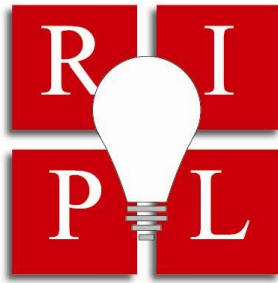


THE JOHN MARSHALL REVIEW OF INTELLECTUAL PROPERTY LAW



PATENTLY PREEMPTED

NICK VOGEL

ABSTRACT

Small and medium size businesses often take advantage of the latest advancements in technology. Doing so, however, now seems to carry the risk of patent infringement. In 2012, so called patent trolls, also known as Non Practicing Entities, began sending letters to small and medium sized businesses demanding money in exchange for a license to use allegedly patented technology. Many saw the demands as an abuse of the patent system. In response, states have passed or are considering statutes that outlaw patent holders from delivering a bad faith notice of infringement. The State of Vermont was the first to address this issue. Vermont amended its consumer protection laws to outlaw “Bad faith assertions of patent infringement.” But how far can Vermont and other states go before being preempted by the federal government? This comment asks that very question. After analyzing the original intent of Congress, a theory of field preemption and the Constitutional right to petition the government, this comment concludes with the opinion that state-based laws meant to discourage Non Practicing Entities from sending bad faith cease and desist letters are preempted by the federal patent regime. Finally, this comment proposes that the best way to discourage Non Practicing Entities from harassing companies with frivolous law suits is to allow victorious defendants in patent infringement suits to collect damages from the losing plaintiffs.

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PATENTLY PREEMPTED

NICK VOGEL*

I. INTRODUCTION

How minimal an understanding of patent law may a small business owner possess before opening a business without fear of patent infringement lawsuits? These days, it seems that small companies and main street businesses need a more sophisticated handle on patent law than previously thought.¹

In September of 2012, businesses in the State of Vermont began to receive letters² warning that their use of scan-to-e-mail technology violated several patents.³ One such business was a non-profit called Lincoln Inc.⁴ The letter claimed that a company called

* © Nick Vogel 2015. J.D., January 2016, The John Marshall Law School; Editor-in-Chief of the Decisive Utterance student newspaper from 2012 until 2015; feature writer and investigative journalist from 2006 until 2011. I want to thank my wife Sonja for her patience and encouragement. I also thank my sons Bert and Dash for letting me disappear so often to study. Finally, thanks to the editors and staff of RIPL for their guidance.

¹ Betsy Bishop *Comments on Vermont's First-in-Nation Patent Trolling Prevention Law*, VERMONT CHAMBER OF COMMERCE (July 1, 2013), (<http://www.vtchamber.com/wcnews/NewsArticleDisplay.aspx?articleid=421>) (warning that lawsuits from so-called patent trolls will be detrimental to Vermont businesses) (hereinafter "Bishop").

² Gene Sperling, *Taking on Patent Trolls to Protect American Innovation*, THE WHITE HOUSE BLOG (June 4, 2013), <http://www.whitehouse.gov/blog/2013/06/04/taking-patent-trolls-protect-american-innovation> Hereinafter "Sperling") (stating that "in the last two years, the number of lawsuits brought by patent trolls has nearly tripled, and account for 62% of *all* patent lawsuits in America."). Sperling writes that while the sheer volume of predatory and frivolous patent troll lawsuits is alarming in and of itself, the economic cost resulting from these suits is even more alarming, costing the victims of patent trolls \$29 billion in 2011, in addition to "tens of billions dollars more in lost shareholder value." *Id.* This economic toll demonstrates that the negative impact on society goes beyond just victimizing those with legitimate patent claims and potentially stifling innovation in business, but also stifling commerce through its deterrent effect on potential investors in new ideas. *Id.* The White House noted that abusive patent litigation makes it more difficult for those pursuing legitimate intellectual property claims and the problem expands across the spectrum, affecting Fortune 500 companies to small businesses and regular consumers. *Id.*

³ Joe Mullin, *Patent Trolls Want \$1,000—For Using Scanners*, ARSTECHNICA (Jan. 2, 2013, 8:30 AM), (<http://arstechnica.com/tech-policy/2013/01/patent-trolls-want-1000-for-using-scanners/>) (pointing out that increasingly, small companies are being targeted with threats of patent infringement lawsuits and hundreds or maybe thousands of businesses were targeted with letters threatening lawsuits in the fall of 2012).

⁴ Complaint at 8, *State of Vermont v. MPHJ Tech. Invs.*, 2014 WL 1494009 (D. Vt. Apr. 15, 2014)(No. 2:13-CV-170) (hereinafter "The complaint") (arguing that MPHJ's unpreparedness to follow through with a lawsuit against the Vermont businesses that received letters from MPHJ was an unfair method of competition in commerce). If true, such an allegation would have been covered specifically under the state's 9 § 4197, which defines an illegal, bad faith assertion of patent infringement.

Prior to sending the demand letter, the person fails to conduct an analysis comparing the claims in the patent to the target's products, services, and technology, or such an analysis was done but does not identify specific areas in which the products, services, and technology are covered by the claims in the patent.

MPHJ Technology Investments, LLC. (“MPHJ”) owned a patent on scanning documents and then e-mailing them.⁵ Over the next several months hundreds of businesses in Vermont and other states began receiving similar letters.⁶ In these letters, MPHJ demanded that each company pay \$900 to \$1,200 per employee in exchange for a license to continue using the patented “technology” MPHJ owned.⁷ Otherwise, MPHJ would file a lawsuit.⁸ While MPHJ does own the patent at issue, it does not actually use the patent. Scholars and courts commonly refer to corporations like MPHJ as Non Practicing Entities, or NPEs for short.⁹ These NPEs typically own a patent merely to assert their rights against others in exchange for settlement sums or license fees.¹⁰ In comparison, when an inventor receives a patent, the inventor gains the right to “exclude others from making, using, and selling the claimed invention” in order to bring the invention to market.¹¹ Once the patent is granted, the patentee can sell, divide or assign the rights that come with the patent.¹² An NPE often buys these

VT. STAT. ANN tit. 9, § 4197 (2013). The State of Vermont also lists the problems with the letters MPHJ had sent to businesses in the state. *Id. E.g.*, the state alleges that an attorney for MPHJ Stated that litigation would have been brought against the “recipients when defendant was neither prepared nor likely to bring litigation,” used legal counsel to imply that defendant had performed a sufficient pre-suit investigation including an investigation into the target businesses and their potentially “infringing activities that would be required to justify filing a lawsuit,” targeted small businesses that were “unlikely to have the resources to fight patent litigation or even to pay patent counsel,” sent letters that threatened “patent infringement litigation with no independent evidence that the recipients were infringing it’s patents,” shifted the entire burden of the pre-suit investigation “onto the small businesses that received the letters,” propounded burdensome information demands “on any business that claimed not to have infringed the patents,” and used shell corporations in order to hide “the true owners of the patents, avoid liability and encourage quick settlements.” *Id.*

⁵ The Complaint, *supra* note 4.

⁶ *Id.*

⁷ *Id.*

⁸ *Id.*

⁹ *See, e.g.*, Jeffrey C. Morgan, *Do Patent Trolls Have A Future?*, FED LAW., (Oct. – Nov. 2013) (explaining that a Patent Assertion Entity, or Patent Troll is “an entity, other than the original inventor, who does not provide any product or service, but rather has acquired the patent for the purpose of asserting it against others with the goal of extracting royalty payments that are less than the costs of defense.”); *see also* Colleen V. Chien, *From Arms Race to Marketplace: The Complex Patent Ecosystem and Its Implications for the Patent System*, 62 HASTINGS L.J. 297 (2010) (describing an NPE as “entities that use patents primarily to obtain license fees rather than to support the development or transfer of technology, from other types of non-practicing entities.”); *see also* Miranda Jones, *Permanent Injunction, A Remedy by Any Other Name Is Patently Not the Same: How Ebay v. Mercexchange Affects the Patent Right of Non-Practicing Entities*, 14 GEO. MASON L. REV. 1035 (2007) (describing companies that focus “solely on acquiring under-valued patents and realizing the value of those patents through licensing and enforcement of the patent right” as NPEs.”)(hereinafter “M.Jones”).

¹⁰ *See supra* text accompanying note 9.

¹¹ *Bloomer v. McQuewan*, 55 U.S. 539, 549, (1852) (establishing that the franchise granted by a patent creates the right to “exclude every one from making, using, or vending the thing patented, without the permission of the patentee.”).

¹² *Vaupel Textilmaschinen KG v. Meccanica Euro Italia SPA*, 944 F.2d 870, 875 (Fed. Cir. 1991) (explaining that a patent is a “bundle of rights which may be divided and assigned, or retained in whole or part.”).

patent rights from the original inventor, intending to practice the patent's rights, not the patent.¹³

When MPHJ tried to practice its patent rights in 2012, most companies would have seen that the cost of fighting MPHJ in court outweighed the cost of a settlement.¹⁴ Additionally, the cost of defending a patent suit would likely have a negative impact on operating budgets.¹⁵ One source estimates that MPHJ sent about 16,465 letters to small businesses in all 50 states.¹⁶ According to the Federal Trade Commission, 17 businesses agreed to purchase a license from MPHJ.¹⁷ While issuance of the letters may have garnered relatively few licenses, they did get the attention of many people.¹⁸ Most notably among those people was Vermont Attorney General William Sorrell.¹⁹ He used his state's consumer protection laws to file suit against MPHJ for unfair and deceptive acts and practices in commerce.²⁰ Just around the same time Sorrell filed the lawsuit, Vermont passed a law that made it illegal to send in bad faith a cease and desist letter for an alleged patent infringement.²¹ This new law ("Vermont's bad faith law") was passed to protect Vermont businesses from having to cave to the demands of NPEs.²²

The letter received by Lincoln Inc. is an example of how an NPE operates.²³ Typically, the NPE will send a letter to a company, making a vague assertion with

¹³ M. Jones at 1040–41 (distinguishing between the act of practicing the patented invention and "practicing the patent right.").

¹⁴ Compare Megan M. La Belle, *Against Settlement of (Some) Patent Cases*, 67 VAND. L. REV. 375, 377 (2014) (calling patent litigation "complex, expensive and unpredictable," and noting that parties in a patent dispute settle 65 to 68 percent of the time at the district court level and that "more settle on appeal."), with Keith Leffler, Cristofer Leffler, *Efficiency Trade-Offs in Patent Litigation Settlements: Analysis Gone Astray?*, 39 U.S.F. L. REV. 33, 36 (2004) (arguing that because "many patents granted by the patent office are subsequently invalidated by the courts," competitors feel encouraged to intentionally infringe upon or challenge an existing patent).

¹⁵ Executive Office of the White House, Patent Assertion and U.S. Innovation (June 2013), available at http://www.whitehouse.gov/sites/default/files/docs/patent_report.pdf (hereinafter "Whitehouse report") (reporting that businesses try to avoid the expense of defending a patent infringement lawsuit because they fear having less money for "wages, job creation and innovation of new products and services.").

