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TAKING ON PATENT TROLLS: THE NOERR-PENNINGTON DOCTRINE'S EXTENSION TO PRE-LAWSUIT DEMAND LETTERS AND ITS SHAM LITIGATION EXCEPTION

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I. Introduction

While patentees have “the right to exclude others from making, using, offering for sale, or selling [their] invention[s],”² there is no obligation to manufacture or commercialize it. One of the most famous patents for a bacterium that was capable of breaking down crude oil in order to treat oil spills was never produced, despite its immense potential usefulness and an appeal to the U.S. Supreme Court to get the patent approved.³ There are a number of reasons why a patentee may never end up commercializing his or her invention. For instance, “a nonmanufacturing patentee may lack the expertise or resources to produce a patented product, prefer to commit itself to further innovation, or otherwise have legitimate reasons for its behavior.”⁴ Chakrabarty, the inventor of the renowned oil-eating bacterium, likely never put his famous invention to public use because of the

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² [35 U.S.C. § 154\(a\)](#).

³ See [U.S. Patent No. 4,259,444 \(filed June 7, 1972\)](#); see also [Diamond v. Chakrabarty, 447 U.S. 303 \(1980\)](#); see generally BERNICE SCHACTER, ISSUES AND DILEMMAS OF BIOTECHNOLOGY: A REFERENCE GUIDE 34 (1999).

⁴ MARTIN J. ADELMAN, RANDALL R. RADER, JOHN R. THOMAS, CASES AND MATERIALS ON PATENT LAW 841 (3d ed. 2009).

unknown environmental consequences of dumping the bacteria into water supplies.⁵ However, a patentee may not commercialize his product for nefarious reasons, such as using patents “as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent.”⁶

Patent assertion entities, better known as patent trolls, continue to be a serious problem for inventors, businesses, and anyone intending to use or advance technology. Patent trolls are shell companies that exist solely through patent portfolios and extract licensing fees from other companies by threatening them with costly, burdensome patent infringement litigation.⁷ Patent trolls start off pursuing their licensing demands against small, low tech companies because those businesses will not have the time or resources to defend against patent infringement litigation.⁸ Then, using the income generated from those licenses, patent trolls may go after larger companies in court for even greater damage rewards.⁹ Patent trolls do not manufacture products or provide services, but offensively use their patent portfolios against anyone who may be infringing one of their patents.¹⁰ Patents may give their holders the right to exclude others from infringing, but patent trolls do not “promote the Progress of Science and [the] useful Arts.”¹¹ Instead, they concentrate on obtaining inflated licensing fees from existing patents, rather than pursuing novel applications for the current technology.¹²

An early major patent troll case was *NTP, Inc. v. Research in Motion (RIM)*. NTP took patents from a failed wireless email company and formed a “kind of virtual company” with the

⁵ [Christina Agapakis, *Oil Eating Bacteria*, SCIENCE BLOGS \(June 8, 2010\)](#).

⁶ [eBay Inc. v. MercExchange, L.L.C.](#), 547 U.S. 388, 396 (2006) (Kennedy, J., concurring) [hereinafter *MercExchange*].

⁷ [Patent Troll](#), ELECTRONIC FRONTIER FOUNDATION (last visited Nov. 17, 2014) [hereinafter *Patent Troll*].

⁸ [Ian Austen & Lisa Guernsey, *A Payday for Patents 'R' Us; Huge BlackBerry Settlement Is Grist for Holding Company*, N.Y. TIMES, May 2, 2005, at C3](#) [hereinafter *Payday for Patents 'R' Us*].

⁹ *Id.*

¹⁰ *Patent Troll*.

¹¹ U.S. CONST. art. I, § 8, cl. 8.

