

**NORTH CAROLINA ABUSIVE PATENT ASSERTIONS ACT: A
POWERFUL GUN, BUT WILL IT HOLD UP IN A GUNFIGHT?**

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In the wake of press reports of abusive patent behavior, the North Carolina legislature followed other states and passed a state law designed to curb abusive patent practices. The Abusive Patents Assertions Act (the Act), passed in 2014, creates a state law tort action for a bad faith assertion of patent infringement. A business that believes it has been targeted by a baseless assertion of patent rights can bring suit under the law or bring a counterclaim to patent infringement. The Act provides many other benefits, such as the ability of the Attorney General to join the case, and requires the patent holder to put up a bond to ensure it pays damages in the event that it loses. While the Act provides benefits, because patent law is federal subject matter, the Act also might be vulnerable to preemption by Federal law.

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I. INTRODUCTION

A patent grants an inventor a limited monopoly in exchange for the disclosure of his or her invention to the public.¹ Under United States patent law, when an individual or company, “without authority, makes, uses, offers to sell, or sells any patented invention” during the term of the patent, that entity is liable for patent infringement.² Inventors and technology companies use patent infringement actions to enforce their patent rights.

Patent plaintiffs may be categorized according to their entity status such as a startup, product company, individual, failed business, university, or entity that acquired the patents.³ The majority of these classification examples may not practice the invention.⁴ Therefore, Non-Practicing Entities (NPEs)—entities that own patents but do not make the invention—are more common than one might think. There is no legal requirement that an entity asserting patent rights practice the patented invention.⁵ Therefore, NPEs may assert their patent rights and obtain revenue from licensing their patents or damages from infringers.

¹ The monopoly is currently 20 years from filing, but can be adjusted due to patent office delays. 35 U.S.C. § 154(a)(2) (2014).

² 35 U.S.C. § 271(a) (2014).

³ See, e.g., John R. Allison et al., *Extreme Value or Trolls on Top? The Characteristics of the Most-Litigated Patents*, 158 U. PA. L. REV. 1, 20–25 (2009).

⁴ *Id.*

⁵ The Patent Act grants the “patentee, his heirs or assigns, of the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States.” 35 U.S.C. § 154(a)(1). No requirement to practice the invention in order to maintain patent rights exists in the statute. See generally 35 U.S.C. §§ 101–390 (2014). Additionally, the infringement definitions within the Patent Act make no reference to a patent holder being required to practice the invention, see, for example, the definition for direct infringement, “[e]xcept as otherwise provided in this title, whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent.” *Id.* § 271.

Over the last few years, the number of suits filed by NPEs has risen dramatically.⁶ While NPEs have long targeted high-tech companies in high-stakes legal battles,⁷ the targeting of end users of technology has generated considerable press.⁸ Accordingly, the actions of NPEs have recently been subject to a great deal of criticism,⁹ political attention,¹⁰ legislation,¹¹ and legal action.¹²

⁶ See James R. Copland, *Patent Trolls: A Report on the Litigation Industry's Intellectual Property Line of Business*, CTR. FOR LEGAL POLICY AT THE MANHATTAN INST., TRIAL LAW. INC., Update No. 11, July 2013, http://www.manhattan-institute.org/pdf/tli_update_11.pdf.

⁷ Examples of patent trolls targeting large tech companies include Oasis Research LLC and GPNE Corporation. See, e.g., Joel Rosenblatt, *Apple Promptly Calls Out 'Patent Troll' After Trial Win*, BLOOMBERG (Oct. 23, 2014 12:01 AM), <http://www.bloomberg.com/news/articles/2014-10-22/apple-says-it-defeated-gpne-patent-infringement-case-at-trial>; Patricia Resende, *Carbonite, EMC Prevail in Fight Against 'Patent Trolls'*, BOSTON BUSINESS JOURNAL (Apr. 8, 2013, 2:48 PM), <http://www.bizjournals.com/boston/blog/techflash/2013/04/carbonite-emc-prevail-in-fight.html>. MPHJ has also sued Coca-Cola and Dillard's. See Joe Mullin, *Notorious "Scan-to-Email" Patents Go Big, Sue Coca-Cola and Dillard's*, ARS TECHNICA (Jan. 6, 2014, 11:30 PM), <http://arstechnica.com/tech-policy/2014/01/notorious-scan-to-email-patents-go-big-sue-coca-cola-and-dillard/s/>.

⁸ Patent trolls often target small businesses that are not technology companies including MPHJ (Project Paperless). See, e.g., Joe Mullin, *Patent Trolls Want \$1,000 – For Using Scanners*, ARS TECHNICA (Jan. 2, 2013, 9:30 AM), <http://arstechnica.com/tech-policy/2013/01/patent-trolls-want-1000-for-using-scanners/>; Gregory Thomas, *Innovatio's Infringement Suit Rampage Expands To Corporate Hotels*, THE PATENT EXAMINER (Sept. 30, 2011), <http://patentexaminer.org/2011/09/innovatio-infringement-suit-rampage-expands-to-corporate-hotels/>.

⁹ See Joe Mullin, *Wi-Fi Patent Troll Hit with Racketeering Suit Emerges Unscathed*, ARS TECHNICA (Feb. 13, 2013, 10:05 AM), <http://arstechnica.com/tech-policy/2013/02/wi-fi-patent-troll-hit-with-novel-anti-racketeering-charges-emerges-unscathed/>; Joe Mullin, *Angry Entrepreneur Replies to Patent Troll with Racketeering Lawsuit*, ARS TECHNICA (Sept. 16, 2013, 5:42 PM), <http://arstechnica.com/tech-policy/2013/09/angry-entrepreneur-replies-to-patent-troll-with-racketeering-lawsuit/>; Timothy K. Wilson, *Patent Trolls Threaten All Industries, Not Just Tech*, SAS BLOGS (Feb. 19, 2014), <http://blogs.sas.com/content/sascom/2014/02/19/patent-trolls-threaten-all-industries-not-just-tech/>.

¹⁰ President Barack Obama has acknowledged the problem. See Ali Sternburg, *Obama Acknowledges Patent Troll Problem*, PATENT PROGRESS (Feb. 14, 2013), <http://www.patentprogress.org/2013/02/14/obama-acknowledges-patent>

NPEs are sometimes referred to pejoratively as “patent trolls,”¹³ but this paper makes no judgment about which, if any, NPEs should be labeled as such.

troll-problem-w-transcript/. Representative Bob Goodlatte has also made efforts to curb trolls. See David Boag, *Rep. Bob Goodlatte's 43-Day Assault On The Patent Troll*, TECHCRUNCH.COM (Dec. 13, 2013), <http://techcrunch.com/2013/12/13/rep-goodlattes-43-day-assault-on-the-patent-troll/>.

¹¹ Proposed Federal Legislation: Innovation Act, H.R. 9, 114th Cong. (2015); Patent Abuse Reduction Act, S. 1013, 113th Cong. (2013); Patent Litigation Integrity Act, S. 1612, 113th Cong. (2013); Transparency on Assertion of Patents Act, S. 2049, 113th Cong. (2014); Patent Fee Integrity Act, S. 2146, 113th Cong. (2014); Trade Protection Not Troll Protection Act, H.R. 4763, 113th Cong. (2014); Innovation Act, H.R. 3309, 113th Cong. (2013). For some of the policy debate, see Richard Haase, *Local View: Government-Sponsored Patent Trolling is Serious Threat*, LINCOLN J. STAR (Oct. 24, 2014), http://journalstar.com/news/opinion/editorial/columnists/local-view-government-sponsored-patent-trolling-is-serious-threat/article_9a3cc6bf-70a4-58a5-b42e-d7caa834d2eb.html; Brad Stone, *Engineers Fight Patent Reform, Not Patent Trolls*, N.Y. TIMES BITS BLOG, (Aug. 30, 2007, 2:52pm), http://bits.blogs.nytimes.com/2007/08/30/engineers-fight-patent-reform-not-patent-trolls/?_r=0. Several states have also passed legislation. See, e.g., *Patent Progress's Guide to State Patent Legislation*, PATENT PROGRESS, <http://www.patentprogress.org/patent-progress-legislation-guides/patent-progress-guide-state-patent-legislation/> (last visited Feb. 13, 2016); see also Scott Burt, *Patent Trolls Go to Washington, or How U.S. Politicians are Rallying Against Extortionist Demand Letters*, CONVERSANT ON IP, (July 18, 2014), <http://www.conversantip.com/blog/patent-trolls-go-to-washington-or-how-u-s-politicians-are-rallying-against-extortionist-demand-letters/>.

¹² See Johnathan Stempel, *New York Bears Down on Patent Trolls, Settles with Delaware Firm*, REUTERS (Jan. 13, 2014, 9:58 PM), <http://www.reuters.com/article/2014/01/14/us-patent-trolls-settlement-idUSBREA0D05S20140114>. MPHJ Technology Investments has been sued by the Vermont Attorney General and the Federal Trade Commission is looking into unfair and deceptive trade practices issues. See Daniel Siegal, *Judge Nixes 'Patent Troll' MPHJ's Suit To Block FTC Inquiry*, LAW360 (Sept. 16, 2014, 8:05 PM), <http://www.law360.com/articles/578018/judge-nixes-patent-troll-mpjh-s-suit-to-block-ftc-inquiry>; Dennis Crouch, *IP Law Professors Rise-Up Against Patent Assertion Entities*, PATENTLY-O, (Nov. 25, 2013), <http://patentlyo.com/patent/2013/11/ip-law-professors-rise-up-against-patent-assertion-entities.html>.

¹³ NPEs are sometimes pejoratively referred to as “patent trolls.” The origin of the term “patent troll” can be attributed to Peter Detkin, former Assistant General Counsel for Intel Corporation. See Paul M. Mersino, *Patents, Trolls,*

Facing pressure from businesses, North Carolina passed the Abusive Patent Assertions Act (“the Act”) in 2014 with the objective of limiting the most abusive tactics of some NPEs.¹⁴ The Act creates an action under state tort law for a bad faith assertion of patent infringement,¹⁵ thereby giving businesses targeted by NPEs a defense in state court. Additionally, a business targeted by an NPE can bring suit under the Act, or use the Act as a counterclaim if sued by an NPE for patent infringement. This article will analyze the Act, highlight the benefits that it provides, discuss policy implications, analyze whether a lawsuit brought under the Act may be vulnerable to preemption by Federal law, discuss other challenges to the law, and consider other recent developments in patent law that might affect NPEs.

II. UNITED STATES PATENT LAW

United States patent law derives from the United States Constitution.¹⁶ The founders were well aware of the importance of intellectual property rights. The Constitution gives 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.”¹⁷ The

and Personal Property: Will Ebay Auction Away A Patent Holder’s Right to Exclude?, 6 AVE MARIA L. REV. 307, 314 (2007). The term “patent troll” was originally defined as “somebody who tries to make a lot of money off a patent that they are not practicing and have no intention of practicing and in most cases never practiced.” T. Christian Landreth, *The Fight Against ‘Patent Trolls:’ Will State Law Come to the Rescue?*, 15 N.C. J. L. & TECH. 100, 102 (2014). There is no generally accepted definition for when NPE’s deserve the “troll” label. Certainly, the NPE has crossed the line when it has no intention of reaching the merits of the infringement claim. To some, patent abuse seems to be so repugnant to those in high-tech industries because it represents a misuse of the patent system.

¹⁴ See Abusive Patent Assertions Act, N.C. GEN. STAT. §§ 75-140–45 (2014); see also Jessica Karmasek, *N.C. Governor Signs Patent Troll Bill Into Law*, LEGAL NEWSLINE, (Aug. 13, 2014, 12:45 PM), <http://legalnewsline.com/stories/510627512-n-c-governor-signs-patent-troll-bill-into-law>.

¹⁵ N.C. GEN. STAT. §§ 75-140–45.

¹⁶ U.S. CONST. art I, § 8 cl. 8.

¹⁷ *Id.*

traditional view is that intellectual property rights play a key role in the economies of developed nations by encouraging innovation and disclosure.¹⁸

United States patent law is codified in Title 35 of the United States Code.¹⁹ Federal district courts have exclusive first instance jurisdiction over patent matters,²⁰ and the Court of Appeals for the Federal Circuit has exclusive jurisdiction of appeals from district courts of any matter arising under any act of congress relating to patents.²¹

A patent is a right to exclude others from making, using, offering to sell, or selling an invention.²² In exchange for a right to exclude others from making the invention, the patent holder must *disclose* the invention to the public, so society can benefit from the technological advance.²³ To obtain a patent, an inventor must show

¹⁸ As recognized by the courts, the traditional view is that patent laws have “embodied a careful balance between the need to promote innovation and the recognition that imitation and refinement through imitation are both necessary to invention itself and the very lifeblood of a competitive economy.” *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 146 (1989). Patents also encourage disclosure. *See Kewanee Oil Co. v. Bicron*, 416 U.S. 470, 480–81 (1974). The traditional view is of course disputed. *See, e.g., Vivek Wadhwa, Here’s Why Patents are Innovation’s Worst Enemy*, WASH. POST (Mar. 11, 2015), <https://www.washingtonpost.com/news/innovations/wp/2015/03/11/heres-why-patents-are-innovations-worst-enemy/>. Those who disagree point to abuse, including patent trolling. *See, e.g., Robin Feldman & Mark A. Lemley, Do Patent Licensing Demands Mean Innovation?*, 101 IOWA L. REV. 137 (2015).