¹⁶ The Complaint, *supra* note 4 (stating that MPHJ sent letters to "hundreds or thousands of businesses outside Vermont."); Draft of Federal Trade Complaint against MPHJ Technology Investments, LLC (Jan. 13, 2014), available at https://www.eff.org/files/2014/01/14/draft_ftc_complt_to_mphj.pdf (alleging that MPHJ sent a total of 31,600 letters in three waves of letter writing campaigns to small businesses in all 50 states).

¹⁷ *Id.*

¹⁸ Joe Mullin, *Patent troll that wants \$1,000 per worker gets sued by Vermont A-G*, ARS TECHNICA (May 22, 2013, 1:40 PM), (<http://arstechnica.com/tech-policy/2013/05/patent-troll-that-wants-1000-per-worker-gets-sued-by-vermont-a-g/>).

¹⁹ The Complaint, *supra* note 4 and accompanying text.

²⁰ *Id.*

²¹ Eric Goldman, *Vermont Enacts The Nation's First Anti-Patent Trolling Law*, FORBES (May 22, 2013, 2:22 PM) (<http://www.forbes.com/sites/ericgoldman/2013/05/22/vermont-enacts-the-nations-first-anti-patent-trolling-law/>)(hereinafter "Goldman").

²² *Id.* (reporting that Vermont's bad faith law gives potential defendants an opportunity to attack NPEs first, "not just remain in limbo waiting to see if theasserter ever pursues its threats.").

²³ Caroline Coker Coursey, *Battling the Patent Troll: Tips for Defending Patent Infringement Claims by Non-Manufacturing Patentees*, 33 AM. J. TRIAL ADVOC. 239 (2009) (explaining that NPEs generally send companies a letter offering to license the patent upon which the business allegedly infringed) (hereinafter "Coursey").

little specific evidence of infringement that the recipient of the letter has violated one or more of the NPE's patents.²⁴ NPEs make money when these demand letters successfully intimidate small businesses into purchasing a license.²⁵ The business or business owner on the receiving end of such a letter would argue that the letters discourage innovation because they must consider the costs of expensive litigation when patenting ideas.²⁶

Vermont's new bad faith law raises the question as to whether or not federal law preempts any state action that seems to venture into patent law.²⁷

Part II.A of this comment examines the existing federal laws that govern the patent system. Part II.B examines Vermont's bad faith law.

Part III.A of this comment analyzes federal preemption laws to reach the conclusion that Vermont law conflicts with the objectives of Congress. Part III.B analyzes field preemption to support the contention that federal law preempts Vermont's bad faith law. Part III.C analyzes constitutional issues that arise as a result of Vermont's bad faith law.

Part IV.A of this comment proposes that the best way to discourage NPEs from harassing companies with frivolous law suits is to allow victorious defendants in patent infringement suits to collect damages from the losing plaintiffs. Part IV.B suggests that a "loser pays" rule will discourage the issuance of bad faith demand letters. Finally, Part IV.C poses that fee shifting can solve potential constitutional issues caused by state-laws that target bad faith demand letters.

This comment briefly concludes in Part V. by proposing that a "loser pays" solution would discourage NPEs from taking advantage of the shortcomings of the federal patent system.²⁸

²⁴ Coursey, *supra* note 23, at 241 (explaining that "patent troll will typically place [a] licensing offer in a range that is cheaper than the costs of litigating the claim).

²⁵ *Id.* at 241.

²⁶ Michael Astorino, *Obviously Troublesome: How High Should the Standard Be for Obtaining A Patent*, 89 J. PAT. & TRADEMARK OFF. SOC'Y 239, 247-48 (2007) (arguing that NPEs put the rights of inventors in jeopardy by existing "primarily to make money from patents through litigation," and that patent litigation jeopardizes the rights of "serious inventors." Astorino points out that actual inventors have to "resort to defensive patenting" to avoid potential litigation for a patent infringement); Whitehouse report at 2 (reporting that abusive patent litigation by NPEs or overly broad patent claims "may dampen incentives for future innovation.")

²⁷ Goldman, *supra* note 21 (opining that "due to federal preemption doctrines, states cannot enact their own patent laws, and that preemption principle may apply to this law.") Goldman is a professor at Santa Clara University School of Law where he teaches internet law, intellectual property law and advertising law.

²⁸ Timothy B. Lee, Patent Reform Bill Passes the House 325 to 91. Here's What You Need To Know, Washington Post, (Dec. 5, 2013) (<http://www.washingtonpost.com/blogs/the-switch/wp/2013/12/05/the-house-votes-on-patent-reform-today-heres-what-you-need-to-know/>) (though never signed into law, the act was an attempt to limit the impact of NPEs). In February, 2014, Senator Clair McCaskill introduced a bill called the Transparency in Assertion of Patents Act (hereinafter "TAPA"). The act is similar to both state laws and the failed Innovation Act, in that it requires more detailed information be placed in a pre-litigation cease and desist letter. This was just the latest attempt on behalf of the federal government to recognize a need for reform.

II. BACKGROUND

Part A of this section discusses the history of the federal patent system and the laws upon which federal courts claim original jurisdiction over patent disputes. Part B of this section looks closer at Vermont's bad faith law and what it entails.

A. Federal Control Over Patents

Congress's power to regulate patents stems from the U.S. Constitution, which grants Congress the power to "promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries[.]"²⁹ With this power Congress passed the Federal Patent Act, allowing individuals or businesses to obtain patents for their inventions.³⁰ The ensuing federal patent system was thus designed to encourage innovation and industry competition.³¹ Congress next set up offices and guidelines for the issuance and regulation of these patents.³²

The notion that Congress can preempt state laws has been with us so long that it is now a "fundamental principal of the Constitution."³³ The Supreme Court protects this congressional power zealously.³⁴

In applying this well-established principle to patents, historically, the courts have held that federal law preempts state laws that conflict with federal regulations.³⁵

²⁹ U.S. CONST. art. I, § 8, cl. 8.

³⁰ 35 U.S.C. § 101 (2012) (stating that "Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.").

³¹ Amelia Smith Rinehart, *Patent Cases and Public Controversies*, 89 NOTRE DAME L. REV. 361 (2013); see also, John M. Golden, "Patent Trolls" and Patent Remedies, 85 TEX. L. REV. 2111, 2117 (2007) (explaining that patents have historically been considered beneficial to society).

³² 35 U.S.C. § 1 (2000).

³³ *Crosby v. Nat'l Foreign Trade Council*, 530 U.S. 363, 372–73 (2000).

³⁴ *Id.* In *Crosby*, the Supreme Court made sure to protect this preemption power even in situations where a state tries to regulate an area of law that Congress has yet to regulate, holding that "even if Congress has not occupied the field, state law is naturally preempted to the extent of any conflict with a federal statute," and that the court will "find preemption where it is impossible for a private party to comply with both state and federal law." *Id.* at 372. Even in situations where the state law in question merely seems to conflict with the "accomplishment and execution of the full purposes and objectives of Congress," the Supreme Court will find preemption. *Id.* at 372-73.

³⁵ David E. Shipley, *Refusing to Rock the Boat: The Sears/Compco Preemption Doctrine Applied to Bonito Boats v. Thunder Craft*, 25 WAKE FOREST L. REV. 385, 387 (1990). Shipley mentions that on seven occasions cases have gone before the Supreme Court in which state laws were seen to potentially conflict with Federal Patent law. *Id.* at 388. Those cases are *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 232 (1964) (stating that "because of the federal patent laws a State may not, when the article is unpatented and uncopyrighted, prohibit the copying of the article itself or award damages for such copying."); *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234, 237 (1964) (holding that state law conflicted with "the federal policy. . . of allowing free access to copy whatever the federal patent and copyright laws leave in the public domain."); *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 142 (1989) (holding that a Florida law was preempted by "strong federal policy favoring free competition in ideas which do not merit patent protection."); *Lear, Inc. v. Adkins*, 395 U.S. 653, 674–75 (1969) (mentioning in dicta that a state might have power to enforce a contract for royalties on an unpatented invention while one party is waiting for a patent to be granted);

Congress gives the federal courts power over patent disputes via the United States Court of Appeals for the Federal Circuit, which hears all appeals concerning “[a]ny act of Congress relating to patents.”³⁶ Moreover, in 1964 the Supreme Court delivered an unambiguous holding articulating that federal patent laws are “the supreme law of the land.”³⁷

When a patent holder files suit against a patent infringer, the patent holder must follow federal laws regulating notification of potential patent infringement.³⁸ Written notification of an alleged patent violation,

shall specify the patented process alleged to have been used and the reasons for a good faith belief that such process was used. The patent holder shall include in the notification such information as is reasonably necessary to explain fairly the patent holder's belief, except that the patent holder is not required to disclose any trade secret information.³⁹

Filing this notification is the first legal step in the settlement of a patent infringement controversy.⁴⁰ This notification is mandatory.⁴¹

Next, federal statute allows a patentee to file suit when someone “without authority makes, uses, offers to sell, or sells [the patent holder’s] patented invention,” in the United States.⁴² Patent lawsuits take place solely in federal courts in order to homogenize the “realm of intellectual property.”⁴³ Society needs this homogenization of patent laws because, as technology continues to advance, potential patent infringements will continue to arise.⁴⁴

Goldstein v. California, 412 U.S. 546 (1973) (upholding a California state law that made record piracy a crime); Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 559 (1974) (holding that federal patent laws do not preempt a cause of action under Ohio's trade secret law) and Aronson v. Quick Point Pencil Co., 440 U.S. 257, 262 (1979) (holding that state enforcement of a contract for royalty payments does not conflict with federal patent law).

³⁶ 28 U.S.C. § 1295 (2012).

³⁷ Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225, 229 (1964) (holding that federal patent laws “are the supreme law of the land.” *Id.* In *Sears, Roebuck* the court had to determine whether state laws outlawing “unfair competition,” were preempted by federal patent laws. *Id.* at 225. The court said that such state laws would unfairly extend the number of years in which a patent holder maintained control over a patent. *Id.* at 231.

³⁸ 35 U.S.C. § 287.

³⁹ *Id.*

⁴⁰ Dunlap v. Schofield, 152 U.S. 244, 246 (1894) (holding that “no damages shall be recovered by the plaintiff, except on proof that the defendant was duly notified of the infringement, and continued, after such notice, to make, use or vend the article so patented.” *Id.* This holding was ultimately codified as 35 U.S.C. § 287.