¹² *Patent Troll*.

business model of extracting licensing fees from other companies.¹³ NTP filed a patent infringement suit against RIM in 2001, claiming RIM's Blackberry device infringed over forty claims of the patents at issue.¹⁴ The trial jury found willful infringement and awarded \$53.7 million in damages, along with a permanent injunction from manufacturing or selling any accused Blackberry system, software, or handheld.¹⁵ The injunction, though ultimately vacated pending appeal, was particularly onerous as it could have shut down RIM's U.S. operations, which accounted for about 80% of its 2002 revenue.¹⁶ RIM and NTP eventually settled their dispute in March 2006, with RIM paying \$612.5 million to NTP.¹⁷

The U.S. Supreme Court somewhat limited patent trolls' ability to negotiate excessive licensing fees in the landmark decision, *eBay Inc. v. MercExchange, L.L.C.* in 2006. Prior to *MercExchange*, a permanent injunction was the typical result after proving infringement, derived from patent law's right to exclude.¹⁸ *MercExchange* would change this as the Supreme Court held that the traditional four-factor test for permanent injunctions must be used in patent law, rather than generally permitting injunctions once infringement had been proved.¹⁹ Justice Kennedy's concurrence, which was joined by Justices Stevens, Souter, and Breyer, particularly mentioned patent trolls, discussing that businesses have "developed [which] . . . use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees."²⁰ Noting that a

¹³ [Payday for Patents 'R' Us.](#)

¹⁴ [NTP, Inc. v. Research In Motion, Ltd., 418 F.3d 1282, 1290 \(Fed. Cir. 2005\).](#)

¹⁵ [Id. at 1292.](#)

¹⁶ Daniel J. McFeely, *An Argument for Restricting the Patent Rights of Those Who Misuse the U.S. Patent System to Earn Money Through Litigation*, 40 ARIZ. ST. L.J. 289, 295 (2008).

¹⁷ [Mark Heinzl & Amol Sharma, RIM To Pay NTP \\$612.5 Million To Settle Blackberry Patent Suit, WALL ST. J., March 4, 2006.](#)

¹⁸ [Sue Ann Mota, Ebay v. Mercexchange: Traditional Four-Factor Test for Injunctive Relief Applies to Patent Cases, According to the Supreme Court, 40 AKRON L. REV. 529, 529 \(2007\).](#)

¹⁹ [MerExchange, 547 U.S. at 394](#) (the traditional test for injunctive relief requires the plaintiff to prove: (1) that it has suffered an irreparable injury; (2) that the law does not provide other adequate ways to compensate it; (3) that considering the balance of hardships between the plaintiff and defendant, an injunction is warranted; and (4) that the public interest would not be harmed by a permanent injunction).

²⁰ [Id. at 396](#) (Kennedy, J., concurring).

permanent injunction gives patent trolls an enormous bargaining chip when negotiating licensing fees, Kennedy would rather permanent injunctions be granted less frequently when applying the traditional four-factor test.²¹ Even after *MercExchange*, permanent injunctions are still granted about 75% of the time.²²

Patent troll lawsuits have grown almost exponentially in the past few years. In 2012, they commenced about 62% of all United States patent litigation, specifically 2921 of the 4701 suits.²³ Patent trolls initiated around 45% of litigation in 2011, and 29% in 2010.²⁴ Most of the recipients of these lawsuits are low-tech companies like retailers, restaurants, hotels, advertising agencies, and even funeral homes.²⁵ Without the knowledge to understand the complex, technological issues often involved in the patents and fear of the high costs of litigation, low-tech companies tend to be easy targets for patent trolls.

Innovatio, IP Ventures (Innovatio) is one of the more notorious patent trolls to emerge in recent years. While asking for relatively small payouts from large numbers of targets, Innovatio claims it holds the patents for Wi-Fi, just a step below declaring ownership of the Internet.²⁶ Innovatio has “sued hundreds of businesses and has reportedly sent out more than 8,000 letters demanding licensing fees, generally ranging from \$2,300 to \$5,000.”²⁷ Instead of sending demand letters to companies like Cisco, Motorola, or Netgear, the manufacturers of the allegedly infringing machines, Innovatio targets the low-tech users of Wi-Fi technology, such as bakeries, restaurants, cafes, hotels, and other small businesses, that do not produce or sell Wi-Fi devices but that provide

²¹ *Id.*

²² [Barbara A. Fiacco, *The Impact of eBay v. MercExchange*, DUKE PATENT LAW INSTITUTE, at *13 \(May 16, 2013\).](#)

²³ [Colleen Chien, *Patent Trolls by the Numbers*, PATENTLY-O \(March 14, 2013\).](#)