¹⁹ 35 U.S.C. §§ 1-390 (2014).

²⁰ “The district courts shall have original jurisdiction of all civil actions arising under the Constitution, laws, or treaties of the United States.” 28 U.S.C. § 1331 (2012).

²¹ 35 U.S.C. § 1295(a)(1) (2014).

²² *Id.* § 271(a). Two examples of patents are: a hand-sewing needle, U.S. Patent No. 6,189,747 (filed Jan. 12, 2000), and a high-efficiency LED lamp, U.S. Patent No. 8,833,980 (filed May 9, 2011).

²³ “The specification shall contain a written description of the invention, and of the manner and process of making and using it, in such full, clear, concise, and exact terms as to enable any person skilled in the art to which it pertains, or with which it is most nearly connected, to make and use the same, and shall set forth the best mode contemplated by the inventor or joint inventor of carrying out the invention.” 35 U.S.C. § 112(a). Examples of non-patent-eligible subject

that the invention is patent-eligible subject matter,²⁴ novel,²⁵ non-obvious,²⁶ and has met various other requirements.²⁷

Prior art is any invention that was “patented, described in a printed publication, or in public use, on sale, or otherwise available to the public” before a date relevant for an invention’s claim of novelty.²⁸ Prior art is critical to both novelty and non-obviousness analysis, two of the criteria for obtaining a patent.²⁹

If any of the proposed patent’s claims are described by prior art, those claims fail the novelty criteria, and are therefore not patentable.³⁰ For example, if a patent application claims a stool with three legs, but another inventor has already patented a three-legged stool, the patent application is not novel. In contrast, an obviousness analysis compares multiple pieces of prior art to the proposed patent’s claims. To be non-obvious, the “differences between the claimed invention and the prior art are such that the claimed invention as a whole would [not] have been obvious”³¹ Continuing the previous example, if a patent claims a four-legged stool with a seat back, but another patent

matter include: a legal contractual agreement; a game defined by a set of rules; a computer program *per se*; and a mere arrangement of printed matter. *See* Manual of Patent Examining Procedure MPEP § 2106 (9th ed. Rev. 7 Nov. 2015) [hereinafter MPEP].

²⁴ Patent-eligible subject matter is limited by statute to a “new and useful process,” “machine,” “manufacture,” “composition of matter,” or “any new and useful improvement thereof.” *See* 35 U.S.C. § 101 (2014). The invention must not fall into a judicially-created exception for subject matter, *i.e.* not be directed to nothing more than “abstract ideas,” *e.g.* mathematical algorithms, “natural phenomena,” or “laws of nature.” *See* *Diamond v. Diehr*, 450 U.S. 175, 185 (1981).

²⁵ An inventor must show that the invention was not patented, described in a printed publication, and not in the public use. *See* 35 U.S.C. § 102 (2014).

²⁶ An invention must be non-obvious. *Id.* § 103. An invention is obvious if “the differences between the claimed invention and the prior art are such that the claimed invention as a whole would have been obvious.” *Id.*

²⁷ *See id.* § 112 (2012) (stating written-description requirements).

²⁸ *Id.* § 102(a)(1).

²⁹ *Id.* §§ 102(a)(1), 103.

³⁰ *Id.*

³¹ *Id.* § 103.

exists with a four-legged stool, and another describes a three-legged stool with seat back, the patent application might fail the non-obvious test, assuming other criteria was met.

To obtain a patent, an inventor must draft a patent application that describes the nature of the invention.³² The specification of the patent must also contain one or more claims, which “point[] out and distinctly claim[] the subject matter” of the invention.³³ The inventor submits the application to the United States Patent and Trademark Office (“USPTO”) where the patent application is reviewed by a patent examiner.³⁴ The examiner will search for prior art, and if the examiner finds issue with the patent application’s claims, the examiner will issue an Office Action Memorandum to the applicant describing why the subject matter is not patentable.³⁵ The applicant may then address the examiner’s concerns in a process called patent prosecution.³⁶

If the patent examiner approves the application, the patent will be granted and the disclosure and claims within it will delineate the patent holder’s rights. First, when an individual or company, “without authority, makes, uses, offers to sell or sells any patented invention within the United States” during the term of the patent,

³² *Id.* § 111.

³³ *Id.* § 112(b).

³⁴ An application for a patent “shall be made, or authorized to be made, by the inventor, . . . to the Director.” MPEP, *supra* note 23, § 601 (citing 35 U.S.C. § 111). “The Director shall cause an examination to be made of the application and the alleged new invention; and if on such examination it appears that the applicant is entitled to a patent under the law, the Director shall issue a patent therefor.” MPEP, *supra* note 23, § 701 (quoting 35 U.S.C. § 131). “On taking up an application for examination or a patent in a reexamination proceeding, the examiner shall make a thorough study thereof and shall make a thorough investigation of the available prior art relating to the subject matter of the claimed invention.” MPEP, *supra* note 23, § 707(a)(1) (quoting 37 C.F.R. § 1.104).

³⁵ “The applicant, or in the case of a reexamination proceeding, both the patent owner and the requester, will be notified of the examiner’s action. The reasons for any adverse action or any objection or requirement will be stated in an Office action. . . .” MPEP, *supra* note 23, § 707(a)(2) (quoting 37 C.F.R. § 1.104).

³⁶ *See generally* MPEP, *supra* note 23.

that entity has infringed on the patent.³⁷ Second, the patent or published patent application will become prior art against future patent applications, thus barring another inventor from obtaining a patent on the same invention.³⁸

Sometimes, existing prior art is missed during the application process. Discovery of prior art—even after a patent has been granted—can retroactively change the novelty or the obviousness analysis and thus subject a patent to challenge.³⁹ Consequently, one of the existing defenses to a claim of patent infringement is invalidity.⁴⁰ Patent validity can be challenged in district court or through administrative procedures at the USPTO.⁴¹

III. NON-PRACTICING ENTITIES

In crafting laws to combat abusive NPE behavior, states have sought to directly address the most abusive tactics. Therefore, in order to understand whether these laws—including North Carolina’s—will be effective, some background on how NPEs operate is necessary. A discussion of the defenses currently available to targeted businesses also helps to illustrate the motivation for legislation.

As an initial matter, the tactics used by NPEs are not unique. Major companies with massive patent portfolios also use the “license-or-else” strategy described in more detail below.

³⁷ 35 U.S.C. § 271(a) (2014).

³⁸ *Id.* § 102.

³⁹ See, e.g., Aaron Vehling, *PTAB Nixes Bose Speaker Patents In AIA Reviews*, LAW360 (Nov. 10, 2014, 3:24 PM), <http://www.law360.com/ip/articles/594877/ptab-nixes-bose-speaker-patents-in-aia-reviews>. Bose had initially filed a patent infringement suit against SDI Technologies, who challenged Bose’s patents at the PTAB. SDI showed prior art, arguing that it would render the patents obvious to someone skilled in the art. Vin Gurrieri, *Polaris Gets Device Locator Patent Nixed In AIA Review*, LAW360 (Nov. 5, 2014, 5:45 PM), <http://www.law360.com/articles/593657/polaris-gets-device-locator-patent-nixed-in-aia-review>. The PTAB held the challenged claims were invalid as anticipated and obvious. *Id.*

⁴⁰ *Id.*

⁴¹ Inter Partes Review. See 35 U.S.C. §§ 311–19 (2014). Post-grant review. See *id.* §§ 321–29.

Companies deliberately develop and acquire patent rights for both defensive and offensive reasons. Moreover, some research universities can also be described as NPEs, because many of the patents they obtain are never commercialized. Perhaps due to public policy, universities are not usually labeled patent trolls,⁴² and are excluded from patent abuse laws.⁴³

More importantly, any patent owner, NPE or otherwise, has the right to assert valid property rights. Even so, given recent press, it is clear that the same patent asserted by a large, well-regarded technology company would yield a less negative public response than when asserted by an NPE.⁴⁴ Scholars have suggested that it is unclear whether society cares if an NPE or a practicing entity is the one asserting a patent right.⁴⁵ Therefore, it cannot be the assertion itself that is problematic—it must be the circumstances or tactics.

⁴² Although, this may change. See Daniel Engber, *In Pursuit of Knowledge, and Profit: How Universities Aid and Abet Patent Trolls*, SLATE (May 7, 2014, 11:49 PM), http://www.slate.com/articles/technology/history_of_innovation/2014/05/patent_trolls_universities_sometimes_look_a_lot_like_trolls.html.

⁴³ Universities are specifically carved out of anti-patent troll legislation. See N.C. GEN. STAT. § 75-143(b)(5) (2014). In the North Carolina law, being a university speaks to “good faith” and thus negates the “bad faith” assertion of patent infringement. *Id.*

⁴⁴ Articles discussing patent trolling refer to the fact that patent trolls do not create new products. See, e.g., *Patent Trolls*, ELECTRONIC FRONTIER FOUNDATION, <https://www EFF.org/issues/resources-patent-troll-victims> (last visited Feb. 21, 2016). “A patent troll uses patents as legal weapons, instead of actually creating any new products or coming up with new ideas.” *Id.* The language used to describe NPE activity is typically negative. For example, the CEO of Newegg.com described NPE activity as extortion. See Joe Mullin, *Newegg and Friends Crush a Patent Troll*, ARS TECHNICA (Apr. 3, 2014, 4:28 PM), <http://arstechnica.com/tech-policy/2014/04/newegg-and-geico-stop-patent-troll-that-sued-dozens-over-forms-on-apps/> (“MacroSolve was able to ‘extort over \$4M from over 60 defendants”). In contrast, the press may discuss an Apple-Samsung patent dispute with more reference to the merits of the case, rather than the assertion. See Ian Sherr, *Samsung Focuses on Alleged Apple Infringement, Defends Own Actions*, WALL ST. J. (Aug. 14, 2012, 9:29 PM), <http://www.wsj.com/articles/SB10000872396390444318104577589512202287388> (discussing operation of the devices, and validity of patents).

⁴⁵ Feldman & Lemley, *supra* note 18.

A. *How NPEs Operate*

NPEs obtain patent rights by, for example, purchasing never-used patent rights from inventors,⁴⁶ from an auction of rights from failed companies,⁴⁷ or by conceiving their own inventions.⁴⁸ Just like any technology company who believes its patents are being infringed, an NPE will typically first reach out to the alleged infringing entity and demand a license. If the entity is unresponsive, the NPE then files a patent infringement action in federal court. Although high-stakes battles between technology giants are certainly fought,⁴⁹ many infringement suits between large corporations settle. Large companies are painfully aware of the cost and uncertainty of patent litigation.⁵⁰ Consequently, many of these large companies cross-license patents to avoid litigation.⁵¹

⁴⁶ MPHJ (Project Paperless) bought its patents from an inventor. See Joe Mullin, *Meet the Nice-Guy Lawyers Who Want \$1,000 per Worker for Using Scanners*, ARS TECHNICA (Apr. 7, 2013, 9:00 PM), <http://arstechnica.com/tech-policy/2013/04/meet-the-nice-guy-lawyers-who-want-1000-per-worker-for-using-scanners/2/>. The Lemelson foundation did the same. See Daniel Fisher, *The Patent Troll You Don't Read About In Bar-Code Inventor's Obituaries*, FORBES (Dec. 14, 2012, 11:24 AM), <http://www.forbes.com/sites/danielfisher/2012/12/14/the-patent-troll-you-dont-read-about-in-bar-code-inventors-obituaries/>.

⁴⁷ Rockstar is a consortium formed to negotiate licensing for patents acquired from Nortel, a large telecommunications company, which went bankrupt. See Dan Levine, *Google, Samsung, Huawei Sued over Nortel Patents*, REUTERS (Oct. 31, 2013, 6:57 PM), <http://www.reuters.com/article/us-google-rockstar-lawsuit-idUSBRE99U1EN20131031>.

