order at 13-14, *Activision TV*, ECF No. 41 (Sept. 30, 2013) (quoting *Globetrotter*).

⁹⁴ Br. in Sup. of Mot. to Dismiss & in Opp. to Mot for Prel. Inj. at 29-31, *Activision TV*, ECF No. 22 (Sept. 10, 2013).

⁹⁵ *Id.* at 31.

⁹⁶ Compl. at ¶¶ 56 & 57, *Vermont v. MPHJ Tech. Invs. LLC*, No. 282-5-13 (Vt. Super. Ct.).

⁹⁷ *Globetrotter Software*, 362 F.3d at 1377.

\$900 per employee.⁹⁸ On this basis, the Vermont AG sought to plead “consumer fraud, and nothing more. . . . MPHJ’s unfair and deceptive acts are unrelated to whether the letter recipients were, in fact, infringing the patents.”⁹⁹ Arguably, allegations such as these may avoid federal preemption of the Vermont’s state law claims.

But should the court analyze preemption by dropping the State AG’s patent-related allegations in one bucket, and its non-patent-related allegations into another? Where litigation is involved, the whole may often be greater than the sum of its parts.¹⁰⁰ Accordingly, bucketing the State AG’s false and deceptive statements risks ignoring (to mix metaphors) the forest for the trees. The rub is that, for the Vermont AG, the forest is the fraud and deception directed to state residents, while for MPHJ it’s the patent holder’s right to exclude.

This brings us to Vermont’s recent statutory attack on patent trolls. Whether the statute itself applies to the pending MPHJ action is unclear. Because the lawsuit predates the new law’s effective date by several weeks, an issue of retroactive application, which we do not here address, is presented. But this much can be said: the new law is, if nothing else, clever.

Vermont’s law is, of course, the work of the State’s duly elected legislature, and thus packs the punch of sovereignty. As the Supreme Court has reminded, “we have long presumed that Congress does not cavalierly pre-empt state-law causes of action.”¹⁰¹ Moreover, the law’s multi-page findings of fact—focusing on the State’s interest in “nurtur[ing] small and medium sized IT and other knowledge based companies,” while recognizing that “Vermont is preempted from passing any law that conflicts with federal patent law”¹⁰²—bespeak carefulness and caution, not haste or passion. The statute’s bad and not-bad faith factors, together with its open invitation to the court to consider whatever else may be relevant, represent a balanced approach to adjudicating patent infringement demand letters and related pre-infringement litigation conduct generally—whether involving trolls or practicing patent holders.

Therefore, powerful arguments can be marshaled to uphold Vermont’s new law against a preemption attack. *Globetrotter’s* litmus test for deciding preemption—objective baselessness—represents only Court of Appeals law, not that of the Supreme Court law. This test may simply be inadequate to accommodate countervailing state interests in protecting against patent troll abuse. Vermont’s own law goes further, permitting consideration of both objective and subjective baselessness, as well as any other factor that may be probative of whether the patent holder’s conduct warrants approval or condemnation. If *Globetrotter’s* path is to be widened, the Vermont statute offers the tools.

⁹⁸ Mem. in Support of Mot. to Remand at 3-4, *Vermont v. MPHJ Tech. Invest., LLC*, No. 2:13-cv-00170 (D. Vt. July 8, 2013), ECF No. 9-1.

⁹⁹ *Id.* at 14.

¹⁰⁰ *Cf. Continental Ore Co. v. Union Carbide & Carbon Corp.*, 370 U.S. 690, 699 (1962) (in antitrust conspiracy cases, “plaintiffs should be given the full benefit of their proof without tightly compartmentalizing the various factual components and wiping the slate clean after scrutiny of each.”) (citing authorities).

¹⁰¹ *Medtronic*, 518 U.S. at 485.

¹⁰² VT. STAT. ANN. tit. 9, § 4195(a) (1), (3) & (7).

Vermont's statutory approach has spawned similar proposed legislation recently introduced in Nebraska.¹⁰³ The New York AG has continued the trend of progressively aggressive enforcement by stating publicly that its AOD against MPHJ and accompanying guidelines will ostensibly serve as the starting point for future actions against patent trolls operating in New York.

VI. CONCLUSION

True it is that States traditionally regulate business affairs and protect against fraud and deception practiced on their citizens and resident businesses. On the other hand, however, the Constitution's patent clause reflects the overarching federal interest in encouraging innovation as an engine of progress. Existing case law suggests that state efforts to respond to patent troll abuse face an uphill battle to avoid federal preemption. Yet, Vermont's newly enacted statute, along with the actions undertaken by the AGs of Minnesota, Nebraska, and New York, may provide the traction needed. Bearing in mind the circumstances in Washington, D.C. these days, state fixes may well be all we can hope for—and are a lot better than none at all.¹⁰⁴

¹⁰³ NEB. LEG. Bill No. 677, 103rd Legis., 2nd Sess. (Jan. 8, 2014).

¹⁰⁴ See Melissa Lipman, *FTC's Ohlhausen Urges Caution on 'Patents Trolls,'* LAW360 (Jan. 6, 2014), http://www.law360.com/competition/articles/498994?nl_pk=267e9e92-50e0-42ee-bbf0-2966a66b4c4a&utm_source=newsletter&utm_medium=email&utm_campaign=competition (reporting comments by FTC Commissioner Maureen Ohlhausen that the issues concerning patent trolls are “very complex” and that the federal government “need[s] to take the time to get it right.”).