⁴¹ *Id.* See, e.g., Gart v. Logitech, Inc., 254 F.3d 1334, 1345 (Fed. Cir. 2001) (where the court held that notifying an alleged infringer “of the identity of the patent and the activity that is believed to be an infringement, accompanied by a proposal to abate the infringement, whether by license or otherwise” complies with the actual notice requirement of the marking statute.” *Id.*

⁴² 35 U.S.C. § 271 (2012); 35 U.S.C. § 281 (2012) (stating that “A patentee shall have remedy by civil action for infringement of his patent.” *Id.*

⁴³ *Bonito Boats*, 489 U.S. 141, 162 (stating that Congress has exclusive jurisdiction of actions “arising under” the patent laws in the federal courts, thus allowing for the development of a uniform body of law in resolving the constant tension between private right and public access.” *Id.*

⁴⁴ See generally Charles Duhigg, *The Patent, Used As a Sword*, THE NEW YORK TIMES, (OCT. 7, 2013) (<http://www.nytimes.com/2012/10/08/technology/patent-wars-among-tech-giants-can-stifle->

The Supreme Court recognizes this ongoing conflict between patent holders and the public's voracious desire to use new technology.⁴⁵ In a case called *Bonito Boats v. Thundercraft Boats, Inc.* the Supreme Court held that states may not "second-guess" patent laws that clearly balance the conflict between public needs and a patentee's rights.⁴⁶ Moreover, federal statute gives Federal district courts original jurisdiction "of any civil action arising under" patent laws passed by Congress.⁴⁷

The United States Court of Appeals for the Federal Circuit has weighed in on state-issued laws aimed at bad faith communication between a patent holder and a potential infringer.⁴⁸ In *Globetrotter Software, Inc. v. Elan Computer Grp., Inc.*,⁴⁹ the court held that federal patent law preempts any state statute that imposes "tort liability for a patent holder's good faith conduct in communications asserting infringement of its patent and warning about potential litigation."⁵⁰ A party can assert a state-law tort claim against an alleged patent infringer, "only to the extent that those claims are based on a showing of bad faith action in asserting infringement."⁵¹ In order to survive federal preemption, a claim based on bad faith "must be alleged, and ultimately proven."⁵²

competition.html?pagewanted=all&_r=0) (reporting that as technology has advanced, companies have used software patents to harm one another in court); White House Report at 5 (reporting that in 2012, NPEs filed 62 percent of all patent suits. This is up from 2010 when NPEs filed only 29 percent of all patent suits. The report attributes this increase partly to an increase in technology, because there "are an increasing number of computer and communications patents, whose wider breadth makes them more easily abused.").

⁴⁵ *Bonito Boats*, 489 U.S. at 152 (recognizing that "the tension between the desire to freely exploit the full potential of our inventive resources and the need to create an incentive to deploy those resources is constant."

⁴⁶ *Id.* (explaining that on the one hand, society wants to "freely exploit the full potential of our inventive resources," while on the other hand, doing so would eliminate any "incentive to deploy those resources." The court held that states may not interfere where "it is clear how the [federal] patent laws strike that balance in a particular circumstance.").

⁴⁷ 28 U.S.C. § 1338 (2012) (stating that "No state court shall have jurisdiction over *any* claim for relief arising under any act of Congress relating to patents . . .") (emphasis added).

⁴⁸ *Globetrotter Software, Inc. v. Elan Computer Grp., Inc.*, 362 F.3d 1367, 1368 (Fed. Cir. 2004) (explaining that the main appeal concerns the United States District Court for the Northern District of California's decision to recognize the validity of a state law that outlaws "tortious interference with prospective economic advantage and unfair competition arising from an allegation of a patent infringement).

⁴⁹ *Id.* at 1377.

⁵⁰ *Id.* In *Globetrotter*, a company called Rainbow was looking to purchase the outstanding shares of the Elan Computer Group. *Id.* at 1369. Before the purchase, the CEO of Globetrotter Software sent e-mails to the CEO of Rainbow, alleging that Elan's products infringed Globetrotter's patents. *Id.* at 370. Elan's CEO Ken Greer believed these e-mails gave Rainbow some kind of leverage and ultimately led to Rainbow purchasing the outstanding shares at a "much lower price." *Id.* Moreover, Greer lost an opportunity to get a 2-year employment agreement with Rainbow. *Id.* Based on these facts, Greer filed state tort claims against Globetrotter for "tortious interference with prospective economic advantage and unfair competition." *Id.*

⁵¹ *Id.* at 1374.

⁵² *Id.*

In *Globetrotter*, the court relies on previous Supreme Court holdings to determine that the First Amendment protects the right to obtain redress.⁵³ Other courts have held that this right extends to pre-litigation communication.⁵⁴

B. Vermont's Consumer Protection Laws

Businesses in the State of Vermont made it known that NPE legal threats jeopardized their ability to continue doing business.⁵⁵ To protect Vermont businesses from NPE abuse of the patent system, Vermont's lawmakers amended the state's already existing consumer protection laws.⁵⁶ The amendment outlaws "Bad faith assertions of patent infringement" ("bad faith law").⁵⁷ The bad faith law gives Vermont's attorney general and targeted individuals or companies the power to bring a civil action against an NPE that sends an alleged bad faith letter seeking to extract licensing fees.⁵⁸

At the heart of Vermont's bad faith amendment is the declaration that a party "shall not make a bad faith assertion of patent infringement."⁵⁹ The amendment subsequently lists criteria under which a court may find that a patent infringement letter was sent in bad faith.⁶⁰ This list of criteria begins by requiring basic information,

⁵³ *Id.* at 1375-76 (explaining that in *Eastern Railroad Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127 (1961) the court held that the First Amendment prevented the Sherman Act from extending antitrust liability to companies for "activities directed toward influencing government action." The court then cites *Cal. Motor Transp. Co. v. Trucking Unlimited*, 404 U.S. 508 (1972) (holding that the Noerr holding extends "attempts to petition the government for redress through litigation in the courts." The court then cites *Profl Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49 (1993) (holding that "an objectively reasonable effort to litigate cannot be sham regardless of subjective intent."). Finally, the *Globetrotter* court explains that "our sister circuits, almost without exception, have applied the *Noerr* protections to pre-litigation communications." *Globetrotter*, 362 F.3d at 1376.

⁵⁴ *Pennwalt Corp. v. Zenith Labs., Inc.*, 472 F. Supp. 413, 424 (E.D. Mich. 1979) (holding that the right to seek redress through civil suit "must be given the same protection as the right to attempt to induce a legislative or administrative body to take some lawful action."). *Id.*

⁵⁵ Bishop, *supra* note 1 (quoting the president of the Vermont Chamber of commerce as saying legal fees and settlement related to NPE legal threats "can cripple small businesses.") Chambers of commerce are associations of businesses that promote their members' interests. Along the same vein, an organization called the Main Street Patent Coalition (hereinafter "Main Street") has formed in response to businesses being targeted by NPEs. Main Street is a "national, non-partisan coalition of organizations dedicated to stopping patent abuse from trolls by encouraging Congress to pass comprehensive, common sense patent reform legislation – now." MAIN STREET PATENTS, <http://mainstreetpatents.org/page.asp?id=19> (last visited Apr. 12, 2014).

⁵⁶ VT. STAT. ANN. tit. 9, § 4195 (2013) (stating that the bad faith law was passed because, "Abusive patent litigation, and especially the assertion of bad faith infringement claims, can harm Vermont companies."); Jeffrey C. Morgan, *Do Patent Trolls Have A Future?*, FED. LAW., (Oct.–Nov. 2013), at 46, 50 (explaining that Vermont made bad faith infringement letters illegal to fight "excessive patent enforcement.>").

⁵⁷ VT. STAT. ANN. tit. 9, § 4197 (2013).

⁵⁸ VT. STAT. ANN. tit. 9, § 4199 (2013); Complaint, *supra* note 4 and accompanying text. The complaint shows that when Vermont Attorney General William Sorrell sued MPHJ, he did so in reliance on powers found in the old Vermont consumer protection Act, not drawing from the new bad faith amendments.

⁵⁹ VT. STAT. ANN. tit. 9, § 4197.

⁶⁰ *Id.*

(1) The demand letter [must] contain the following information:

(A) the patent number;

(B) the name and address of the patent owner or owners and assignee or assignees, if any; and

(C) factual allegations concerning the specific areas in which the target's products, services, and technology infringe the patent or are covered by the claims in the patent.⁶¹

The bad faith amendment then goes on to require an extensive list of actions or non-actions that suggest the party sending a demand letter did so in bad faith.⁶²

To date, the new language of Vermont's law has not been challenged in an appellate court.⁶³

After Vermont passed its law, other states enacted similar statutes.⁶⁴ The State of Kentucky, for example, passed a bill that similarly to Vermont creates a cause of action against parties that make or threaten a "bad-faith assertion of patent infringement."⁶⁵

⁶¹ *Id.*

⁶² *Id.* Section (b)(2) requires the sender of the demand letter to have completed an analysis determining whether the claims in the patent to the target's products; section (b)(3) requires the sender of the demand letter to provide information requested by the letter's recipient within a reasonable amount of time. Through § (b)(4)–(8) the courts can consider the presence of bad faith based on whether the sender of a demand letter demands "payment of a license fee or response within an unreasonably short period of time," an unreasonably expensive license is offered for the patent, the claim is meritless and the letter sender knew so, the claim is deceptive or if the claim court already found the claim meritless in a previous legal action. The broadest element of the law allowing courts to find bad faith is in § (b)(9), which allows courts to look to "any other factor the court finds relevant." The law also gives several methods under which the court can find that a letter was sent in good faith.

⁶³ A search of both Westlaw and Lexus Nexus produced no examples of a lawsuit citing Vermont's amended consumer protection law.

⁶⁴ *E.g.*, Bernard Nash, *Massachusetts Attorney General Martha Coakley Looks to Slay Patent Trolls*, INSIDE COUNSEL MAGAZINE (Jan. 28, 2014) (reporting that Coakley "has thrown the weight of her office into dealing with [NPEs]" and quoting Coakley as saying that "[Vermont] consumer protection laws prohibit false, misleading, deceptive, and unfair statements in commerce," and that a letter from an NPE that attempts to extort is against the law); Timothy B. Lee, *How Vermont Could Save the Nation From Patent Trolls*, WASHINGTON POST (Aug. 1, 2013) (reporting that "Nebraska is the second state whose officials have tried to shield local businesses from frivolous lawsuits by patent holders.").

⁶⁵ KENTUCKY LEGISLATURE HOME PAGE, <http://www.lrc.ky.gov/record/14rs/SB116.htm>. (last visited June 28, 2014).