⁴⁸ Personal Audio LLC, or the "Podcast" Troll, claimed to have invented podcasting in 1996, but failed to bring its personal audio player to market. See *Podcast 'Patent Troll' Faces Blow after US Ruling*, BBC (Apr. 13, 2015), <http://www.bbc.com/news/technology-32286340>. Personal Audio LLC then asserted its patent against other companies. Five claims from the patent were later found to be invalid. See Brian Fung, *How the Government Just Protected Some of Your Favorite Podcasts*, THE WASH. POST (Apr. 10, 2015) <https://www.washingtonpost.com/news/the-switch/wp/2015/04/10/how-the-government-just-protected-your-favorite-podcasts/>.

⁴⁹ See, e.g., Andrew Chung, *Apple Wins Patent Ruling Against Samsung in U.S. Appeals Court*, REUTERS (Sept. 17, 2015, 2:06 PM), <http://www.reuters.com/article/us-apple-samsung-idUSKCN0RH23G20150917>.

⁵⁰ See Meaghan H. Kent et al., *10 Reasons Every Defendant in Patent Litigation Should Consider Inter Partes Review*, MONDAQ (Apr. 16, 2014)

An NPE's advantage over large companies lies in the high cost of mounting a successful patent defense.⁵² Typically, an NPE will offer to settle for far less than the cost litigation.⁵³ However, large corporations are not without recourse. They can better fend off NPE lawsuits than small businesses due to their in-house patent counsel and other resources committed to defending the relative merits of an NPE claim. If a company believes the patent asserted is invalid, it may choose to file a procedure at the USPTO to challenge the patent's validity—a far cheaper option than defending a patent case in district court.⁵⁴ Nevertheless, these procedures still cost the companies millions.⁵⁵ Some large companies have settled, while others have fought.⁵⁶ Additionally,

<http://www.mondaq.com/unitedstates/x/309504/Patent/10+Reasons+Every+Defendant+in+Patent+Litigation+Should+Consider+Inter+Partes+Review>.

⁵¹ See, e.g., Shara Tibken, *Google, Samsung Strike Patent Cross-Licensing Deal*, CNET (Jan. 26, 2014), <http://www.cnet.com/news/google-samsung-strike-patent-cross-licensing-deal/>; Ryan Knutson & Angela Chen, *Google Cuts Patent Deal With Verizon*, WALL ST. J. (Dec. 16, 2014, 4:34 PM), <http://www.wsj.com/articles/google-verizon-enter-patent-cross-license-agreement-1418744777>; Matt Macari, *Apple and Microsoft Cross-License Deal Includes 'Anti-Cloning' Protections Going Back to 1997*, THE VERGE (Aug. 13, 2012, 2:11 PM), <http://www.theverge.com/2012/8/13/3239977/apple-and-microsoft-cross-license-agreement-includes-anti-cloning>.

⁵² See *AIPLA 2013 Report of the Economic Survey*, AIPLA (2013), <http://www.patentinsurance.com/custdocs/2013aipla%20survey.pdf> (showing patent infringement cases can cost up to \$4.4M when defending against non-practicing entities).

⁵³ *Id.*

⁵⁴ The cost of an inter-partes review can range from \$200,000–\$750,000, whereas the cost of a patent infringement suit costs \$530,000–\$3.6 million, due to increased discovery, hearings and other costs. See Kent et al., *supra* note 50.

⁵⁵ *What is Behind the Current Push for Patent Litigation Reform?*, AIPLA (Apr. 17, 2015), <http://www.aipla.org/advocacy/congress/114C/Q-A-PatentReform/Pages/Q-A1.aspx>. AIPLA's "Report of the Economic Survey," a bi-annual analysis of the economics of intellectual property prosecution and litigation, shows that as of 2013 the median litigation costs for a patent infringement suit with at least \$1 million at risk ranges from \$2 million to \$5.5 million through trial." *Id.*

⁵⁶ Recently, Apple won a jury verdict against GPNE Corporation, a Hawaii-based patent troll, which describes itself as "a research and licensing company with more than 30 patents." See Rosenblatt, *supra* note 7. In another example,

because NPEs do not practice their invention, and thus cannot infringe another's invention, the classic counterclaim of infringement is usually useless in an NPE suit.

On the other hand, a small company targeted by an NPE is in a considerably weaker position. Because NPEs use attorneys who often specialize in patent law, small companies challenged by NPEs face real disparities in legal knowledge, starting with how to respond to a demand letter.⁵⁷ Litigation is the last thing with which small businesses can afford to be involved. NPEs are therefore able to very effectively intimidate small businesses into settlements.

An additional tactic used by NPEs is hiding behind multiple subsidiary companies to protect themselves from a loss.⁵⁸ This complicates litigation and, in the event of a loss, means that the NPE—which maintains no assets in its shell company—can simply close down and walk away from paying damages or attorneys fees.⁵⁹

Finally, NPEs sometimes target customers, rather than manufacturers, of an allegedly infringing product.⁶⁰ NPE demands have included demanding payment from small businesses for use of a scanner operating on a computer network⁶¹ or for providing

Oasis Research LLC sued Carbonite and EMC for infringement. Carbonite and EMC, competitors, joined forces, countersued for invalidity and won. Oasis Research lost its patent rights. *See Resende, supra* note 7.

⁵⁷ Small companies typically lack counsel, and if they do have counsel, the attorney may not be an intellectual property lawyer. As such, small companies may not know how to respond to a demand letter.

⁵⁸ MPHJ operated via many shell companies, in particular it used 40 to operate in Vermont. *See Complaint, Vermont v. MPHJ Tech. Inv. (2014)*, (No. 282-5-13-Wncv), 2014 WL 2178325.

⁵⁹ MPHJ (Project Paperless) folded at least once. *See Joe Mullin, Patent Troll Lodslys Chickens Out, Folds Case Rather Than Face Kaspersky Lab*, ARS TECHNICA (Oct 2, 2013, 12:19 PM), <http://arstechnica.com/tech-policy/2013/10/patent-troll-lodslys-chickens-out-folds-case-rather-than-face-kaspersky-lab/>.

⁶⁰ Examples of patent trolls targeting customers of an allegedly infringing product include Innovatio. *See Thomas, supra* note 8.

⁶¹ *See Mullin, supra* note 8.

Wi-Fi to customers.⁶² Even though users of an infringing technology can be infringers under the law,⁶³ the cases targeting end customers are the ones that brought the NPE issue to the forefront of public debate.

B. *Examples of NPEs*

As mentioned earlier, NPEs come in many forms. For example, the University of Wisconsin has been incredibly successful in licensing inventions⁶⁴ developed at the university through the Wisconsin Alumni Research Foundation (“WARF”).⁶⁵ WARF is known in particular for licensing Warferin,⁶⁶ an anticoagulant medication. Another example of an NPE is the Lemelson Foundation, known for barcode technology.⁶⁷ Lemelson filed for a patent on an “automatic measuring apparatus” in 1956, but it was not until after other key elements were developed that Lemelson began suing manufacturers and users of barcode devices.⁶⁸

MPHJ (formerly Project Paperless) is perhaps the most prominent NPE in recent years. MPHJ holds patents related to

⁶² See Daniel Nazer, *Infamous Wi-Fi Patent Troll Settles for Peanuts*, ELECTRONIC FRONTIER FOUNDATION (Feb. 7, 2014), <https://www.eff.org/deeplinks/2014/02/infamous-wi-fi-patent-troll-settles-peanuts>.

⁶³ “Except as otherwise provided in this title, whoever without authority makes, *uses*, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, *infringes the patent*.” 35 U.S.C. § 271 (2014) (emphasis added).

⁶⁴ More than 1,600 inventions have been licensed. See *Background*, WIS. ALUMNI RES. FOUND., <http://www.warf.org/about-us/background/background.cmsx> (last visited Jan. 22, 2016); see also Joe Nocera, *The Patent Troll Smokescreen*, N.Y. TIMES (Oct. 23, 2015), http://www.nytimes.com/2015/10/24/opinion/the-patent-troll-smokescreen.html?_r=0.

⁶⁵ WIS. ALUMNI RES. FOUND., <http://www.warf.org> (last visited Jan. 22, 2016).

⁶⁶ *Warfarin*, WEBMD, <http://www.webmd.com/drugs/2/drug-3949/warfarin-oral/details> (last visited Jan. 22, 2016); see *A Patient’s Guide to Taking Warfarin*, AM. HEART ASS’N (Aug. 19, 2015), http://www.heart.org/HEARTORG/Conditions/Arrhythmia/PreventionTreatmentofArrhythmia/A-Patients-Guide-to-Taking-Warfarin_UCM_444996_Article.jsp#.

⁶⁷ See Fisher, *supra* note 46.

⁶⁸ See *id.*

scanning technology,⁶⁹ and thus became known as the “scanner troll.”⁷⁰ MPHJ operates by sending a demand letter and then a boilerplate infringement complaint⁷¹ to a business that it believes is using a network scanner that infringes on its patents.⁷² In 2014, MPHJ targeted 16,465 small companies across the United States,⁷³ settling with many of them for several thousand dollars each.⁷⁴ MPHJ made headlines in part because it targeted users of an infringing product, rather than the manufacturers of the infringing product.⁷⁵

Another example is Innovatio IP Ventures, dubbed the “Wi-Fi troll.”⁷⁶ Innovatio purchased patents from Broadcom, a large semiconductor company, and then sent thousands of letters targeting hotels and cafes that provide Wi-Fi for customers, demanding \$2,500 per location.⁷⁷ Innovatio did not tell the targeted customers that they may already be protected by licenses between the manufacturers of the Wi-Fi routers and Innovatio.⁷⁸ Similarly, Automated Transactions, labeled the “ATM troll,” obtained a

⁶⁹ See Copland, *supra* note 6.

⁷⁰ Distrib. Computer Architecture & a Process for Virtual Copying, U.S. Patent No. 6,771,381 (filed Nov. 12, 1999). The patent’s abstract describes the purpose of the invention as “enabl[ing] a typical PC user to add electronic paper processing to their existing business.” *Id.* In its “simplest form” it extends conventional copying to a “process that involves paper being scanned from a device at one location and copied to a device at another location.” *Id.*

⁷¹ See First Amended Consumer Protection Complaint at Exhibit C, State v. MPHJ Tech. Invs., LLC, 2014 Vt. Super. LEXIS 57 (Vt. Super. Ct. Aug. 28, 2014).

⁷² See *id.* at Exhibit A.

⁷³ Tyler Roberts, *Scanner Patent Troll Saga Continues*, CAMPBELL LAW OBSERVER (Feb. 15, 2014), <http://campbelllawobserver.com/scanner-patent-troll-saga-continues/>.

⁷⁴ *Id.*

⁷⁵ “[W]hoever without authority makes, uses, offers to sell, or sells any patented invention, . . . infringes the patent.” See 35 U.S.C. § 271 (2014) (emphasis added).

⁷⁶ See Thomas, *supra* note 8.

⁷⁷ See *id.*

⁷⁸ See *id.*

patent on ATM transactions conducted by an Internet interface.⁷⁹ Automated Transactions faced several legal setbacks relating to patent validity, but continued to target businesses.⁸⁰

Admittedly, defining when a patent holder or an NPE becomes abusive is difficult. Perhaps it is the reluctance to engage in a serious discussion of the merits of the alleged infringement. Perhaps it is the targeting of small businesses that have nothing to do with technology, like MPHJ.

C. Existing Defenses To Patent Abuse

Businesses most commonly learn they are targets of NPEs through demand letters.⁸¹ After receiving a demand letter, a business has three options: settle, ignore, or fight. The least expensive option is often to settle. After retaining counsel to handle NPE claims and negotiate settlements, most small companies settle for a few thousand dollars.⁸² Should a business ignore the demand and in effect call the NPE's bluff, an NPE may not actually sue. But since defending a patent infringement case is tremendously expensive,⁸³ ignoring a demand letter is risky.⁸⁴ Other times, a business may simply be sued by an NPE without warning such as a demand letter.

⁷⁹ See W. John Funk, *What Banks Need to Know about ATL's ATM Patent Infringement Claims*, AMERICAN BANKER (Aug. 7, 2012), <http://www.americanbanker.com/bankthink/what-banks-need-to-know-about-atls-atm-patent-infringement-claims-1051632-1.html>.

⁸⁰ See *id.*

⁸¹ See, e.g., Sample Demand Letter, SURVEY ON PATENTS AND INNOVATION, <https://sites.google.com/site/thisispatentsurvey/sample-demand-letter>, (last visited Jan. 22, 2016); see *Recent Demand Letters*, TROLLING EFFECTS, <https://www.trollingeffects.org/letters> (last visited Jan. 22, 2016).

⁸² Interview with John Martin Conley, William Rand Kenan Jr. Professor of Law, Univ. of N.C. Sch. of Law, in Chapel Hill, N.C. (Sept. 15, 2014). Prof. Conley has represented businesses threatened by trolls, including by MPHJ. Generally, the troll will go away for a few thousand dollars.

⁸³ See *AIPPLA 2013 Report of the Economic Survey*, *supra* note 52.

⁸⁴ Indeed, patent trolls seek to exploit this difficult position. See Bradley P. Nelson, *Patent Trolls: Can You Sue Them for Suing or Threatening to Sue You?*, AM. BAR ASSOC. (Oct. 16, 2014), <http://apps.americanbar.org/litigation/committees/intellectual/articles/fall2014-0914-patent-trolls-can-you-sue-them.html>.

In several cases, going to court armed with some basic defenses against an NPE has worked.⁸⁵ More sophisticated litigation strategies include answering the complaint armed with prior art evidence of patent invalidity;⁸⁶ countersuing for patent invalidity;⁸⁷ or initiating a proceeding at the USPTO for invalidity of the patent.⁸⁸ Unfortunately, answering with a counterclaim for patent infringement—normally available to technology companies in patent infringement cases—is unavailable with NPEs, as they do not sell or use any products or services, and thus cannot be infringers. One further option available to targeted end users is seeking indemnification from the product manufacturer.

The Federal Trade Commission (“FTC”) has also investigated patent abuse under its Section 5 unfair and deceptive practices doctrines.⁸⁹ The FTC’s willingness to investigate patent abuse adds to the legal risk of NPE actions, but it does not severely stifle NPEs’ behavior, because the FTC is likely not well-equipped to pursue every patent abuse case.⁹⁰

⁸⁵ Lodslys also walked away before trial. *See* Mullin, *supra* note 59.

⁸⁶ MPHJ (formerly Project Paperless) threatened BlueWave, wanted \$100,000 to settle, then sued when BlueWave refused to settle. BlueWave went to court, armed with prior art against the asserted patent, and shortly thereafter, MPHJ dismissed the suit. MPHJ would have been faced with an invalidity proceeding in court, which if they had lost, would have ended their activity. *See* Pat Mahony, *Small Business Beats Patent Troll at Its Own Game*, PRWEB (Aug. 6, 2012), <http://www.prweb.com/releases/2012/8/prweb9766179.htm>.

⁸⁷ A counter suit for patent invalidity is common practice when sued for patent infringement. Similar practice exists in Trademark law, and other areas. *See* N.C. GEN. STAT. § 75-140(d) (2014).

⁸⁸ *See* 35 U.S.C. §§ 311–19 (2014).

⁸⁹ *See FTC Settlement Bars Patent Assertion Entity From Using Deceptive Tactics*, FED. TRADE COMM’N (Nov. 6, 2014), <http://www.ftc.gov/news-events/press-releases/2014/11/ftc-settlement-bars-patent-assertion-entity-using-deceptive>. Arguably, however, the settlement is weak in that it only required MPHJ’s owner agreed to “refrain from making certain deceptive representations when asserting patent rights, such as false or unsubstantiated representations that a patent has been licensed in substantial numbers or has been licensed at particular prices.” *Id.*

⁹⁰ The FTC has responsibility for a broad array of consumer protection matters. *See About the FTC*, FED. TRADE COMM’N, <https://www.ftc.gov/about-ftc> (last visited Feb. 13, 2016). The FTC describes its history as having evolved

Current litigation strategies available to a targeted business, with the exception of USPTO proceedings, are not only expensive, but also include federal court. Federal court is more expensive, unfamiliar territory for small companies, and opens the possibility of the NPE moving the suit out-of-state.⁹¹ In sum, the defenses to patent abuse are expensive and impractical, especially for small businesses. The North Carolina law was designed to protect businesses from “abusive and bad-faith” assertions of patent infringement.⁹²

IV. ABUSIVE PATENTS ASSERTIONS ACT

Many states, including North Carolina, have taken action to dissuade abusive NPE practices, and to provide some additional legal tools for defense.⁹³ All patent holders have a legal right to assert their patent rights. Therefore, the challenge in crafting a new law is curbing the abusive practices without conflicting with federal law. Accordingly, the state laws targeting NPEs have not

from “bust[ing] the trusts,” to “polic[ing] anticompetitive practices,” to “unfair and deceptive acts or practices,” including specific statutes such as Telemarketing Sales Rule, the Pay-Per-Call Rule and the Equal Credit Opportunity Act. *Id.* The FTC therefore likely does not have the resources necessary to focus on NPE patent litigation.

⁹¹ The conventional wisdom is that patent plaintiffs prefer to be in a “rocket docket,” because rocket-docket districts have expedited procedures leading to faster time to trial. *See* Thomas W. Winland, *A Whirlwind Ride on the Rocket Docket*, FINNEGAN (1995), <http://www.finnegan.com/resources/articles/articlesdetail.aspx?news=73ea67c4-61cb-47fd-9252-05d316ad34f4> (last visited Feb. 13, 2016). The Eastern District of Texas is a rocket docket, and is home to more patent cases than anywhere else in the country. *See Patent Cases Rise, With Two Courts Leading the Nation*, U.S. COURTS (Apr. 21, 2014), <http://www.uscourts.gov/news/2014/04/21/patent-cases-rise-two-courts-leading-nation>. The district of Delaware is the second. *Id.*

⁹² N.C. GEN. STAT. § 75-141(b) (2014). The law creates a less expensive, more practical defense to patent abuse. *See id.*

⁹³ As of this writing, twenty-seven states have enacted laws to deal with patent abuse (Alabama, Colorado Florida, Georgia, Idaho, Illinois, Indiana, Kansas, Louisiana, Maine, Maryland, Mississippi, Missouri, Montana, New Hampshire, North Carolina, North Dakota, Oklahoma, Oregon, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia, Washington, Wisconsin). *See Patent Progress’s Guide to State Patent Legislation, supra* note 11.

sought to prevent assertions of patent infringement, but rather have addressed *bad faith* assertions of patent infringement.⁹⁴ Because the North Carolina law builds on Vermont's efforts, the Vermont law is discussed first.

A. *Following Vermont's Lead*

Vermont was the first state to pass an abusive patent practice law in 2013.⁹⁵ The law covers assertions against businesses that are the targets of allegations of patent infringement or are defendants in a patent infringement lawsuit.⁹⁶ The law also covers customers who have received a demand letter,⁹⁷ which is important because—as discussed in the *Innovatio* example—customers are sometimes threatened.⁹⁸

The law targets patent abuse head-on by providing a list of factors that a court may consider as evidence of bad faith infringement assertions:⁹⁹ content of demand letters;¹⁰⁰ requiring

⁹⁴ See, e.g., VT. STAT. ANN. tit. 9, § 4197(a) (2013) (“A person shall not make a bad faith assertion of patent infringement.”); N.C. GEN. STAT. § 75-143 (“It is unlawful for a person to make a bad-faith assertion of patent infringement.”).

⁹⁵ VT. STAT. ANN. tit. 9, §§ 4195–99 (2013).

⁹⁶ *Id.* § 4196(2).

⁹⁷ *Id.*

⁹⁸ Customers are often the targets of patent abuse; for example, the Wi-Fi patent troll. See Mullin, *supra* note 9.

⁹⁹ The Vermont statute lists several factors that a court may consider as evidence of bad faith infringement assertions:

(a) A person shall not make a bad faith assertion of patent infringement.

(b) A court may consider the following factors as evidence that a person has made a bad faith assertion of patent infringement:

(1) The demand letter does not 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.

(2) 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

factual allegations such as the specific areas in which a business' "products, services, and technology infringe the patent;"¹⁰¹ proper analysis of infringement and disclosure information related to said analysis;¹⁰² unreasonable licensing;¹⁰³ meritless assertions of

identify specific areas in which the products, services, and technology are covered by the claims in the patent.

(3) The demand letter lacks the information described in subdivision (1) of this subsection, the target requests the information, and the person fails to provide the information within a reasonable period of time.

(4) The demand letter demands payment of a license fee or response within an unreasonably short period of time.

(5) The person offers to license the patent for an amount that is not based on a reasonable estimate of the value of the license.

(6) The claim or assertion of patent infringement is meritless, and the person knew, or should have known, that the claim or assertion is meritless.

(7) The claim or assertion of patent infringement is deceptive.

(8) The person or its subsidiaries or affiliates have previously filed or threatened to file one or more lawsuits based on the same or similar claim of patent infringement and:

(A) those threats or lawsuits lacked the information described in subdivision (1) of this subsection; or

(B) the person attempted to enforce the claim of patent infringement in litigation and a court found the claim to be meritless.

(9) Any other factor the court finds relevant.

VT. STAT. ANN. tit. 9, § 4197.

¹⁰⁰ *Id.* § 4197(b)(1). The first factor targets demand letters that lack basic information: patent number; name and address of patent owner or assignees, if any; and factual allegations.

¹⁰¹ *Id.* § 4197(b)(1)(C). This forces patent holders to at least do their homework.

¹⁰² *Id.* § 4197(b)(2). The patent holder will have to analyze which products infringe and how they infringe, rather than sending form letters to multiple businesses. *Id.* A third factor is, when requested, failing to disclose the information lacking in the second factor within a reasonable amount of time speaks to bad faith. *Id.* § 4197(b)(3).

¹⁰³ *Id.* § 4197(b)(4)–(5).

infringement;¹⁰⁴ and deceptive assertions of infringement.¹⁰⁵ The law also lists factors that can be used to rebut bad faith.¹⁰⁶

In addition, the Vermont law allows the attorney general to “make rules, conduct civil investigations, bring civil actions, and enter into assurances of discontinuance.”¹⁰⁷ The Vermont attorney general is currently using this power in litigation against MPHJ.¹⁰⁸ Because states and the federal government have more resources than small businesses, they are better suited to stand up to against patent abuse.

Finally, the law directly addresses the strategy of operating from shell companies with no assets and folding up when losing to avoid paying attorney’s fees.¹⁰⁹ The law provides a bond provision that allows a court to require a posting of bond equal to a “good faith estimate of the target’s fees and costs to litigate the claim and amounts reasonably likely to be recovered” upon a showing of likelihood of a bad faith assertion.¹¹⁰

¹⁰⁴ *Id.* § 4197(b)(6).

¹⁰⁵ *Id.* § 4197(b)(7).

¹⁰⁶ *Id.* § 4197(c).

¹⁰⁷ *Id.* § 4199(a).

¹⁰⁸ *Vermont v. MPHJ Tech. Investments, LLC*, (D. Vt. 2014) (No. 2:13-CV-170), 2014 WL 1494009, at 11 (Fed. Cir. 2014). Vermont passed the law while the attorney general was in litigation with MPHJ, originally filed under consumer protection. The state later amended the complaint to use the new law. *See Vermont v. MPHJ Investments*, No. 282-5-13-Wncv, First Amended Consumer Protection Complaint (Sep. 17, 2014).

¹⁰⁹ In remarks on the Senate floor about patent trolls operating via shell companies, Senator Hatch said “there must be a mechanism to ensure that recovery of fees will be possible even against judgment-proof shell companies. The recovery of award provision that I drafted is intended to ensure that shell companies primarily in the business of asserting and enforcing patents in litigation cannot escape potential liability for attorney’s fees if they are found to have pursued an unreasonable case. Those deemed interested parties may either voluntarily submit to the court’s jurisdiction and become liable for any unsatisfied fees awarded in the case, or opt-out by renouncing sufficient interest related to the litigation, or do nothing.” *See Remarks to Senate, Senator Orrin Hatch* (July 31, 2014), <http://www.hatch.senate.gov/public/index.cfm/2014/7/hatch-patent-trolls-must-be-a-priority>.

¹¹⁰ VT. STAT. ANN. tit. 9, § 4198 (2015). The maximum bond is \$250,000. *Id.*

B. *North Carolina's Abusive Patents Assertions Act*

North Carolina passed its own legislation in 2014.¹¹¹ The purpose of the law recognizes that patents “encourage research, development and innovation,” and that patent holders have “legitimate rights to enforce their patents.”¹¹² The legislature recognized the negative effect of bad-faith patent infringement assertions on business, and that funds used to handle bad-faith patent assertions are funds that are not used to invest.¹¹³

The Act resembles the Vermont law by similarly defining the target of the abuse. But the drafters of the North Carolina law sought to improve the law over Vermont's in several areas: by including additional bad-faith factors;¹¹⁴ doubling the bond requirement to \$500,000;¹¹⁵ and adding a joinder provision.¹¹⁶

The North Carolina law adds several additional bad faith factors over Vermont's law, which directly target abusive patent behavior.¹¹⁷ The first factor is whether there is a lack of explanation as to why the person making the assertion has standing if not assigned the patent in the USPTO system. This ensures that the entity asserting is authorized to assert the patent rights.¹¹⁸ An offer to license the patent based on the cost of potential infringement litigation, rather than based on the technology's value, can indicate bad faith.¹¹⁹ The asserting entity is encouraged not to rely on invalid interpretations of the patent. Bad faith can be found when a claim or assertion relies on an interpretation that was disclaimed

¹¹¹ Abusive Patent Assertions Act, N.C. GEN. STAT. §§ 75-140–45 (2014).