III. ANALYSIS

A. Vermont's Bad Faith Law Conflicts with the Objectives of Congress

Federal patent laws do more than protect the intellectual property of the inventor.⁶⁶ They also ensure that every citizen in the nation has the opportunity to purchase, enjoy and take advantage of new technology.⁶⁷ An inventor can assert patent rights through the offices and guidelines established by the Federal Patent Act.⁶⁸ This centralized patent regulation allows patent holders in one state to rely on predictable and uniform legal procedures when seeking potential redress from a patent infringer headquartered in another state.⁶⁹ This is important because the idiosyncratic nuances of a hypothetical, nation-wide system of differing state patent regulations might not operate efficiently enough to encourage invention.⁷⁰ A decentralized patent system

⁶⁶ *Goldstein v. California*, 412 U.S. 546, 556 (1973). In this civil action the Supreme Court upheld a state's ban on record piracy. *Id.* In coming to its conclusion, the court explained the history for, and public policy reasons why the framers of the Constitution gave Congress authority over patents. *Id.* at 576. A centralized patent system "eliminates the need for multiple [patent] applications and the expense and difficulty involved." *Id.* at 556. The Court understood that a federal patent system has the effect of promising patent holders "a reward greater in scope than any particular State may grant to promote progress in those fields which Congress determines are worthy of national action." *Id.* See also THE FEDERALIST PAPERS NO. 43, (arguing that the property rights of patent holders should be honored the same way Great Britain honored the property rights of copyright holders. Madison wrote,

The copyright of authors has been solemnly adjudged, in Great Britain, to be a right of common law. The right to useful inventions seems with equal reason to belong to the inventors. The public good fully coincides in both cases with the claims of individuals. The States cannot separately make effectual provisions for either of the cases, and most of them have anticipated the decision of this point, by laws passed at the instance of Congress.

THE FEDERALIST NO. 43 (James Madison).

⁶⁷ See *supra* note 66 and accompanying text.

⁶⁸ 35 U.S.C. § 101, see also S. Rep. No. 97-275, at 4-5 (1981) (explaining reasons for the Federal Circuit's creation, noting that the Courts Improvement Act was "part of a comprehensive program designed to improve the quality of our federal court system and to enhance citizen access" to the justice system).

⁶⁹ *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 151 (1989) (finding that the "offer of federal protection from competitive exploitation of intellectual property would be rendered meaningless in a world where substantially similar state law protections were readily available."). *Id.*

⁷⁰ Paul R. Gugliuzza, *Patent Law Federalism*, 2014 WIS. L. REV. 11, 20 (2014) (acknowledging that "concerns about uniformity and patent expertise are regularly invoked to rationalize exclusive federal jurisdiction and have come to dominate broader discussions of institutional policy in patent law."); Craig Allen Nard & John F. Duffy, *Rethinking Patent Law's Uniformity Principle*, 101 NW. U. L. REV. 1619, 1674-75 (2007) (mentioning that the original need for a uniform statutory scheme. The authors write that early proponents of technological progress feared that "to allow each of the fifty states to enact their own patent systems — would render the patent system essentially inoperable.") (hereinafter "Nard & Duffy"); B. Zorina Khan, *The Democratization of Invention: Patents and Copyrights in American Economic Development, 1790-1920*, at 67 (2005) (writing that greater uniformity of patent laws under one centralized federal system "facilitated the development of a national market.").

would contain inconsistent regulations.⁷¹ Additionally, decentralized patent systems would likely offer less efficiency than the current, centralized patent system.⁷² Thus, in passing the Federal Patent Act, Congress not only wanted to promote the arts and sciences, but also to limit the states' ability to participate in the federal patent scheme.⁷³ Vermont's introduction of a bad faith law to the federal patent system acts as an obstacle to the objectives Congress set out to accomplish with the Federal Patent Act.⁷⁴

When the owner of a patent decides to take legal action against an alleged infringer, the patent owner must notify the alleged infringer of the patent's existence.⁷⁵ This notice is important because a patent holder cannot recover damages for infringement that occurred before the alleged infringer received notice of the infringement.⁷⁶ By requiring a patent holder to notify the target of a potential patent infringement lawsuit, Congress extends federal control of pre-litigation patent disputes beyond the reach of a courtroom.⁷⁷ Since this extension of federal control

⁷¹ Nard & Duffy, *supra* note 70, at 1628 (noting that centralization and uniformity "are intimately connected in the literature because uniformity is one of the primary arguments typically made in favor of centralization. It was indeed one of the principal justifications for creating the Federal Circuit.").

⁷² Robert P. Inman & Daniel L. Rubinfeld, *Making Sense of the Antitrust State-Action Doctrine: Balancing Political Participation and Economic Efficiency in Regulatory Federalism*, 75 TEX. L. REV. 1203, 1228-29 (1997) (concluding that "Decentralized governments will be most efficient for those activities and regulations that can be efficiently provided to small populations and that have no significant positive or negative spillovers onto nonresidents. For goods with significant economies of scale in production ("public" goods) and other goods and regulations with positive economic spillovers, a single centralized government is likely to improve efficiency.").

⁷³ Xuan-Thao Nguyen, *Dynamic Federalism and Patent Law Reform*, 85 IND. L.J. 449, 453, (2010) (commenting that rather than encouraging attempts at reform at the state level, "Congress has willfully attempted to punish the local, bottom-up reformers.") (hereinafter "Nguyen"). Nguyen also writes that the first Congress passed the Patent Act of 1790 in "recognition of the importance of having a national patent system." *Id.* at 467.

⁷⁴ *Crosby*, 530 U.S. at 363 (2000) (emphasizing that in the absence of any field preemption, federal law preempts state laws when the state law acts as an "obstacle to the accomplishment and execution of the full purposes and objectives of Congress." The Crosby court); *Globetrotter*, 362 F.3d at 1377 (holding that federal patent laws "preempt state laws that impose tort liability for a patent holder's good faith conduct in communications asserting infringement of its patent and warning about potential litigation.").

⁷⁵ *Dunlap*, 152 U.S. at 246. In *Dunlap*, Benjamin Schofield, Jr. filed suit against J. Dunlap & Sons, for infringement of a rug design. *Id.* at 243. Schofield won in the lower court, but Dunlap petitioned the Supreme Court, arguing that Schofield never notified Dunlap of the patent's existence. *Id.* Justice Horace Gray began his opinion by noting that patents must be marked in a way that lets the public know the invention is patented. *Id.* at 246. If not, and a law suit for infringement is filed, the defendant must be "duly notified of the infringement." *Id.* at 247. Gray based his opinion on the wording of federal statute "section 4900" which was the precursor of 35 U.S.C. § 287. *Id.* at 243.

⁷⁶ *Id.* at 247; *Lans v. Digital Equip. Corp.*, 252 F.3d 1320 (Fed. Cir. 2001) (Holding that a patent holder can recover damages if the patent holder or licensees "did not inform the alleged infringers of infringement before expiration of the patent."); 35 U.S.C. § 287(b)(2) (requiring that recovery of damages for a patent infringement will be denied if the infringement took place before the alleged infringer had notice of the infringement).

⁷⁷ *Id.*; see also *Dominant Semiconductors Sdn. Bhd. v. OSRAM GmbH*, 524 F.3d 1254, 1260 (Fed. Cir. 2008) (holding that federal control extends to pre-litigation communications and preempts state-law tort liability "when a patentee in good faith communicates allegations of infringement of its patent.").

occupies the field of patent law, it should preempt a state law like Vermont's, which outlaws "bad faith" demand letters.⁷⁸

So who gets to question whether an NPE has written a demand letter in bad faith?⁷⁹ Only the federal courts should be able to answer that question.⁸⁰ In its attempt to protect businesses from patent infringement notices, however, the State of Vermont outlawed "bad faith" letters.⁸¹ Therefore, Vermont's bad faith law is an attempt to determine that a patentee's notice of infringement was illegal.⁸² But the Federal Circuit Court already has a method for determining whether a notice of infringement is illegal or not.⁸³

The Vermont bad faith law uses a mix of subjective and objective tests to determine whether an NPE has delivered a bad faith notification of infringement.⁸⁴ This test differs from the federal courts' interpretation of bad faith and thus the two laws clash.⁸⁵

⁷⁸ *Cover v. Hydramatic Packing Co., Inc.*, 83 F.3d 1390, 1393 (Fed. Cir. 1996) (holding that with "With respect to field pre-emption, Title 35 occupies the field of patent law.")

⁷⁹ *Amsted Indus. Inc. v. Buckeye Steel Castings Co.*, 24 F.3d 178, 187 (Fed. Cir. 1994). *Buckeye Steel* shows that federal courts have defined the legally appropriate substance of a notice letter. In *Buckeye Steel*, patent holder Amsted Industries Inc. owned a patent related to a center plate for railway cars. Buckeye Steel Castings tried to license the design, but was denied. *Id.* at 180. So Buckeye steel copied the patent's design. *Id.* A lawsuit ensued. *Id.* Amsted won the suit in the lower court. *Id.* at 181. Among the issues in Buckeye's appeal was the issue of proper notice under section 287. *Id.* In the lower court, the jury found that a letter written by Amsted to Buckeye did qualify as legal notice of a patent infringement. *Id.* Similarly to the letter MPHJ sent, the Amsted letter was sent to multiple companies "and did not explicitly charge Buckeye with infringement of Amsted's patent." *Id.* at 186. The Court of Appeals for the Federal Circuit held that the letter in question did not constitute notice, saying that "[a]ctual notice requires the affirmative communication of a specific charge of infringement by a specific accused product or device." *Id.* at 187.

⁸⁰ *Bonito Boats*, 489 U.S. at 162 (holding that "state regulation of intellectual property must yield to the extent that it clashes with the balance struck by Congress in our patent laws."). *Id.* at 162. Generally speaking, the states have the authority to "adjudicate claims arising under the laws of the United States." *Tafflin v. Levitt*, 493 U.S. 455, 458 (1990). But in *Bonito Boats*, the court saw a need to prevent states from second-guessing federal patent laws that work to incentivize invention. 489 U.S. at 152. A question can also be raised as to whether or not Vermont has jurisdiction to regulate patent infringement notice letters. But for the argument presented in Part III.A., this comment does not delve into the question of Vermont's jurisdiction over patent disputes. It should be noted, however, that in April, 2014, a federal court handling the case between MPHJ and the State of Vermont held that it did not have jurisdiction over the case and sent the case back to state court. *Vermont v. MPHJ Tech. Investments, LLC*, No. 2:13-CV-170, 2014 WL 1494009, at *4 (D. Vt. Apr. 15, 2014). The federal court held that none of Vermont's claims questioned the validity of MPHJ's patents. *Id.*

⁸¹ VT. STAT. ANN. tit. 9, § 4197 (2013).

⁸² *Id.* (allowing a court consider several factors "as evidence that a person has made a bad faith assertion of patent infringement.")

⁸³ *Golan v. Pingel Enter., Inc.*, 310 F.3d 1360, 1371 (Fed. Cir. 2002) (citing *Mikohn Gaming Corp. v. Acres Gaming, Inc.*, 165 F.3d 891, 897 (Fed. Cir. 1998)) (holding that a "threshold showing of incorrectness or falsity, or disregard for either, is required in order to find bad faith in the communication of information about the existence or pendency of patent rights." The court also held that bad faith infringement letters have been enjoined and as an example uses the situation in which a patent holder "makes threats without intending to file suit.") (quoting *Betmar Hats, Inc. v. Young America Hats, Inc.*, 116 F.2d 956, 957 (2d Cir. 1941).

⁸⁴ VT. STAT. ANN. tit. 9, § 4197 (2013); *supra* note 62 and accompanying text.

⁸⁵ *Compare* VT. STAT. ANN. tit. 9, § 4197 (requiring the sender of a patent infringement notification to provide information requested by the letter's recipient within a reasonable amount of time, and allowing the courts to find bad faith when the sender of the notification asks for "payment

Moreover, federal law already outlines the process for notification of a patent infringement.⁸⁶ This federal process requires that, “[t]he patent holder shall include in the notification such information as is reasonably necessary to explain fairly the patent holder’s belief. . . [that an infringement occurred].”⁸⁷ By using the phrase “reasonably necessary,” Congress showed it intended for the Federal courts to use objective and subjective analysis in order to determine the appropriateness of a notice of infringement.⁸⁸ Vermont’s bad faith law introduces a new, enumerated list of criteria under which courts may find bad faith.⁸⁹ By giving courts new criteria with which to find bad faith, the Vermont bad faith law conflicts with existing federal, “stringent requirements for patent protection.”⁹⁰

In *Globetrotter Software* the Federal District Court addressed state attempts to regulate patent controversies via tort laws.⁹¹ The court did not place an outright ban on such laws, but it did allow room for regulation of bad faith “conduct in communications asserting infringement of [the NPE’s] patent and warning about potential litigation.”⁹² Imagine an America, though, where every state has its own tort laws defining a bad faith patent assertion notice, just like Vermont. While some states would likely adopt very similar laws, it is also possible that some states would adopt laws with a different standard for bad faith.⁹³ It follows that states’ different standards and subsequent interpretations of the law would create complex legal situations for plaintiffs.⁹⁴ The complexity arises not because of the requirements of Vermont’s bad faith law specifically, but in the presence of many bad faith laws due to a need for

of a license fee or response within an unreasonably short period of time,” or offers an unreasonably expensive license for the patent, *with, Mikohn Gaming Corp.*, 165 F.3d at 897 (allowing courts to find bad faith upon a broader “threshold showing of incorrectness or falsity, or disregard for either,” when notification is sent); *Bonito Boats*, 489 U.S. at 152 (holding that states clash with federal patent law if state laws enters an area where federal laws strike a balance between the need to protect patent rights and the desire to “freely exploit the full potential of our inventive resources.”

⁸⁶ 35 U.S.C. § 287.

⁸⁷ 35 U.S.C. § 287.

⁸⁸ *Dominant Semiconductors Sdn. Bhd. v. OSRAM GmbH*, 524 F.3d 1254, 1260 (Fed. Cir. 2008) (holding that a showing of bad faith as required for liability in notification of an alleged patent infringement “includes separate objective and subjective components.”).

⁸⁹ VT. STAT. ANN. tit. 9, § 4197; *supra* note 62 and accompanying text.

⁹⁰ *Ultra-Precision Mfg., Ltd. v. Ford Motor Co.*, 411 F.3d 1369, 1378 (Fed. Cir. 2005) (holding that a state cause of action that frustrates Congress’s objective of promoting “stringent requirements for patent protection,” is preempted).

⁹¹ *Globetrotter Software Inc.*, 362 F.3d at 1377.

⁹² *Id.* at 1374.

⁹³ Richard H. Seamon, *The Provenance of the Federal Courts Improvement Act of 1982*, 71 GEO. WASH. L. REV. 543, 556 (2003) (explaining that lawmakers created the United States Court of Appeals for the Federal Circuit partly to help homogenize the differing appellate decisions in patent cases). Seamon writes that the Court of Appeals for the Federal Circuit was intended to settle legal conflicts. *Id.* at 556.

⁹⁴ George T. Conway III, *The Consolidation of Multistate Litigation in State Courts*, 96 YALE L.J. 1099, 1100 (1987) (arguing in favor of the consolidation of multi-state litigation in state courts and attributing the differing procedural requirements of the varying states to complex litigation) (hereinafter “Conway”); Fed. R. Civ. P. 1 (explaining that the federal rules of civil procedure exist “to secure the just, speedy, and inexpensive determination of every action and proceeding.”); *see also* Christine Gail Clark, *The Sky Is Falling—the Ali’s Efficient Response to Courts in Crisis?*, 1995 B.Y.U. L. REV. 997, 1002 (1995) (arguing that even though complex litigation will not stop the court system from functioning, “unfortunately, complex litigation can yield determinations that are slow, enormously expensive, and potentially unjust.”). *Id.*

duplicative discovery and trials on a state-by-state basis.⁹⁵ In the hypothetical situation described above, plaintiffs would have to file related causes of action in different courts, wasting court resources and leading to inconsistent adjudication.⁹⁶ According to professor Margarita Trevino de Coale, as multistate litigation increases in complexity it has also increased in cost.⁹⁷

B. The Federal Government's Dominant Interest in Patent Regulation Preempts States' Bad Faith Laws

Federal control extends so broadly over the field of patent law, that it thus should preempt Vermont's bad faith law.⁹⁸

Vermont's bad faith law creates a cause of action allowing the State of Vermont and targeted individuals or businesses to file suit against NPEs.⁹⁹ Additionally, the law makes it much more difficult for patent holders to notify infringers of a potential infringement.¹⁰⁰ Though not expressly intentional, the Vermont bad faith law has the

⁹⁵ Conway at 1100 (contending that if the same cause of action must take place repeatedly but in different states, attorneys would have to engage in expensive, duplicative and inconvenient pre-trial procedures).

⁹⁶ *Id.* at 1104 (stating that no method exists for consolidating multi-state claims).

⁹⁷ Margarita Trevino de Coale, *Stay, Dismiss, Enjoin, or Abstain?: A Survey of Foreign Parallel Litigation in the Federal Courts of the United States*, 17 B.U. INT'L L.J. 79, 84 (1999) (writing that the expense of inefficiencies resulting from litigating the same claim in multiple states has triggered calls for legislative and judicial reform). *Id.* at 84.

⁹⁸ *English v. Gen. Elec. Co.*, 496 U.S. 72, 79 (1990) (holding that field preemption occurs when federal law regulates conduct in a field that Congress "intended the Federal Government to occupy exclusively."). In *English*, the court had to determine whether federal laws preempt a state law cause of action for a tort. *Id.* at 74. The petitioner was a woman named English, who, while working at a nuclear power plant, had concerns about the safe practices of other employees. *Id.* English intentionally left nuclear material exposed in order to prove to her superiors that conditions at the plant were unsafe. *Id.* at 75. As a result, English was fired and escorted from the plant. *Id.* English filed suit for intentional infliction of emotional distress, a state-based tort. *Id.* Her employer, General Electric, argued that federal laws preempted the IIED suit, specifically, the Atomic Energy Act and the Energy Reorganization Act bar recovery for "whistleblowers" who deliberately cause a violation. *Id.* at 78. General Electric said these laws preempted English's IIED claim because the federal government has a better chance of promoting nuclear safety if it can deter deliberate acts of sabotage by employees. *English*, 496 U.S. at 82. In fields of regulation where the federal interest is extremely dominant, the federal system "will be assumed to preclude enforcement of state laws on the same subject." *Id.* at 79; *Cover*, 83 F.3d 1390, 1393 (holding that with "With respect to field pre-emption, Title 35 occupies the field of patent law."); *supra* discussion in Part III.A.

⁹⁹ VT. STAT. ANN. tit. 9, § 4199 (2013), *see* discussion *supra* Part II.B.

¹⁰⁰ VT. STAT. ANN. tit. 9, § 4197 (2013). Hypothetically speaking, Vermont's bad faith law creates numerous burdens on a patent holder seeking justice. Suppose a patent holder was a citizen of Illinois and numerous companies and businesses in Vermont, New York, Massachusetts, Connecticut and Florida were actively infringing upon this patent holder's rights. The patent holder would have to draft letters that were careful not to violate any of the 12 sources of evidence of bad faith. The bad faith law's section 4197(b)(1)(C) allows the court to find evidence of bad faith if a notification letter does not have "factual allegations concerning the specific areas in which the target's products, services, and technology infringe the patent or are covered by the claims in the patent." In order to comply with this section, the patent holder would have to do extensive research on each of the companies infringing its patents. Not only would this be time consuming and expensive. By their very nature, patent issues deal with new technology. It is possible that identification of the "specific area" in which an infringement occurs, could require the opinion of an expert. The Vermont bad faith

effect of adding uncertainty to patent litigation.¹⁰¹ Uncertainty in the outcome of patent litigation influences a patentee's decision to patent in the first place.¹⁰² This influence is a form of de facto control, or regulation.¹⁰³ State regulation cannot exist in the same field where the federal government has exclusive control over patent regulation.¹⁰⁴

The Constitution empowered Congress to create the patent system we have today.¹⁰⁵ Congress's compelling interest to see its creation of the Patent system succeed is pure tautology. This is evidenced by the fact that Congress wrote and passed laws to make the patent system operate properly.¹⁰⁶ Moreover, Congress created the Patent and Trademark office¹⁰⁷ and gave federal courts the power to enforce those laws.¹⁰⁸ All of this shows the existence of a legal system Congress wanted the federal

law lets the court make this determination. Moreover, it might not be entirely possible for a patent holder to be very specific about the areas in which an infringement occurs. At the pre-litigation stage, companies do not necessarily have a duty to cooperate with the patent holder, let alone answer the patent holder's telephone calls. Vermont's bad faith law also requires patent holders to offer to license the patent in question for "an amount that is not based on a reasonable estimate of the value of the license." *Id.* at § 4197(b)(5). A patent license may have more value in some states, as opposed to others (ie., inventions that help consumers during intense winters would have more value in Vermont, than they would in a warmer state like Alabama or Florida). If a patent holder recognizes that a patent infringement in one state is costing it more than a patent infringement in another state, the patent holder may require different sums of money.

¹⁰¹ VT. STAT. ANN. tit. 9, § 4199. The bad faith law does not specifically state anywhere that it was designed to regulate the patent process; Harry Surden, *Efficient Uncertainty in Patent Interpretation*, 68 WASH. & LEE L. REV. 1737, 1769 (2011) (reasoning that explicit, "on-point legal rules can still have open-texture legal categories at a high level of abstraction or discretion (e.g., "reasonable")." This criteria gives rise to "considerable *ex ante* uncertainty.") (hereinafter "Surden").

¹⁰² Surden, *supra* note 101, at 1749 (proposing the concept that inventors would be discouraged from investing in the kind of research needed to bring an invention to fruition if they do not have an efficient, certain method of recouping to their investment due to underpricing by copying competitors).