¹¹² *Id.* § 75-141(a)(2).

¹¹³ *Id.* § 75-141(a)(7). The Act provides that an assertion of bad-faith patent infringement is a violation of state law, and a person doing so is subject to civil penalties. *Id.*

¹¹⁴ *Id.* §§ 75-141(a)(1)(d), (a)(5), (a)(6), (a)(9), (a)(10).

¹¹⁵ *Id.* § 75-144(a).

¹¹⁶ *Id.* § 75-140(d).

¹¹⁷ *See generally id.* §§ 75-141(a)(1)(d), (a)(5), (a)(6), (a)(9), (a)(10).

¹¹⁸ *Id.* § 75-143(a)(1)(d) (Often, patents are sold to an asserting entity. This forces the troll to record the sale with the USPTO.).

¹¹⁹ *Id.* § 75-143(a)(5).

during patent prosecution,¹²⁰ and the person knows, should have known, or would have known had they reviewed the prosecution history.¹²¹ Courts may imply bad faith when the asserting entity makes the same or substantially similar demand to multiple recipients against a “wide variety of products and systems” without reflecting product differences in the demands, ending the practice of blindly sending out the same form letter with the same allegations.¹²² Finally, the law allows the court to find bad faith when the asserting entity is aware of, but does not disclose, “any final, non-final, or preliminary postgrant finding of invalidity or unpatentability.”¹²³ This factor addresses a more egregious violation; namely, ensuring the patent holder does not threaten a business based on an invalid patent without recourse.

Importantly, the Act contains a joinder provision, under which the state attorney general or other targeted parties can join the case under certain conditions.¹²⁴ For example, a small business can initiate the case and the attorney general can join it. Hence, the attorney general can provide a lifeline for small businesses that do not wish to litigate, or targeted parties could join resources. Adding a state as a potential party also provides a dissuading factor for the NPE to bring litigation in the first place. The new law strengthens the state’s power, because bringing an action against abusive patent holders puts the state in a better position in court. Instead of asserting that the patent holder’s behavior is unfair or deceptive under a consumer protection statute, the state can now argue a violation of a specific law tailored to baseless assertions of patent infringement.

¹²⁰ Patent prosecution is the process of back-and-forth with the USPTO regarding the validity of a patent before it is granted. *See* MPEP, *supra* note 23.

¹²¹ N.C. GEN. STAT. § 75-143(a)(6). Patent prosecution history becomes public when the patent is published or granted. *See* 37 C.F.R. § 1.11 (2015).

¹²² N.C. GEN. STAT. § 75-143(a)(9).

¹²³ *Id.* § 75-143 (a)(10). “Post grant review is a trial proceeding conducted at the Board to review the patentability of one or more claims in a patent on any ground that could be raised under [35 U.S.C.] § 282(b)(2) or (3).” *See Post Grant Review*, USPTO, <http://www.uspto.gov/patents-application-process/appealing-patent-decisions/trials/post-grant-review> (last visited Feb. 13, 2016).

¹²⁴ N.C. GEN. STAT. § 75-145(d).

C. *Other States*

Facing the same issues, at least twenty-seven other states have passed laws to deal with bad faith assertions of patent infringement.¹²⁵ For example, Maryland passed a statute in 2014 designed to curb patent abuse by allowing a targeted entity or the attorney general to bring suit. However, the Maryland law does not contain many of the bad-faith factors, the joinder provision, or a bond requirement.¹²⁶ Hence, the Maryland law is not as powerful as North Carolina's, because a court has fewer ways to find bad faith, the Maryland Attorney General cannot join a case against a patent holder, and the court cannot require the patent holder to put up a bond for attorneys fees if it loses. Nevertheless, Maryland's law still provides needed support for targeted businesses, and dissuades abusive suits.

V. BENEFITS OF THE ACT

As a result of the Act, North Carolina now has a state law tort action for bad faith assertions of patent infringement. The Act rebalances the scales by dissuading patent abuse, and provides useful tools for businesses targeted by patent assertions. At a minimum, a patent holder will be motivated to properly identify the allegedly infringing product and details, and any pending patent proceeding relating to invalidity, or face a state law action or counterclaim. The Act therefore fills a procedural need. While the patent holder has a federal statutory right to assert, a patent holder is not required to send a letter to the infringer, nor are there any requirements if a patent holder chooses to do so. The Act also does not require that the patent holder send a letter, but if a patent holder makes a demand, it must fulfill basic requirements, such as setting forth details and analysis of allegedly infringing products.

The Act also permits the North Carolina Attorney General to go after patent abuse more aggressively. The Attorney General can now bring suit under a statute specific to patent abuse, rather than arguing that abusive patent assertions fall under consumer

¹²⁵ See *Patent Progress's Guide to State Patent Legislation*, *supra* note 11.

¹²⁶ MD. CODE ANN. COM. LAW §§ 11-1601-05 (West 2013).

protection's unfair and deceptive doctrine.¹²⁷ Now, the Attorney General may bring his own case under the Act and may join a case brought by another party under the Act, providing a much heavier counterweight to an NPE than a small business.

Finally, from a policy standpoint, the Act shines a light on patent abuse, and puts NPEs on notice that targeted businesses have options. Additionally, because other states have passed similar laws, businesses that operate in multiple states now potentially have several options at their disposal.

The Act has already made an impact on North Carolina businesses. Recently, Sumitomo Electric Lightwave Corp., which has operations in Durham, North Carolina, faced a patent infringement suit and retaliated with a state law counterclaim under the Act.¹²⁸ The case ultimately settled without Sumitomo paying the patent holder.¹²⁹

VI. PREEMPTION

North Carolina's Abusive Patents Assertions Act brought valuable tools to businesses being threatened by NPEs. But because patent law is federal subject matter, federal law could preempt the Act. From a practical standpoint, preemption would mean that an action brought under the Act would be dismissed, ending any potential recovery on the part of the business bringing the action. Therefore, preemption analysis in the context of patent

¹²⁷ See *Congress Should Act On Patent Trolls, AG Cooper Says*, NC DOJ (Feb. 24, 2014), <http://www.ncdoj.gov/News-and-Alerts/News-Releases-and-Advisories/Press-Releases/Congress-should-act-on-patent-trolls,-AG-Cooper-sa.aspx> ("Cooper's Consumer Protection Division is currently investigating a possible patent troll based on complaints from North Carolina small business owners. Cooper recently spoke about patent trolls to in-house attorneys from major companies including Google, Cisco and Amazon at a conference hosted by SAS in Cary.").

¹²⁸ *Cirrex Systems, LLC v. Sumitomo Electric Lightwave Corp.*, No. 1:14-cv-01222-UNA (D. Del. filed Sep. 24, 2014).

¹²⁹ Ryan Davis, *Patent Troll Targets Getting Boost From State Laws*, LAW360 (Nov. 24, 2015, 8:13 PM), <http://www.law360.com/articles/731287/patent-troll-targets-getting-boost-from-state-laws>.

law is important to determine how valuable the Act will be in practice.

Patent holders have a federal statutory right “to inform a potential infringer of the existence of its patent” and its patent rights,¹³⁰ and can threaten to sue alleged infringers.¹³¹ But this right is not unlimited. If an assertion of patent rights is “objectively baseless,” that assertion can be challenged by tort.¹³² Unfortunately, the “objectively baseless” standard is a very “heavy burden” to carry.¹³³

A. Preemption

Federal law may preempt state law either by express preemption or implied preemption. Express preemption occurs when Congress has the authority to legislate and makes federal law exclusive in a field.¹³⁴ For example, the Employee Retirement Income Security Act of 1974 (“ERISA”)¹³⁵ expressly preempts state law on employment benefit plans.

Implied preemption occurs in two ways: field preemption and conflict preemption. Field preemption exists when Congress clearly intended that federal law should exclusively occupy a field.¹³⁶ Examples of field preemption include foreign policy and immigration.¹³⁷ Conflict preemption exists when federal and state law are mutually exclusive and therefore a person could not

¹³⁰ See *GP Industries v. Eran Industries*, 500 F.3d 1369, 1374. (Fed. Cir. 2007) (citing 35 U.S.C. § 287).

¹³¹ See *Concrete Unlimited, Inc. v. Cementcraft, Inc.*, 776 F.2d 1537, 1539 (Fed. Cir. 1985).

¹³² See *GlobeTrotter Software v. Elan Software Group*, 362 F.3d 1367, 1374 (Fed. Cir. 2004).

¹³³ *800 Adept, Inc. v. Murex Sec., Ltd.*, 539 F.3d 1354, 1370 (Fed. Cir. 2008).

¹³⁴ ERWIN CHEMERINSKY, *CONSTITUTIONAL LAW: PRINCIPLES AND POLICIES* 393 (4th ed. 2011).

¹³⁵ 29 U.S.C. § 1144(a) (2014). Federal law “supercede[s] any and all State laws insofar as they may now or hereinafter relate to any employee benefit plan” *Id.*

¹³⁶ CHEMERINSKY, *supra* note 134, at 394.

¹³⁷ *Id.*

comply with both.¹³⁸ For example, in *McDermott v. Wisconsin*,¹³⁹ the Supreme Court ruled that a federal law requiring syrup be labeled in a particular way that Wisconsin law prohibited.¹⁴⁰ As such, the Court deemed the Wisconsin law preempted.¹⁴¹

B. *The “Objectively Baseless” Standard*

The Patent Act and its amendments do “not provide for explicit preemption,”¹⁴² therefore preemption in the patent law context arises as implied preemption. The basis for the standards on patent law preemption of state law claims originally arose in the antitrust context.¹⁴³ Under the *Noerr-Pennington*¹⁴⁴ doctrine, those who petition the government for redress are immune from antitrust liability. However, such immunity is waived when the petitioning activity is a sham.¹⁴⁵ In *Professional Real Estate Investors Inc. v. Columbia Pictures Industries*,¹⁴⁶ the Supreme Court held that there is a “two-part definition” of sham litigation.¹⁴⁷ First, the suit must be “objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits.”¹⁴⁸ Second, only if

¹³⁸ *Id.* at 420

¹³⁹ 228 U.S. 115 (1913).

¹⁴⁰ *Id.* at 137.

¹⁴¹ *Id.*

¹⁴² See *Hunter Douglas, Inc. v. Harmonic Design, Inc.*, 153 F.3d 1318, 1332 (Fed. Cir. 1998), *overruled by* *Midwest Indus., Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356 (Fed. Cir. 1999).

¹⁴³ See *Eastern Railroad Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127 (1961).

¹⁴⁴ See *GlobeTrotter Software v. Elan Software Group*, 362 F.3d 1367, 1375 (Fed. Cir. 2004) (explaining that the “jurisprudential background of the bad faith standard” is in [*Eastern Railroad Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127 (1961)]). The Supreme Court discussed this doctrine shortly thereafter in *United Mine Workers v. Pennington*, 381 U.S. 657 (1965). Hence, the *Noerr-Pennington* Doctrine.

¹⁴⁵ *Noerr*, 365 U.S. at 144.

¹⁴⁶ 508 U.S. 49 (1993).

¹⁴⁷ *Id.* at 60.

¹⁴⁸ *Id.*

the first part is met may a court examine the litigant's "subjective motivation."¹⁴⁹

The Court of Appeals for the Federal Circuit has applied the *Noerr-Pennington* Doctrine to patent law.¹⁵⁰ The court held that federal patent law preempts a state law tort liability for a "patentholder's good-faith conduct in communications asserting infringement of its patent and warning about potential litigation."¹⁵¹ In *Zenith Elecs. Corp. v. Exzec Inc*, Zenith sued Exzec for patent infringement in federal court in the Northern District of Illinois.¹⁵² In response, Exzec brought two counterclaims for unfair competition, one under the federal Lanham Act,¹⁵³ and one under Illinois unfair competition law.¹⁵⁴ Some years later, in *GlobeTrotter Software v. Elan Software Group*,¹⁵⁵ the Federal Circuit then applied the *Professional Real Estate* test to state-law claims based on "communications alleging involving patent infringement . . ."¹⁵⁶ Elan argued that Globetrotter had engaged in wrongful conduct by asserting claims of patent infringement.¹⁵⁷

¹⁴⁹ *Id.*

¹⁵⁰ See *GlobeTrotter Software v. Elan Software Group*, 362 F.3d 1367, 1374 (Fed. Cir. 2004); *Zenith Elecs. Corp. v. Exzec Inc*, 182 F.3d 1340, 1353–55 (Fed. Cir. 1999). The court also applied the bad faith standard to the Lanham Act claim. *Id.*

¹⁵¹ See *GlobeTrotter*, 362 F.3d at 1374.