¹⁰³ *Cf.* De Facto, Black's Law Dictionary 479 (9th ed. 2009) (defining that term as "[a]ctual; existing in fact; having effect even though not formally or legally recognized"); *cf.* Metro. Taxicab Bd. of Trade v. City of New York, 633 F. Supp. 2d 83, 95 (S.D.N.Y. 2009) (holding that a law can be preempted if it "indirectly regulates within a preempted field in such a way that effectively mandates a specific, preempted outcome."); Metro. Taxicab Bd. of Trade v. City of New York, 615 F.3d 152, 156 (2d Cir. 2010) (holding that a law that references or even makes the existence of "preempted subject matter essential to the law's operation, then that state law is preempted by the federal law." *Id.* In *Metro*, the Second Circuit held that the federal Energy Policy and Conservation Act preempted a city's law that minimized the rate taxicab owners could lease vehicles to drivers if vehicles did not have hybrid or clean-diesel engines. *Id.* The Second Circuit held that the law was a de facto regulation related to fuel economy standards in conflict with the Energy Policy and Conservation Act and thus preempted. *Id.*

¹⁰⁴ See generally Part II.A. (explaining that Congress, empowered by the Constitution, has given the federal government exclusive control over patent law).

¹⁰⁵ U.S. CONST. art. I, § 8.

¹⁰⁶ 35 U.S.C. (2000).

¹⁰⁷ 35 U.S.C. § 1 (2000).

¹⁰⁸ Howard T. Markey, HOWARD T. MARKEY ON INTELLECTUAL PROPERTY: A COMPILATION OF HIS WRITINGS, OPINIONS, AND SPEECHES 1663 (William S. Hein & Co., Inc. 1998). In a lecture given at John Marshall Law School in 1990, Markey explained Congress's desire to fix what appeared to be numerous problems in the U.S. patent system. *Id.* The solution, Markey said, was the invention of the Court of Appeals for the Federal Circuit. *Id.* at 1665. Markey said, "In none of its efforts has the [Court of Appeals for the Federal Circuit] sought to structure a "new" or "improved" system, for that would be the role of Congress." *Id.*

government to run.¹⁰⁹ It is within this system where Vermont's bad faith law defies the broader standards for notice allowed in 35 U.S.C. § 287.

Room may exist within the holding of *Globetrotter* for a claim brought under Vermont's bad faith law to not be preempted.¹¹⁰ The holding in *Globetrotter* requires defenders of Vermont's bad faith law to distinguish the state's law from the state tort law questioned in *Globetrotter*.¹¹¹ The *Globetrotter* court requires evidence of bad faith patent assertion before allowing a state law to survive federal preemption.¹¹² The Vermont bad faith law, however, allows a cause of action merely when there is "a bad faith assertion of patent infringement."¹¹³ The court in *Globetrotter* held that federal patent laws preempt state laws that create liability for a patent holder's

"good faith conduct in communications asserting infringement of its patent and warning about potential litigation."¹¹⁴ The court in *Globetrotter* warned that a claim based on a state law creating liability would not survive unless the plaintiff ultimately proves bad faith,¹¹⁵ and that the plaintiff must base its claim on a substantial finding of actual bad faith.¹¹⁶ Under Vermont's bad faith law, however, a cause of action may be brought merely on the presumption that an NPE has issued a notification of patent infringement in bad faith.¹¹⁷

Vermont's bad faith law includes a list of factors under which a court may find evidence of bad faith.¹¹⁸ In *Globetrotter*, the court elaborated on the "jurisprudential background of the bad faith standard"¹¹⁹ and mentions that the Federal Circuit Court already defines bad faith.¹²⁰ The *Globetrotter* court noted that in *Golan v. Pingel Enterprise, Inc.*, bad faith exists when the patent holder sends a cease and desist letter knowing that "the patent is invalid, unenforceable, or not infringed, yet represents to

¹⁰⁹ Nguyen at 449 (reasoning that Patent law is federal law, "so the appropriate body to initiate and facilitate patent-law reform is the federal government.").

¹¹⁰ *Globetrotter Software, Inc. v. Elan Computer Grp., Inc.*, 362 F.3d 1367, 1374 (Fed. Cir. 2004) (holding that to avoid preemption, "bad faith must be alleged and ultimately proven, even if bad faith is not otherwise an element of the tort claim."); James B. Kobak, Jr. *The Federal Circuit As A Competition Law Court*, 83 J. PAT. & TRADEMARK OFF. SOC'Y 527, 530 (2001) (restating the line of decision that say in terms of state tort actions, the Federal Circuit requires bad faith to be "pleaded and proved to avoid conflict preemption with patent laws.").

¹¹¹ *Globetrotter*, 362 F.3d at 1370. In *Globetrotter*, the appellant claimed that an e-mail alleging patent infringement caused "tortious interference with prospective economic advantage and unfair competition," under a state-law tort. *Id.* at 1377.

¹¹² *Id.* (holding that an "objectively baseless test" should be applied where a party challenges "statements made in cease-and-desist letters by a patentee asserting its patent rights.").

¹¹³ VT. STAT. ANN. tit. 9, § 4197 (2013).

¹¹⁴ *Globetrotter* 362 F.3d at 1377.

¹¹⁵ *Id.* at 1374.

¹¹⁶ *Id.* at 1377 (explaining that the court's decision to allow state-law tort liability "for only objectively baseless allegations of infringement rests on both federal preemption and the First Amendment.").

¹¹⁷ VT. STAT. ANN. tit. 9, § 4195 (explaining that the purpose of the bad faith law is to "protect Vermont businesses from abusive and bad faith assertions of patent infringement. Section 4199 of the statute allows a "target of conduct involving assertions of patent infringement, or a person aggrieved by a violation of this chapter or by a violation of rules adopted under this chapter," to bring an action in Vermont's state court). VT. STAT. ANN. tit. 9, § 4199.

¹¹⁸ See *supra* note 62 and accompanying text.

¹¹⁹ *Id.* at 1375.

¹²⁰ *Id.* at 1377 (citing *Golan v. Pingel Enter., Inc.*, 310 F.3d 1360 (Fed. Cir. 2002)).

the marketplace that a competitor is infringing the patent.”¹²¹ By issuing an express standard of bad faith, a law like Vermont’s bad faith law outlaws conduct protected by the federal government.¹²² Such competition would make it difficult for a patent holder like MPHJ to comply with the intent of Congress¹²³ and the laws of Vermont.¹²⁴ Vermont’s bad faith law, although a consumer protection law, conflicts with federal patent laws because it outlaws the federally protected act of sending a notification of potential infringement.¹²⁵ When an actual conflict between state law and federal law can be identified, we are to assume that Congress did not want there to be a conflict.¹²⁶ The existence of such a conflict leads to conflict preemption, leaving any state law conflicting with federal law “without effect.”¹²⁷

C. Vermont’s Bad Faith law is Unconstitutional

Even if federal law does not preempt Vermont’s bad faith law, it may be unconstitutional on the grounds that it prevents an NPE from seeking government assistance.¹²⁸ That is, unless the NPE’s effort to petition the government was a “sham.”¹²⁹ This raises the question of what constitutes a “sham” attempt to petition

¹²¹ *Golan v. Pingel Enter., Inc.*, 310 F.3d 1360, 1371 (Fed. Cir. 2002) (citing *Zenith Electronics Corp. v. Exzec, Inc.*, 182 F.3d 1340, 1353 (Fed. Cir. 1999)) (holding that the Federal Circuit Court has at times “recognized that a patentee’s statements regarding its patent rights are conditionally privileged under the patent laws, so that such statements are not actionable unless made in bad faith.”).

¹²² *Hunter Douglas, Inc. v. Harmonic Design, Inc.*, 153 F.3d 1318, 1335 (Fed. Cir. 1998) (overruled on other grounds by *Midwest Indus., Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356 (Fed. Cir. 1999)) (holding that if “a plaintiff bases its tort action on conduct that is protected or governed by federal patent law, then the plaintiff may not invoke the state law remedy, which must be preempted for conflict with federal patent law.”).

¹²³ *Dunlap*, 152 U.S. at 246, *supra* note 40 and accompanying text.

¹²⁴ VT. STAT. ANN. tit. 9, § 4197.

¹²⁵ *See supra* note 122 and accompanying text; *compare* *C.R. Bard, Inc. v. M3 Sys., Inc.*, 157 F.3d 1340, 1369 (Fed. Cir. 1998) (holding that the right to assert a duly granted patent is protected by the presumption that the assertion is made in good faith), *with* VT. STAT. ANN. tit. 9, § 4197 (mandating that “A person shall not make a bad faith assertion of patent infringement.”).

¹²⁶ *Geier v. Am. Honda Motor Co., Inc.*, 529 U.S. 861, 885 (2000). In *Geier*, the court held that the National Traffic and Motor Vehicle Safety Act preempts a plaintiff’s state law cause of action. *Id.* In *Geier*, the petitioner was driving a car built by the American Honda Motor Company when he crashed into a tree. *Id.* at 865. At the time of the car’s manufacture, the National Traffic and Motor Vehicle Safety Act allowed automobile manufacturers to decide whether or not to install airbags. *Id.* *Geier* sued Honda under District of Columbia tort law. *Id.* The court, in its holding, reasoned that “one can assume that Congress or an agency ordinarily would not intend to permit a significant conflict.” *Id.* at 885.

¹²⁷ *Cipollone v. Liggett Grp., Inc.*, 505 U.S. 504, 516 (1992) (holding that “it has been settled that state law that conflicts with federal law is “without effect.”). *Id.*

¹²⁸ *E. R. R. Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127, 138 (1961) (holding that “[t]he right of petition is one of the freedoms protected by the Bill of Rights, and we cannot, of course, lightly impute to Congress an intent to invade these freedoms.”). *Id.* In *Noerr*, truck operators filed suit against several railroads, claiming that the railroads colluded to destroy public opinion of the trucking industry. *Id.* at 129. The railroads had hired a public relations firm with the apparent plan to persuade lawmakers to pass laws aimed at the trucking industry. *Id.*

¹²⁹ *Id.* at 144. The right to petition the government — as recognized in *Noerr* — was later extended to courts in *Cal. Motor Transp. Co. v. Trucking Unlimited*, which held that “the right to

the government.¹³⁰ In *Prof'l Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc.*, the court said an alleged sham lawsuit exists if it is “objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits; and only if challenged litigation is “objectively meritless may a court examine the litigant’s subjective motivation.”¹³¹ Most federal circuit courts have extended this test to situations “outside of actual litigation.”¹³² Some courts have also extended this standard to bar state-law liability.¹³³

Vermont’s bad faith law toughens the “sham lawsuit test,” making it more difficult for patent holders to petition the government and potentially denying them a constitutional right.¹³⁴ For instance, Vermont’s bad faith law says that bad faith can be found if a “demand letter demands payment of a license fee or response within an unreasonably short period of time.”¹³⁵ Suppose a patent holder sent notices of infringement and sought payment of a licensing fee within four weeks. Under the Vermont bad faith law, in order for the courts to determine whether or not four weeks is reasonable or unreasonable, they must question the patent holder’s subjective motivation for offering four weeks.¹³⁶ Under the “sham lawsuit test” in *Prof'l Real Estate Investors, Inc.*, however, courts may not question the subjective intent of the patent holder unless “no reasonable litigant could realistically expect success on the merits.”¹³⁷ This subjective analysis takes place whether or not the patent holder’s letter notifying infringement was based on merit.¹³⁸ In contrast, Vermont’s bad faith law has the potential to stop a patent holder from accessing the courts.¹³⁹ But, as has been demonstrated, a party has the constitutional right to access the courts under *Noerr/ Prof'l Real Estate Investors, Inc.* and its progeny.¹⁴⁰

petition extends to all departments of the Government. The right of access to the courts is indeed but one aspect of the right of petition.”). *California Motor Transp. Co. v. Trucking Unlimited*, 404 U.S. 508, 510, (1972).