¹⁵² 182 F.3d. at 1342.

¹⁵³ The Lanham Act is the federal statute on trademark and unfair competition law. 15 U.S.C. §§ 1051 *et seq.* It was enacted in 1946. Pub.L. 79–489, 60 Stat. 427.

¹⁵⁴ *Id.*

¹⁵⁵ 362 F.3d 1367 (Fed. Cir. 2004).

¹⁵⁶ *Id.* at 1377; see also Dennis Crouch, *What Is Happening In Vermont? Patent Law Reform From The Bottom Up*, PATENTLY-O (May 27, 2013), <http://patentlyo.com/patent/2013/05/what-is-happening-in-vermont-patent-law-reform-from-the-bottom-up.html>; Duane Carver, *Vermont Takes A Leap: First State To Pass Law To Combat Patent Trolling*, BERKELEY TECH. L.J. BOLT (October 29, 2013), <http://btlj.org/?p=3082>; Intellectual Property Department Honigman, *Patent Trolls: Can You Sue Them for Suing or Threatening to Sue You?*, NAT'L L. REV. (Oct. 28, 2014) <http://www.natlawreview.com/article/patent-trolls-can-you-sue-them-suing-or-threatening-to-sue-you>.

¹⁵⁷ *GlobeTrotter Software v. Elan Software Group*, 362 F.3d 1367, 1368 (Fed. Cir. 2004).

Thus, a “plaintiff claiming that a patent holder has engaged in wrongful conduct by asserting claims of patent infringement” must meet the two-part test in *Professional Real Estate*: (1) establishing such claims as “objectively baseless;” and (2) showing bad faith.¹⁵⁸ Bad faith must be “alleged and ultimately proven,” even if not required by the state tort claim.¹⁵⁹ The *GlobeTrotter* court then held that this standard specifically applies to “communications asserting infringement of its patent and warning about potential litigation.”¹⁶⁰ This rationale is based on both federal preemption and also the First Amendment.¹⁶¹

Applying *GlobeTrotter*, courts have held that a plaintiff asserting a state tort action against an assertion of patent rights must show “clear and convincing evidence that the infringement allegations are objectively false” to avoid preemption.¹⁶² In other words, the plaintiff’s burden can be met by showing the defendant had “no reasonable basis” to believe there was infringement.¹⁶³ A plaintiff alleging bad faith assertions of patent infringement must “do more than simply conclusively assert that . . . communications were made in bad faith.”¹⁶⁴ A “threshold showing of incorrectness or falsity, or disregard for either” is required to meet the objectively baseless standard.¹⁶⁵ When a plaintiff alleges the defendant is “asserting patents it knows are not valid and not

¹⁵⁸ *Id.* at 1377.

¹⁵⁹ *Id.* at 1374; *see also* *Carotek, Inc. v. Kobayashi Ventures, LLC*, 875 F. Supp. 2d 313, 340 (S.D.N.Y. 2012).

¹⁶⁰ *GlobeTrotter*, 362 F.3d at 1377.

¹⁶¹ *Id.* (noting the Court “need not decide” whether this applies in the context of “publicizing a patent through means other than pre-litigation communication”).

¹⁶² *Lane No. 1 v. Lane Masters Bowling Inc.*, No. 5:06-CV-0508, 2011 U.S. Dist. LEXIS 29231, at *25 (N.D.N.Y. Mar. 22, 2011) (quoting *Golan v. Pingel Enter.*, 310 F.3d 1360, 1371 (Fed. Cir. 2002)).

¹⁶³ *Carotek, Inc. v. Kobayashi Ventures*, 875 F. Supp. 2d 313, 341 (S.D.N.Y. 2012) (citing *Golan*, 310 F.3d at 1371).

¹⁶⁴ *Weiland Sliding Doors & Windows v. Panda Windows & Doors*, 2012 U.S. Dist. LEXIS 124506, at *5–6. (N.D. Cal. 2012).

¹⁶⁵ *Matthews Int’l Corp. v. Biosafe Eng’g*, 695 F.3d 1322, 1332 (Fed. Cir. 2012) (quoting *Mikohn Gaming Corp. v. Acres Gaming, Inc.*, 165 F.3d 891, 897 (Fed. Cir. 1998)).

infringed,” it must allege facts also.¹⁶⁶ It is insufficient to allege “on information and belief.”¹⁶⁷ But if a patent holder represents that a patent is enforceable when he knows the patent is invalid, unenforceable, or not infringed, “a clear case of bad faith,” the plaintiff has met the burden.¹⁶⁸

Parties asserting bad faith assertions of patent infringement do not always clear the “objectively baseless” hurdle.¹⁶⁹ Generally, the procedural posture of these cases is that one party claims patent infringement, and the other claims a state tort for baseless assertion of patent infringement.¹⁷⁰ The common thread in these cases is the inability of the party bringing suit for baseless assertion of patent infringement to show evidence that the patent holder knew about falsity in their accusation,¹⁷¹ or that the assertions were so unreasonable as to be objectively baseless.¹⁷²

For example, in *Weiland Sliding Doors v. Panda Windows & Doors*, the state tort plaintiff was only able to show evidence that the patent holder simply notified the plaintiff’s customers of infringement and that a lawsuit was potentially forthcoming, thus the plaintiff failed to allege the defendant had actual knowledge of no infringement.¹⁷³ Similarly, in *Matthews International Corp v. Biosafe Engineering*,¹⁷⁴ the state tort plaintiff attempted to point to defects with the patent, but the court held that because the defendant did not prosecute the patent (they had acquired the

¹⁶⁶ *Weiland Sliding Doors*, 2010 U.S. Dist. LEXIS 124506, at *6.

¹⁶⁷ *Id.*; see also *Sandisk Corp. v. LSI Corp.*, 2009 U.S. Dist. LEXIS 93191, at *4–9 (N.D. Cal. Sept. 17, 2009).

¹⁶⁸ *Zenith Elecs. Corp. v. Exzec, Inc.*, 182 F.3d 1340, 1354 (Fed. Cir. 1999).

¹⁶⁹ See, e.g., *800 Adept, Inc. v. Murex Sec., Ltd.*, 539 F.3d 1354 (Fed. Cir. 2008); *Weiland Sliding Doors*, 2012 U.S. Dist. LEXIS 124506, at *5–6; *Matthews Int’l Corp.*, 695 F.3d at 1332.

¹⁷⁰ *Weiland Sliding Doors*, 2012 U.S. Dist. LEXIS 124506, at *4 (citing *Zenith*, 182 F.3d at 1354).

¹⁷¹ *Lane No. 1 v. Lane Masters Bowling Inc.*, No. 5:06-CV-0508, 2011 U.S. Dist. LEXIS 29231, at *21 (N.D.N.Y. Mar. 22, 2011).

¹⁷² *Matthews*, 695 F.3d at 1330.

¹⁷³ 2010 U.S. Dist. LEXIS 124506, at *3 (holding state law claims were preempted by federal patent law and dismissed).

¹⁷⁴ 2011 U.S. Dist. LEXIS 110010, *aff’d* 695 F.3d 1322 (Fed. Cir. 2012).

patent), the defendant could not be aware of any prosecution issues, therefore were not aware of the falsity of their accusations.¹⁷⁵ Additionally, in *800 Adept Inc. v. Murex Sec.*,¹⁷⁶ the state tort plaintiff alleged that the defendant knew that other patents anticipated some of the claims of one if its patent.¹⁷⁷ The plaintiff alleged that as such, the defendant knew the claims would not survive reexamination,¹⁷⁸ and thus, the plaintiff was not able to show any evidence that defendant acted deceptively.¹⁷⁹ In sum, none of the state tort plaintiffs in these cases were able to show either evidence the other party knew of issues with the patent they were asserting, or that they knew there was no infringement.

Meeting the hurdle is, however, theoretically possible. In *Carotek, Inc. v. Kobayashi Ventures*,¹⁸⁰ the district court found some evidence meeting the objectively baseless standard involving an assertion of patent infringement.¹⁸¹ *Carotek* involved an action for patent infringement and counterclaims of interference with prospective business advantage, libel and defamation, fraud, and unfair trade practices under North Carolina law.¹⁸² The court found the fact that the plaintiff did not utilize its subpoena power to compel production of documents from the defendant's customers, but instead chose to send letters without a follow up, was *prima facie* suggestive of bad faith but not dispositive.¹⁸³ Additionally, the court found the actual statements made in the letters were objectively baseless because the plaintiff misstated the defendant's legal rights regarding licensing.¹⁸⁴ Thus, the court found bad faith

¹⁷⁵ *Id.* at *38–39.

¹⁷⁶ 539 F.3d 1354 (Fed. Cir. 2008).

¹⁷⁷ *Id.* at 1357 (discussing case details).

¹⁷⁸ *Id.* at 1370–71. (“Adept alleges that Targus knew the disclosure in the Neville patents anticipated the claims of the ‘897 patent, and that Targus misrepresented the scope of Neville to the PTO so that the ‘897 patent claims would survive the reexamination requested by Adept in 1999.”)

¹⁷⁹ *Id.*

¹⁸⁰ 875 F. Supp. 2d 313 (S.D.N.Y. 2012).

¹⁸¹ *See id.* at 342.

¹⁸² *See generally id.*

¹⁸³ *See id.* at 342.

¹⁸⁴ *See id.*

because the plaintiff had sought to recover for patent infringement damages outside of the time permitted for recovery in infringement cases.¹⁸⁵

Similarly, in *Lane No. 1 v. Lane Masters Bowling*,¹⁸⁶ the district court found that, “liberally construed,” the defendant had alleged facts “plausibly suggesting” that plaintiff’s infringement claim was objectively baseless.¹⁸⁷ The plaintiff alleged patent infringement on the part of the defendant,¹⁸⁸ and the defendant counterclaimed with a state action for tortious interference with business relations, and an action for patent invalidity.¹⁸⁹ In its answer and counterclaim, the defendant had alleged that there were defects with the plaintiff’s patent: there was prior art that would invalidate plaintiff’s patent, the patent would have failed the non-obvious test, and various other defects with the written description of the patent.¹⁹⁰ Defendant narrowly survived summary judgment. Similarly, in *Breckenridge Pharmaceutical v. Metabolite Laboratories*,¹⁹¹ the district court granted summary judgment because Breckenridge failed to raise a genuine issue of material fact as to whether demand letters sent by Metabolite were objectively baseless.¹⁹² Breckenridge asserted there was a genuine issue of material fact as to whether Metabolite’s assertions regarding its licenses misrepresented the patents at issue.¹⁹³ On appeal, the Federal Circuit agreed with Breckenridge and vacated summary judgment.¹⁹⁴

¹⁸⁵ *See id.* at 343.

¹⁸⁶ No. 5:06-CV-0508, 2011 U.S. Dist. LEXIS 29231 (N.D. N.Y. Mar. 22, 2011).

¹⁸⁷ *See generally id.*

¹⁸⁸ *Id.* at *2.

¹⁸⁹ *Id.* at *23.

¹⁹⁰ *See Answer and Counterclaims, Lane No. 1 v. Lane Masters Bowling*, No. 06-CV-0508 (FJS/GHL) (June 28, 2006).

¹⁹¹ 444 F.3d 1356, 1369 (Fed. Cir. 2006).

¹⁹² *Id.* at 1369.

¹⁹³ *Id.*

¹⁹⁴ *Id.* at 1369 (“Because the question of whether any statements in the letters were ‘objectively baseless’ is genuinely disputed and integrally related to the

Courts have applied *GlobeTrotter* to bad faith assertions of patent infringement in a variety of other contexts: trade libel,¹⁹⁵ defamation,¹⁹⁶ tortious interference with contractual relations,¹⁹⁷ unfair trade practices,¹⁹⁸ consumer protection law,¹⁹⁹ intentional interference with business relations,²⁰⁰ abuse of process,²⁰¹ and commercial disparagement.²⁰² Although the laws targeting patent abuse are new, the assertion of bad faith patent infringement is present, as in those other contexts. Therefore, whether the Act is preempted depends on whether a plaintiff can meet the *Globetrotter* standard.

C. *The Act and Preemption*

Because the Act does not require a pleading and showing that the assertions of patent infringement are “objectively baseless,”²⁰³ claims which are insufficient to survive preemption could be brought under the Act.²⁰⁴ Therefore, to succeed, a plaintiff must also meet the *Globetrotter* standard.²⁰⁵

question of infringement, we vacate the grant of summary judgment . . . as to the state law claims as well.”) (internal quotes omitted).

¹⁹⁵ *Matthews Int’l Corp. v. Biosafe Eng’g*, 695 F.3d 1322, 1322 (Fed. Cir. 2012).

¹⁹⁶ *Id.*

¹⁹⁷ *Id.*; *Lane No. 1 v. Lane Masters Bowling Inc.*, No. 5:06-CV-0508, 2011 U.S. Dist. LEXIS 29231 (N.D. N.Y. Mar. 22, 2011).

¹⁹⁸ *See Carotek, Inc. v. Kobayashi Ventures*, 875 F. Supp. 2d 313 (S.D.N.Y. 2012); *Enduracoat Techs. Inc. v. Watson Bowman Acme Corp.*, 42 So. 3d 1107 (La. Ct. App. July 8, 2010).

¹⁹⁹ *See generally Enduracoat*, 42 So. 3d 1107.

²⁰⁰ *See PPC Broadband, Inc. v. Corning Gilbert, Inc.*, No. 5:11-cv-761, 2014 U.S. Dist. LEXIS 18262 (N.D. N.Y. Feb. 13, 2014).

²⁰¹ *See id.*

²⁰² *See id.*

²⁰³ *GlobeTrotter Software v. Elan Computer Group Inc.* 362 F.3d 1367, 1375 (Fed. Cir. 2004); *see also Carotek*, 875 F. Supp. 2d at 340. There is no overall standard in the Abusive Patent Assertions Act, rather just “bad faith” factors a court can use. *See* N.C. GEN. STAT. §§ 75-140–45 (2015).

²⁰⁴ N.C. GEN. STAT. §§ 75-140–45.

²⁰⁵ The statute itself recognizes that North Carolina is prevented from passing any law which preempts federal patent law. *Id.* § 75-141(a)(3). Additionally, the legislature was informed of the preemption problem. *See* J. LEGIS. DEV. AND

First, as mentioned above, a “threshold showing” of “incorrectness or falsity, or disregard for either” is required to meet the “objectively baseless” standard.²⁰⁶ The plaintiff’s burden can be met by showing that defendant had “no reasonable basis” to believe there was infringement.²⁰⁷ Therefore, broadly speaking, a plaintiff would have two available strategies: (1) show the claim of patent infringement was false, or (2) show that the infringement allegation is so unreasonable that no objective person would reasonably believe plaintiff had infringed.

In order to show that the infringement claim was false, a plaintiff would have to attack one of the elements of patent infringement: the patent’s validity, infringement analysis, or that some other part of the patent infringement statute was not met. Unfortunately, this approach is problematic for several reasons. Most importantly, state courts cannot engage in patent analysis.²⁰⁸ Any discussion of patent validity or infringement analysis runs squarely into a federal question jurisdiction, which would enable the NPE to remove the case to federal court.²⁰⁹ Moreover, from a practical standpoint, showing actual knowledge of falsity would be extremely difficult. The discovery process would be futile if the NPE is a shell company without records. Unless there is an obvious misstep, such as asserting a patent that has been invalidated (as specified by one factor in the Abusive Patent Assertions Act)²¹⁰ or missing any procedural requirements, this strategy is a long shot.

GLOBAL ECON. ENGAGEMENT OVERSIGHT COMM., REPORT TO THE 2013-2014 GENERAL ASSEMBLY OF NORTH CAROLINA (2014).

²⁰⁶ *Matthews Int’l Corp. v. Biosafe Eng’g*, 695 F.2d 1322, 1332. (Fed. Cir. 2012) (citing *Mikohn Gaming Corp. v. Acres Gaming, Inc.*, 165 F.3d 891, 897 (Fed. Cir. 1998)).

²⁰⁷ *See Carotek*, 875 F. Supp. 2d at 341 (citing *Golan v. Pingel Enter. Inc.*, 310 F.3d 1360, 1371 (Fed. Cir. 2002))

²⁰⁸ Patent law is federal subject matter. *See* 35 U.S.C. §§ 1–390.

²⁰⁹ 28 U.S.C. § 1331.

²¹⁰ “[T]he claim or assertion relies on an interpretation of the patent that was disclaimed during prosecution, and the person making the claim or assertion knows or should have known about the disclaimer, or would have known about the disclaimer if the person reviewed the patent’s prosecution history.” *See* N.C.

A plaintiff could also use a theory that the assertion of patent infringement was so unreasonable that no reasonable person would have believed plaintiff was infringing. One strategy is to attack the patent on patentability grounds. In *Alice Corp. Pty. Ltd. v. CLS Bank International*,²¹¹ the Supreme Court, while affirming previous decisions, held in stronger terms than before that abstract ideas are inherently not patentable and that simply implementing an invention on a computer is insufficient to change the analysis.²¹² Many of the patents asserted by NPEs are broad, abstract software patents.²¹³ If the NPE is asserting a broad software patent, a plaintiff could make an argument that in light of the Supreme Court decision in *Alice*, the patent is invalid. But this strategy also raises a federal question, enabling the NPE to remove to federal court. One other way to survive might be pointing to publicly available information regarding its products and services, if that information clearly shows that infringement is an unreasonable conclusion.²¹⁴

Second, assuming the plaintiff can show the infringement assertion was “objectively baseless,” the plaintiff must then show subjective bad faith. One strategy would be to use North Carolina Civil Procedure Rule 9(b),²¹⁵ which states “[m]alice, intent, knowledge, and other condition of mind of a person may be averred generally.” Once objectively baseless standard has been

GEN. STAT. § 75-143(a)(6). “The person making the claim or assertion is aware of, but does not disclose, any final, nonfinal, or preliminary postgrant finding of invalidity or unpatentability involving the patent.” *See id.* § 75-143(a)(10).

²¹¹ 573 U.S. ___, 134 S.Ct. 2347 (2014).

²¹² *Id.* at 2355 (interpreting 35 U.S.C. § 101).

²¹³ *See James Bessen, The Patent Troll Crisis is Really a Software Patent Crisis*, WASH. POST (Sept. 3, 2013), <http://www.washingtonpost.com/blogs/the-switch/wp/2013/09/03/the-patent-troll-crisis-is-really-a-software-patent-crisis/>.

²¹⁴ Discovery might help, but because attorneys often run NPEs, it is doubtful the operators of the NPE would create a paper trail that would hurt them in court.

²¹⁵ N.C. R. Civ. P. 9(b) states, “in all averments of fraud, duress or mistake, the circumstances constituting fraud or mistake shall be stated with particularity. Malice, intent, knowledge, and other condition of mind of a person may be averred generally.” The federal rule is identical. Fed. R. Civ. P. 9(b).

met, the plaintiff could use Rule 9(b) in addition to the evidence of correspondence to establish implied malice.

Because these laws are brand new, the exact fact patterns are largely hypothetical. *Vermont v. MPHJ Technologies* does not provide much guidance, because even though MPHJ has raised the preemption issue, the Vermont attorney general brought suit under the consumer protection law, not the new patent abuse law.²¹⁶ Nevertheless, because the behavior of NPEs is well documented, it is possible to analyze some hypothetical scenarios.

MPHJ's actions provide a good basis for a first hypothetical. For example, a small local grocery store receives several aggressive letters from an NPE asserting that the business is infringing on its computer-related patents. The letters fulfill the basic requirements under the Act to avoid bad faith, such as stating the patent number, owner, and basic contact information. If the grocery store does not have a website, the NPE has no public information about the kind of technology, if any, the grocery store is using. The grocery store then files suit in North Carolina court under the Act, alleging that the infringement claim is baseless because no reasonable person would believe the grocery store was infringing on any high-tech patents because the grocery store is not in the technology business. Using the letters to show malice, would potentially help the grocery store survive a preemption challenge.

Under a second scenario, an NPE targets a large technology company. The technology company is secretive about its products, which are licensed under non-disclosure agreements, so the company has no detailed product information available to the public.²¹⁷ After receiving a letter, the technology company does a search and finds that the NPE's patent is in proceedings at the USPTO and has a non-final invalidation judgment against it. Next,

²¹⁶ *Vermont v. MPHJ Tech. Investments, LLC*, 803 F.3d 635 (Fed. Cir. 2015), petition for cert. filed, (U.S. Jan. 29, 2016) (No. 15-988).

²¹⁷ This is not uncommon practice in industries that are business-to-business. For example, ARM, whose IP is in most cellular phones, is licensed under contract and non-disclosure agreement. See Licensing ARM IP, *ARM-The Architecture of the Digital World*, <http://www.arm.com/products/buying-guide/licensing/index.php> (last visited Feb. 21, 2016).

the company files in North Carolina court under the Act. The technology company is easily able to show the required bad faith for the Act by using one of the bad faith factors²¹⁸ and can use the same evidence to establish an objectively baseless assertion by showing the NPE disregarded the falsity of their statements.

Additionally, recently proposed federal legislation suggests that patent demand letters and enforcement at the state level might not be preempted by federal law. The STRONG Act of 2015²¹⁹ contains a section that explicitly preempts state laws on patent demand letters and enforcement by state attorneys general.²²⁰ The TROL act has a similar provision.²²¹ If the state laws on patent abuse were not already preempted, presumably Congress would not need to explicitly do so.

In conclusion, because of the Federal Circuit's high standard, preemption remains a challenge to the law for many patent assertions. Only the most serious plaintiffs will get far enough in the process to reach the preemption question. At a minimum though, the Act provides a counterweight to a patent infringement assertion before the preemption question is reached.

VII. OTHER CHALLENGES

Other challenges to using the Act exist, such as removal and personal jurisdiction. First, a case may be subject to removal to federal court on the basis of federal question jurisdiction. The benefit to the NPE of doing so would be to get out of defendant-friendly state court, then potentially move to change venue to

²¹⁸ See N.C. GEN. STAT. § 75-143(a)(6) (2014).

²¹⁹ STRONG Patents Act of 2015, S. 632, 114th Cong. (2015).

²²⁰ *Id.* at § 204 (“PREEMPTION OF STATE LAWS ON PATENT DEMAND LETTERS AND ENFORCEMENT BY STATE ATTORNEYS GENERAL. (1) IN GENERAL.—This title preempts any law, rule, regulation, requirement, standard, or other provision having the force and effect of law of any State, or political subdivision of a State, expressly relating to the transmission or contents of communications relating to the assertion of patent rights.”).

²²¹ Targeting Rogue and Opaque Letters Act of 2015, H.R. 2045, § 4(a), 114th Cong. (2015).

somewhere more plaintiff-friendly. In *Vermont v. MPHJ Technologies*,²²² MPHJ attempted to remove the case from state court on the basis of federal question jurisdiction because it regarded the “validity, infringement, and enforcement of patents.”²²³ The Federal District Court for Vermont held that the State’s complaint was premised solely on state law, not patent law, and none of its claims for relief “concern the validity of MPHJ’s patents.”²²⁴ Perhaps in this case no patent analysis was required. But as mentioned above, removal is likely to arise when the state tort plaintiff seeks to avoid federal preemption. Showing that a patent infringement assertion was false or that no objective person would reasonably believe plaintiff had infringed will be hard without engaging in some patentability, patent, or infringement analysis.

Second, a court may not have sufficient jurisdiction over an NPE in a suit brought under the Act. The asserting business may not operate within the state, but rather via out-of-state shell companies. An NPE is not subject to jurisdiction due to sales—it has no sales. Thus, the entity might not have sufficient minimum contacts for the state to exercise personal jurisdiction. In *Vermont v. MPHJ*, the court found that MPHJ had sufficient minimum contacts based on the threatening letters alone, and found that the public interest benefit in the case weighed in favor of

²²² Notably, the *Vermont v. MPHJ* case is now working its way through the Vermont courts as the case of the first attorney general to sue a patent troll. See *Vermont and Nebraska Attorneys General take Patent Trolls Head On*, 7 NAAGAZETTE, no. 9-10, Oct. 29, 2013, <http://www.naag.org/publications/naagazette/volume-7-number-9-10/vermont-and-nebraska-attorneys-general-take-patent-trolls-head-on.php>. While originally filed under Vermont’s consumer protection laws, the attorney general amended the claim to include violations of the newly-passed anti-trolling statute. As such, this case is illustrative. See First Amended Consumer Protection Complaint, *Vermont v. MPHJ Tech. Invs.*, 2014 U.S. Dist. LEXIS 52132, No. 2:13-cv-170 (Sep. 17, 2014).

²²³ *Vermont v. MPHJ Tech. Invs.*, No. 2:13-cv-170, 2014 U.S. Dist. LEXIS 52132, at 11 (D. Vt. Apr. 15, 2014), *aff’d* 763 F.3d 1350 (Fed. Cir. 2014).

²²⁴ *Id.* at 12.

reasonableness in doing so.²²⁵ Even though this state court would bend over backwards to find jurisdiction, it does not mean that exercising as such would be constitutional. In addition to minimum contacts, subjecting a defendant to jurisdiction must also be reasonable.²²⁶ Some states have gone further and have included jurisdictional hooks in their statutes. For example, Virginia's patent reform statute states that "[a]ny person outside the Commonwealth asserting patent infringement to a target shall be deemed to be transacting business within the Commonwealth"²²⁷ An NPE might have an argument that such a law is overreaching its jurisdiction.