In *California Motor Transp. Co.*, a trucking company alleged that a competing trucking company filed numerous state and federal proceedings against them in an effort to monopolize trade in commerce and goods. *Id.* at 509.

¹³⁰ *Prof'l Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49, 60 (1993).

¹³¹ *Id.*

¹³² *Globetrotter Software, Inc. v. Elan Computer Grp., Inc.*, 362 F.3d 1367, 1376 (Fed. Cir. 2004).

¹³³ *Id.*

¹³⁴ *California Motor Transp. Co.*, 404 U.S. at 510, *supra* note 99 and accompanying text.

¹³⁵ VT. STAT. ANN. tit. 9, § 4197 (2013). The Vermont bad faith law allows courts to find evidence of bad faith based on other conditions that require subjective analysis. This includes finding bad faith if the patent holder does not give the infringer requested information about the law suit in a “reasonable period of time,” or if the demand letter requires payment of a license fee within an “unreasonably short period of time,” if the patent holder “knew, or should have known, that the claim or assertion is meritless.” *Id.*, *supra* note 100 and accompanying text.

¹³⁶ See *supra* note 135 and accompanying text.

¹³⁷ *Prof'l Real Estate Investors, Inc.*, 508 U.S. at 60.

¹³⁸ *Id.*

¹³⁹ VT. STAT. ANN. tit. 9, § 4195 (stating in its statement of purpose that the bad faith law “seeks to facilitate the efficient and prompt resolution of patent infringement claims,” meaning a patent infringement claim could end at this point in the procedural process of patent infringement lawsuit).

¹⁴⁰ See *supra* note 128 and accompanying text; Dan Fligsten, *Big Doctrine the U.S. Supreme Court May Ultimately Decide How Far Noerr-Pennington Applies Outside the Antitrust Context*, L.A. LAW., (February 2014), at 25 (summarizing that the *Noerr-Pennington* Doctrine gives immunity to those who initiate a lawsuit or submit forms required for the approval of government action); Joseph B. Maher, *Survival of the Common Law Abuse of Process Tort in the Face of A Noerr-Pennington Defense*,

IV. PROPOSAL

Despite an intensely polarized Congress,¹⁴¹ in December 2013,¹⁴² the House of Representatives passed the Innovation Act,¹⁴³ which would have required greater specificity in patent infringement demand letters.¹⁴⁴ The Act explains Congress's concern with the abuse of patent infringement demand letters.¹⁴⁵ The Act would require, minimally, that demand letters contain "basic information about the patent in question, what is being infringed, and how it is being infringed."¹⁴⁶ According to the Act, demand letters that do not contain this information would be considered "fraudulent or deceptive" and potentially "abusive."¹⁴⁷ The act also places pressure on parties asserting potentially frivolous patent infringement lawsuits by allowing the court to award "reasonable fees and other expenses" to the prevailing party.¹⁴⁸

On May 21, 2014, the U.S. Senate removed the Innovation Act from its Senate Judiciary Committee's agenda.¹⁴⁹ As a result, most commentators believe the bill is not likely to pass.¹⁵⁰ The New York Times and the technology news Website ArsTechnica.com blame trial lawyer lobbyists and pharmaceutical companies for killing the Innovation Act at the last minute.¹⁵¹

65 U. CHI. L. REV. 627, 629 (1998) (summarizing the *Noerr-Pennington* doctrine as being a constitutionally rooted legal interpretation that "must prevail over an inconsistent state law cause of action" that would prevent a party from bring a lawsuit to court).

¹⁴¹ Josh Kraushaar, *The Most Divided Congress Ever, At Least Until Next Year*, NATIONAL JOURNAL (Feb. 6, 2014) (<http://www.nationaljournal.com/2013-vote-ratings/the-most-divided-congress-ever-at-least-until-next-year-20140206>) (opining that in 2013 "no Senate Democrat was more conservative than a Senate Republican—and no Senate Republican was more liberal than a Senate Democrat.").

¹⁴² Timothy B. Lee, *Patent Reform Bill Passes the House 325 to 91*, WASHINGTON POST (Dec. 5, 2013) (<http://www.washingtonpost.com/blogs/the-switch/wp/2013/12/05/the-house-votes-on-patent-reform-today-heres-what-you-need-to-know/>).

¹⁴³ Innovation Act, H.R. 3309 113th Cong. (2013). (hereinafter "The Innovation Act").

¹⁴⁴ *Id.*

¹⁴⁵ *Id.*

¹⁴⁶ *Id.*

¹⁴⁷ *Id.*

¹⁴⁸ *Id.*

¹⁴⁹ Edward Wyatt, *Legislation to Protect Against 'Patent Trolls' Is Shelved*, THE NEW YORK TIMES (May 21, 2014) (http://www.nytimes.com/2014/05/22/business/legislation-to-protect-against-patent-trolls-is-shelved.html?_r=1).

¹⁵⁰ *Id.* (referring to the Innovation Act as "all but dead."); Klint Finley, *U.S. Senate Drives a Stake Through Heart of Patent Reform*, WIRED (May 21, 2014) (<http://www.wired.com/2014/05/rip-innovation-act/>) (reporting that business leaders outside of government do not expect the act to be reintroduced); Erin Mershon and Tony Romm, *Patent Reform Hits Dead End in Senate*, POLITICO (May 21, 2014) (<http://www.politico.com/story/2014/05/patent-reform-senate-106968.html>) (reporting that the Innovation Act bill has been put "on hold indefinitely.").

¹⁵¹ Joe Mullin, *How the Patent Trolls Won in Congress*, ARS TECHNICA (May 23, 2014) (<http://arstechnica.com/tech-policy/2014/05/how-the-patent-trolls-won-in-congress/>) (quoting unnamed sources close to the Innovation Act's negotiations who say Senator Harry Reid was influenced by Pharmaceutical companies and trial lawyers to kill the bill); Edward Wyatt, *Legislation to Protect Against 'Patent Trolls' is Shelved*, NEW YORK TIMES (May 21, 2014) (http://www.nytimes.com/2014/05/22/business/legislation-to-protect-against-patent-trolls-is-shelved.html?_r=1) (explaining that "heavy lobbying by pharmaceutical and biotechnology companies, universities and trial lawyers prevented the bill from advancing.").

A. Congress Should Allow Victorious Defendants to Recover Damages From Losing Plaintiffs

In American jurisprudence, in most cases, plaintiffs who lose a civil suit do not have to pay the attorney's fees of the triumphant defendant.¹⁵² There are exceptions to that rule, like the exception for a frivolous lawsuit filed in bad faith.¹⁵³

Patent law allows the winner of a patent dispute to receive attorney fees as an award, but limits these awards to "exceptional cases."¹⁵⁴ The now stalled Innovation Act would have allowed broader attorney fee shifting.¹⁵⁵ The act would have required courts to award "reasonable fees and other expenses."¹⁵⁶

By dropping the Innovation Act and its broad allowance of "reasonable fees," Congress lost out on an opportunity to discourage frivolous patent infringement letters.¹⁵⁷ Now, Congress should refocus its efforts on a fee shifting, "loser pays" provision.¹⁵⁸ Doing so would help reduce the problem caused by frivolous or vague demand letters.¹⁵⁹

¹⁵² John F. Vargo, *The American Rule on Attorney Fee Allocation: The Injured Person's Access to Justice*, 42 AM. U. L. REV. 1567, 1569 (1993) (hereinafter "Vargo"); see also *Arcambel v. Wisemen* 3 U.S. 306 (1796) (holding that a plaintiff cannot receive damages and attorney's fees because "The general practice of the United States is in opposition to" awarding of attorney's fees to plaintiffs who also win damages). *Id.*

¹⁵³ *F.D. Rich Co., Inc. v. U.S. for Use of Indus. Lumber Co., Inc.*, 417 U.S. 116, 129 (1974). In *F.D. Rich* the court held that the "American rule" is not an "absolute bar to shifting of attorneys' fees." *Id.* See also Vargo at 1578 (listing contracts as another example of an exception to the American Rule).

¹⁵⁴ 35 U.S.C. § 285 (2012).

¹⁵⁵ Innovation Act, H.R. 3309 113th Cong. (2013) (hereinafter the "Innovation Act").

¹⁵⁶ *Id.* Compare the Innovation Act (requiring courts to award prevailing parties with "reasonable fees and other expenses," with 35 U.S.C. § 285 (giving the court discretion over whether or not to award only "reasonable attorney fees" to the prevailing party).

¹⁵⁷ The Innovation Act. The "Fees and other expenses" section of the Innovation Act is crafted to avoid concerns that less resourceful patent holders may be discouraged from filing suit, given the potential for severe economic hardship. The statute says,

The court shall award, to a prevailing party, reasonable fees and other expenses incurred by that party in connection with a civil action in which any party asserts a claim for relief arising under any Act of Congress relating to patents, unless the court finds that the position and conduct of the nonprevailing party or parties were reasonably justified in law and fact or that special circumstances (such as severe economic hardship to a named inventor) make an award unjust ... If a nonprevailing party is unable to pay an award that is made against it under subsection (a), the court may make a party that has been joined under section 299(d) with respect to such party liable for the unsatisfied portion of the award.

The Innovation Act.

¹⁵⁸ See generally, Francis J. Carney, *"Loser Pays"--Justice for the Poorest and the Richest, Others Need Not Apply*, UTAH B.J., May 1995, at 18 (arguing that, a system where the losing plaintiff in certain tort suits pays a defendant's attorney fees, is unjust). This comment borrows the term "loser pays" from Carney's comment.

¹⁵⁹ Cf. Christopher Hu, *Some Observations on the Patent Troll Litigation Problem*, 26 INTELL. PROP. & TECH. L.J. 10, 12 (2014) (suggesting that a more realistic method of recovering attorney fees and costs would encourage defendants to fight frivolous patent suits).

B. A “Loser Pays” Rule Would Discourage Bad Faith Demand Letters

A party must send a letter notifying a party of potential patent infringement as one of the first steps in patent litigation.¹⁶⁰ Imagine if a broader “loser pays,” fee-shifting rule became law, as this comment supports. Suppose an NPE like MPHJ Technology Investments wanted to sue businesses and individuals for using scanners and e-mail in a way that violated MPHJ’s patents. Before sending out the hundreds of demand letters to these alleged patent infringers, MPHJ would have to consider the possibility of paying the legal fees of every one of those potential defendants, if those defendants win. Ideally, this would force MPHJ to send demand letters only to infringers against whom they have substantiated claims. Wanting to avoid the cost of paying for many defendants’ legal fees, MPHJ would be forced to focus on a few strong cases to test. This would have two benefits. In one way, many businesses would be spared the headache of a patent infringement demand letter.

The second advantage would be toward businesses that have not sued. These businesses would have time to analyze the outcome of MPHJ’s lawsuit against that core group of alleged infringers.¹⁶¹ These Non-defendant businesses could decide whether to pay a licensing fee or fight a potential lawsuit, based on the outcome of the litigation between MPHJ and the more substantial infringers. In effect, the number of frivolous notifications of infringement would likely decrease.¹⁶² Additionally, the quality and precision of the demand letters would increase in order to avoid netting defendants with strong chances of prevailing in trial. With fewer broad or vague demand letters, bad faith challenges would also likely decrease. This is because hypothetically, the NPEs would be incentivized to send demand letters only in good faith.¹⁶³

¹⁶⁰ 35 U.S.C. § 287 (2012). *See also* discussion *supra* Part II.A. (noting that when a patent holder files suit against an alleged infringer, federal laws regulating notification of potential infringement must be followed).

¹⁶¹ *But cf.* Robert L. Stoll, *Maintaining Post-Grant Review Estoppel in the America Invents Act: A Call for Legislative Restraint*, 2012 PATENTLY-O PAT. L.J. 1, 3 (2012) (mentioning that the America Invents Act creates a new trial proceeding at the United States Patent and Trademark Office called “post-grant review.”). Congress intended for the review to be a more affordable alternative to validity challenges. *Id.* Stoll writes that the post grant review is based on the “same invalidity grounds that an accused infringer can assert as a defense in litigation.” *Id.*

¹⁶² *Cr.* Vargo at 1585 (writing that courts award attorney fees to winning defendants to discourage plaintiffs from asserting non-meritorious claims, and that this is done as an effective way to discourage abuse of the judicial system).

¹⁶³ The Innovation Act (stating that Congress believes sending out “purposely evasive demand letters to end users alleging patent infringement” abuses the patent system and requiring that a party filling a patent claim include more detailed information about the specific claim, like *e.g.* the identification of each patent related to the claim, identification of each accused process, machine, manufacture involved in the claim and a “clear and concise description of the principal business, if any, of the party alleging infringement.” The Innovation Act also would have then amended section 285 of Title 35 to allow the court to award “to a prevailing party, reasonable fees and other expenses incurred by that party in connection with a civil action in which any party asserts a claim for relief arising under” federal patent laws).

C. Fee-Shifting Solves Problems With Unconstitutional State Laws

Passing a national law that mirrors Vermont's bad faith law might potentially avoid preemption. This proposal, however, would still violate an NPE's right to seek redress through the government.¹⁶⁴ By implementing a "loser pays" rule, the states and the federal government would have less need for laws that challenge the good or bad faith of a demand letter.¹⁶⁵ Not all small businesses will have the money needed to defend a patent suit, merely hoping that the court will ultimately decide in their favor and reimburse them. But if the threat of fee shifting became available, states would have less of a need to regulate notice of infringement letters.¹⁶⁶ Thus, the states would not violate the NPE's constitutional right to file suit.¹⁶⁷

V. CONCLUSION

The State of Vermont reacted to the negative impact that frivolous or predatory patent infringement lawsuits have on its businesses.¹⁶⁸ It is also clear that NPEs cost private businesses significant, unwanted costs.¹⁶⁹

These non-practicing entities have gained mythic status for their seemingly sinister tactics.¹⁷⁰ Thus, many in the media refer to NPEs as patent trolls.¹⁷¹

¹⁶⁴ See also Part III.C. (arguing that the right to seek redress in the courts is protected by the First Amendment; *supra* note 129 and accompanying text.

¹⁶⁵ See discussion in Part IV.A.2. (explaining that the presence of a "loser pays" rule would discourage NPEs from sending multiple demand letters and thus minimize the need to scrutinize the remaining demand letters.

¹⁶⁶ *Id.*

¹⁶⁷ *Id.*

¹⁶⁸ See *supra* note 22 and accompanying text.

¹⁶⁹ James Bessen & Michael J. Meurer, *The Direct Costs from NPE Disputes*, 99 CORNELL L. REV. 387, 389 (2014) (estimating that lawsuits or threats of lawsuits by NPEs have cost private companies \$29 billion). Bessen and Meurer argue that the costs of defending NPE lawsuits results in a social loss. *Id.* Their survey of large and small companies that dealt with NPE lawsuits revealed that NPE litigation is more expensive for smaller businesses. *Id.* at 388. Bessen and Meurer also found that the median total litigation cost for small and medium-sized companies is \$318,000 and \$646,000 for large companies. *Id.* at 404.

¹⁷⁰ See James F. McDonough III, *The Myth of the Patent Troll: An Alternative View of the Function of Patent Dealers in an Idea Economy*, 56 EMORY L.J. 189, 190 (2006) (taking a defensive stance toward the concept of the patent troll) (hereinafter "McDonough"); see also Sannu K. Shrestha, *Trolls or Market-Makers? An Empirical Analysis of Nonpracticing Entities*, 110 COLUM. L. REV. 114 (2010) (pointing out how critics of NPEs have been accused of using weak and vague patents to file suit and "engage in frivolous infringement litigation.").

¹⁷¹ See, e.g., Sam Gustin, *This is How the Patent Trolls and Trial Lawyers Won*, TIME, (May 24, 2014) (<http://time.com/111639/patent-reform/>) (referring to NPEs as "so-called patent trolls"); Edward Wyatt, *Legislation to Protect Against Patent Trolls' Is Shelved*, NEW YORK TIMES (May 21, 2014) (http://www.nytimes.com/2014/05/22/business/legislation-to-protect-against-patent-trolls-is-shelved.html?_r=0) (reporting that companies targeted by the Innovation Act are "widely known as patent trolls"); Ruth Simon and Angus Loten, *States Revise Laws to Curb 'Patent Trolls'*, WALL STREET JOURNAL (May 21, 2014) (<http://online.wsj.com/news/articles/SB10001424052702304422704579574293500331028>) (reporting that companies targeted by the Innovation Act are known as "so-called patent trolls"); Michael Hiltzik, *Patent Trolls Win a Huge Victory in Congress*, LOS ANGELES TIMES, (May 30, 2014)

Additionally, legal theories aimed at stopping a “troll’s” practices have become favored.¹⁷² It should be obvious then, to see why few legal scholars seem willing to take the side of these NPE’s and argue in favor of them.¹⁷³ However, while NPEs do not have a right to file an intentionally frivolous patent claim¹⁷⁴, it should be remembered that they have the same property rights as other patent holders.¹⁷⁵

The federal government has had a difficult time curbing the negative effects of NPE lawsuits for patent infringement.¹⁷⁶ Naturally, states seek to fill this vacuum. State governments, compelled by constituent political pressures¹⁷⁷ will follow Vermont’s lead in combatting NPEs.¹⁷⁸ These state-based, bad faith laws, however, undermine the existing federal patent system and may block the constitutional rights of an NPE.¹⁷⁹ Congress can prevent this confusion and protect businesses by enacting laws that allow fee shifting for bad faith demand letters.¹⁸⁰ Consequently, the states would not need to invent their own methods of deterring frivolous patent litigation.

(<http://www.latimes.com/business/hiltzik/la-fi-mh-patent-trolls-20140530-column.html>) (referring to companies as patent trolls, but indicating the phrase as a label by merely using quotation marks).

¹⁷² See generally, McDonough (arguing throughout that “contrary to popular belief,” NPEs do society well).

¹⁷³ Sannu K. Shrestha, *Trolls or Market-Makers? An Empirical Analysis of Nonpracticing Entities*, 110 COLUM. L. REV. 114, 131 (2010) (discussing its conclusion that the debate over NPEs continues, “the general perception that has developed in the past few years is that on balance, [NPEs] have been detrimental to innovation.”).

¹⁷⁴ *Supra* note 83 and accompanying text.

¹⁷⁵ M. Jones at 1041 (noting that non practice entities or “patent trolls,” despite their label, “may either generate patents itself or acquire patents through transactions with inventors,” and that, rather than practice a patented invention, an NPE still has the right to “enforce the patent right through the negotiation of licenses against those who infringe on the patent.”).

¹⁷⁶ John R. Thomas, *Collusion and Collective Action in the Patent System: A Proposal for Patent Bounties*, 2001 U. ILL. L. REV. 305, 306 (2001) (writing that critics of the patent system have “urged that patent attorneys are “stealing our future,” and generally declared the patent system to be in a state of crisis.”); Michael Astorino, *Obviously Troublesome: How High Should the Standard Be for Obtaining A Patent*, 89 J. PAT. & TRADEMARK OFF. SOC’Y 239, 247-48 (2007) (writing that existing low patent standards empowered Patent Trolls to file patent litigation, forcing some patent holders have to resort to “defensive patenting to avoid potentially expensive licensing fees.”).

¹⁷⁷ As businesses or individuals continue to demand letters from NPEs, they will naturally look to the government for help.

¹⁷⁸ E.g., Jessica M. Karmasek, *Patent Troll Law Goes into Effect in Georgia*, LEGAL NEWSLINE (July 24, 2014), (<http://legalnewsline.com/news/250713-patent-troll-law-goes-into-effect-in-georgia>) (reporting that the Georgia law was based off of Vermont’s bad faith law); Scott Wartman, *Kentucky Lawmakers Look to Take Out Patent Trolls*, CINCINNATI.COM (March 10, 2014), (<http://www.cincinnati.com/story/news/politics/2014/03/10/kentucky-lawmakers-look-take-patent-trolls/6278733/>) (reporting that Kentucky was the third state to introduce laws similar to Vermont’s bad faith law) Joe Mullin, *Ten States Pass Anti-Patent-Troll Laws, With More to Come*, ARS TECHNICA (May 15, 2014), (<http://arstechnica.com/tech-policy/2014/05/fight-against-patent-trolls-flags-in-the-senate-but-states-push-ahead/>) (reporting that 27 states have considered laws similar to Vermont’s bad faith law and that as of May, 2014, 10 states had signed laws that are similar to Vermont’s bad faith law).

¹⁷⁹ See Part III (describing how Vermont’s bad faith law conflicts with existing Federal Law and conflicts with cases that protect an NPE’s right to bring a law suit to court.

¹⁸⁰ See Part III (proposing that fee shifting will discourage NPEs from issuing frivolous letters alleging patent infringement).