Third, an NPE could bring a First Amendment challenge claiming the state is prohibiting speech. MPHJ has already done so.²²⁸ The right to file suit for patent infringement is protected under the First Amendment.²²⁹ As discussed *supra*, in *Noerr*, the Supreme Court first recognized the First Amendment right to petition the government extends to the right to file suit in Federal Court.²³⁰ In *GlobeTrotter*, the Federal Circuit extended *Noerr* immunity to pre-litigation conduct in the context of state law claims.²³¹ Accordingly, a restriction on a patent holder's speech must also meet the "objectively baseless" standard.²³²

²²⁵ See Ruling on Motion to Stay, Motion to Amend and Motion to Dismiss, *State v. MPHJ Tech. Invs.*, Docket 282-5-13-Wncv (Aug. 28, 2014).

²²⁶ See *Burger King Corp. v. Rudzewicz*, 471 U.S. 462, 472–75 (1985).

²²⁷ VA. CODE ANN. § 59.1-215.3 (2015) (entitled *Bad Faith Assertions of Patent Infringement*).

²²⁸ *Vermont v. MPHJ Tech. Invs.*, 2014 U.S. Dist. LEXIS 52132 at 21 (D. Vt. Apr. 15, 2014), *aff'd* 763 F.3d 1350 (Fed. Cir. 2014).

²²⁹ *GlobeTrotter Software, Inc. v. Elan Software Group, Inc.*, 362 F.3d 1367, 1377 (Fed. Cir. 2004).

²³⁰ *Eastern R. R. Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127, 139–140 (1961).

²³¹ *Id.*

²³² See *supra* notes 159–60.

VIII. OTHER RECENT DEVELOPMENTS

Patent infringement litigation as a whole may be in flux for many reasons.²³³ Recent U.S. Supreme Court patent law decisions have raised the bar for patentability in general. Also, the America Invents Act (“AIA”),²³⁴ the federal patent reform legislation passed in 2011, contains provisions that hurt the practice of patent abuse.²³⁵

Several recent Supreme Court decisions have reshaped the patent landscape. Patent abuse is particularly common in the software industry.²³⁶ Because many of the patents asserted by NPEs are broad, abstract software patents,²³⁷ the Supreme Court struck a real blow to patent abuse in its decision in *Alice Corp. v. CLS Bank International*.²³⁸ Courts have used *Alice* numerous times in just months to invalidate broad software patents.²³⁹ For example,

²³³ One study shows a possible downward trend. See Dennis Crouch, *A Major Drop in Patent Litigation?*, PATENTLY-O (Oct. 9, 2014), <http://patentlyo.com/patent/2014/10/patent-infringement-litigation.html>

²³⁴ The Leahy-Smith America Invents Act, or America Invents Act (AIA) H.R. 1249, 112th Cong. (2011).

²³⁵ The AIA contains a joinder provision which restricts the practice of joining multiple unrelated defendants. 35 U.S.C. § 299 (2014).

²³⁶ See Mark A. Lemley & A. Douglas Melamed, *Missing the Forest for the Trolls*, 113 COLUM. L. REV. 2117, 2123 (2013).

²³⁷ See Bessen, *supra* note 213.

²³⁸ 134 S. Ct. 2347, 2351–52 (2014) (interpreting 35 U.S.C. § 101). The Court held in *Alice* that abstract ideas are inherently not patentable. *Id.* at 2355.

²³⁹ See Robin Feldman, *Slowing the Patent Trolls*, N.Y. TIMES (Mar. 28, 2014), <http://www.nytimes.com/2014/03/29/opinion/slowing-the-patent-trolls.html>; Jacob Gershman, *Hard Times for Software Patents*, WSJ LAW BLOG (Sep. 22, 2014, 10:48 AM), <http://blogs.wsj.com/law/2014/09/22/hard-times-for-software-patents/>. However, skilled patent attorneys could draft around the new law. See Gene Quinn, *A Conversation About Software and Patents*, IPWATCHDOG (Aug. 22, 2014), <http://www.ipwatchdog.com/2014/08/22/a-conversation-about-software-and-patents-on-the-record-with-bob-zeidman/id=50866/>.

recently in *Ultramercial v. Hulu*,²⁴⁰ the Federal Circuit held a broad software patent invalid under *Alice*.²⁴¹

In *Nautilus, Inc. v. Biosig Instruments, Inc.*,²⁴² the Supreme Court held that a patent is invalid if it does not describe the invention “with reasonable certainty,” which was a departure from the prevailing Federal Circuit’s stricter standard.²⁴³ The implication is that more patents will be invalidated for poor drafting.²⁴⁴ In *Octane Fitness v. Icon Health & Fitness*,²⁴⁵ the Court adopted a much more lenient standard to recover reasonable attorney fees to the prevailing party than the previous Federal Circuit standard.²⁴⁶

Additionally, the AIA provided or expanded several review procedures, which can now be used by parties to challenge the validity of patents.²⁴⁷ The AIA also included a joinder provision,²⁴⁸ which restricted the ability of plaintiffs to join multiple unrelated

²⁴⁰ *Ultramercial, Inc. v. Hulu, LLC*, 772 F.3d 709 (Fed. Cir. 2014).

²⁴¹ *Id.* at 713–17; U.S. Patent 7346545 (filed May 29, 2001). Essentially, the patent is on showing an advertisement before watching online video content. *Id.* at 712.

²⁴² 134 S. Ct. 2120 (2014).

²⁴³ 134 U.S. 2120, 2122, 2124 (2014) (interpreting of 35 U.S.C. § 112)

²⁴⁴ See Ronald Mann, *Opinion Analysis: Justices Take Blue Pencil to Federal Circuit Opinions on Definiteness*, SCOTUSBLOG (June 3, 2014, 10:49 AM), <http://www.scotusblog.com/2014/06/opinion-analysis-justices-take-blue-pencil-to-federal-circuit-opinions-on-definiteness/>.

²⁴⁵ 134 S. Ct. 1749 (2014).

²⁴⁶ The Patent Act provides that “[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party.” 35 U.S.C. § 285 (2014). The Federal Circuit had held that “exceptional circumstances” applied only under a limited set of circumstances: “when there has been some material inappropriate conduct, or when the litigation is both brought in subjective bad faith and “objectively baseless.” *Octane Fitness, LLC v. Icon Health & Fitness Inc.* 572 U. S. ____ (2014) (internal quotations omitted). The Supreme Court held the use of only these limited cases as inconsistent with precedent and remanded. *Id.*

²⁴⁷ Steven Seidenberg, *AIA Provides New Ways to Challenge Issued Patents*, INSIDE COUNSEL (Nov. 28, 2012), <http://www.insidecounsel.com/2012/11/28/aia-provides-new-ways-to-challenge-issued-patents>.

²⁴⁸ 35 U.S.C. § 299.

defendants in a single case.²⁴⁹ This provision allows better visibility into the true number of cases an entity is bringing.

Recently, the Federal Rules for Civil Procedure (“FRCP”) changed significantly, effectively raising pleading requirements in patent cases.²⁵⁰ The changes include the elimination of “Form 18,” commonly used in Patent Infringement cases.²⁵¹ The heightened pleading requirements in *Twombly*²⁵² and *Iqbal*²⁵³ raised the bar for pleadings, but the Federal Circuit later held that Form 18 trumped *Twombly* in certain types of patent litigation.²⁵⁴ Being able to use Form 18 meant that the plaintiff was not required to allege many details of infringement,²⁵⁵ whereas now, depending on the court plaintiffs may have to plead much more detail on the patent

²⁴⁹ See Dongbiao Shen, *Misjoinder or Mishap? The Consequences of the AIA Joinder Provision*, 9 BERKELEY TECH. L.J. 545, 545 (2014).

²⁵⁰ Matthew Bultman, *Stricter Patent Pleading Requirements Take Effect Dec. 1*, LAW 360 (Nov. 30, 2015, 3:55 PM), <http://www.law360.com/articles/717900/stricter-patent-pleading-requirements-take-effect-dec-1>.

²⁵¹ Lisa Shuchman, *Trolls Begone (for Now): Patent Pleading Rules Get Tougher*, CORPORATE COUNSEL (Oct. 28, 2015), <http://www.corpcounsel.com/id=1202740882763/Trolls-Begone-for-Now-Patent-Pleading-Rules-Get-Tougher?slreturn=20151102093624>.

²⁵² *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 544 (2007). *Twombly* raised the bar for pleadings, focusing on plausibility of the claims. *Id.* at 569. “Here, the Court is not requiring heightened fact pleading of specifics, but only enough facts to state a claim to relief that is plausible on its face. Because the plaintiffs here have not nudged their claims across the line from conceivable to plausible, their complaint must be dismissed.” *Id.* at 547.

²⁵³ *Ashcroft v. Iqbal*, 556 U.S. 662 (2009). *Iqbal* involved the detention of an immigrant detained by the FBI in the wake of the 9/11/2001 terrorist attacks. *Iqbal* alleged harsh treatment on the part of the Federal officials who detained him. *Id.* The Supreme Court held that *Iqbal* had not met the burden of pleading sufficient facts to state a claim. *Id.* at 686.

²⁵⁴ *In re Bill of Lading Transmission and Processing System Patent Litigation*, 681 F.3d 1323 (Fed. Cir. 2012).

²⁵⁵ “As explained by this court, Form 18 requires: (1) an allegation of jurisdiction; (2) a statement that the plaintiff owns the patent; (3) a statement that defendant has been infringing the patent ‘by making, selling, and using [the device] embodying the patent’; (4) a statement that the plaintiff has given the defendant notice of its infringement; and (5) a demand for an injunction and damages.” *Id.* at 1334.

infringement claim.²⁵⁶ Immediately before the rules took effect, a significant number of patent infringement cases were immediately filed.²⁵⁷

IX. CONCLUSION

Efforts to curb patent abuse are also not without critics.²⁵⁸ An erosion of patent rights could affect other patent holders. A patent holder might be less willing to assert a valid patent against a business if it could suffer legal action for doing so. Further, the Act could have a counterproductive effect in that it could escalate abusive behavior. If an NPE is discouraged from writing a letter to notify a potential infringer, it may instead go directly to federal court and file a patent infringement suit. Because a patent holder is required to give notice in order to recover damages, an NPE would have no choice but to use the filing of an infringement action to provide notice.²⁵⁹ This would cost small businesses much more than simply answering a letter.

²⁵⁶ See Shuchman, *supra* note 251.

²⁵⁷ Joe Mullin, *Patent Trolls Filed Hundreds of Lawsuits to Beat Dec. 1 Deadline*, ARS TECHNICA (Dec. 2, 2015, 9:10 AM), <http://arstechnica.com/tech-policy/2015/12/patent-trolls-filed-hundreds-of-lawsuits-to-beat-dec-1-deadline/>

²⁵⁸ See Wayne Sobon, H.R. 3309 The Innovation Act, AM. INTELLECTUAL PROP. LAW ASS'N (Dec. 4, 2013), <http://www.aipla.org/advocacy/congress/113C/Documents/AIPLA%20Letter%20on%20HR%203309%20As%20Reported%2012-4-13%20FINAL.pdf> (AIPLA comments on the Innovation Act); see also *Maryland: Patent Troll Slayer – Does the New Law Threaten Legitimate Patent Holders?*, KAIDER LAW (June 4, 2015), <http://www.kaiderlaw.com/blog/maryland-patent-troll-slayer-does-the-new-law-threaten-legitimate-patent-holders>. Moreover, lobbying killed Federal efforts to rein in patent trolls. Dustin Volz, *Why Harry Reid Blocked Patent Reform*, NATIONAL JOURNAL (May 21, 2014), <http://www.nationaljournal.com/tech/why-harry-reid-blocked-patent-reform-20140521>.

²⁵⁹ 35 U.S.C. § 287(a) (2014). Patentees who are making, offering for sale, or selling a patent product must mark that product as such. See *id.* Because NPEs do not make products, they must notify infringers directly. See *id.* “[N]o damages shall be recovered by the patentee in any action for infringement, except on proof that the infringer was notified of the infringement and continued to infringe thereafter.” *Id.*

Certainly, because patent law is federal subject matter, if there is to be patent reform, doing so at the federal level makes more sense. Given these challenges, perhaps the passing of the law stemmed from frustration with the inaction of the federal government to reform the patent system, or partisan politics. Only time will tell whether claimants will be able to overcome challenges to the law. Overall though, the Act tips the scales by helping to ensure businesses can obtain equitable relief, damages, and recover attorney's costs for abusive patent assertions.²⁶⁰ For some, this is enough to constitute a success.

²⁶⁰ See N.C. GEN. STAT. § 75-141 (2014).