²⁴ *Id.*

²⁵ *Id.*

²⁶ The patent holding company, Eolas Technologies, claimed to own patents to technology that allowed access to the interactive web. Eolas asserted that it was entitled to royalty payments from anyone running a website with “interactive” features, like rotating pictures or streaming video. Fortunately, a Texas jury hearing the case found that the patents were invalid. [Joe Mullin, *Texas Jury Strikes Down Patent Troll’s Claim to Own the Interactive Web*, WIRED \(Feb. 9, 2012\).](#)

²⁷ [Joe Mullin, *Wi-Fi patent troll hit with racketeering suit emerges unscathed*, ARS TECHNICA \(Feb. 13, 2013\).](#)

the functionality to their customers.²⁸ The only targets off-limits, at least for the time being, are private, home Wi-Fi users.²⁹

These demand letters “threaten protracted negotiations with onerous burdens on end users, and offer supposed “discounts” for promptly paying Innovatio without engaging in such negotiations, while making it clear that Innovatio will initiate costly litigation with anyone that does not acquiesce.’ . . . [T]he threats are particularly effective because the end users lack any expertise in the patented technologies, and because Innovatio encourages payment without investigation by threatening that ‘patent litigation is an extremely expensive and time-consuming method of resolving disputes.’”³⁰

In response, several manufacturers of the Wi-Fi devices brought declaratory judgment actions against Innovatio, “seeking a declaration that the manufacturers' products, and the networks or systems of which those products are a part, do not infringe Innovatio's patents.”³¹ On October 1, 2012, three manufacturers of the allegedly infringing products, Cisco Systems, Inc. (Cisco), Motorola Solutions, Inc. (Motorola), and Netgear, Inc. (Netgear), filed an amended complaint against Innovatio, which contains fifty-five counts in total, alleging, *inter alia*, liability for fraudulently enforcing its patents against the manufacturers' customers, violating the Racketeer Influenced and Corrupt Organizations (RICO) Act, unfair competition, civil conspiracy, breach of contract, promissory estoppel, intentional interference with prospective economic advantage, and unclean hands.³²

²⁸ [In re Innovatio, IP Ventures, LLC Patent Litigation, 921 F.Supp.2d 903, 907 \(N.D. Ill. 2013\)](#).

²⁹ [Mullin, supra note 27](#).

³⁰ [Innovatio, 921 F.Supp.2d at 908](#) (quoting Manufacturers' Am. Compl.).

³¹ [Id. at 907](#).

³² “The MAC, which contains fifty-five counts in total, alleges, as relevant here, that Innovatio is liable for fraudulently enforcing its patents against the Manufacturers' customers. Count XLIX alleges violation of the Racketeer Influenced and Corrupt Organizations Act (“RICO”), 18 U.S.C. §§ 1961–1968, based on underlying violations of the mail and wire fraud statutes, 18 U.S.C. § 1341 and § 1343, and violations of 18 U.S.C. § 1951, 18 U.S.C. § 1952, and California Penal Code § 518; Count L alleges violations under California Business & Professional Code § 17200, which prohibits “unfair

To defend against many of these allegations, Innovatio claims its demand letters are protected by the Noerr-Pennington doctrine, which allows companies to protect their economic interests through the government, without fear of a resulting lawsuit due to possible anticompetitive effects.³³ One of the issues in this case is whether Noerr-Pennington doctrine applies to pre-lawsuit demand letters, such as those the manufacturers have accused Innovatio of sending; particularly, demand letters that are sent to enforce patent rights. The Court of Appeals for the Federal Circuit has not directly ruled on this issue with respect to patent litigation, and there exists a circuit split in regards to pre-lawsuit demand letters in general. The Ninth Circuit, in *Sosa v. DIRECTV, Inc.*, ruled that the Noerr-Pennington doctrine extends to pre-lawsuit communication, while the Tenth Circuit, in *Cardtoons, L.C. v. Major League Baseball Players Association*, held that pre-lawsuit communication was too far removed from litigation for the Noerr-Pennington doctrine to apply.

This note will discuss the different analyses used in the Ninth and Tenth Circuit for whether to apply the Noerr-Pennington doctrine to pre-lawsuit communication, as well as the analysis used in the current case, *In re Innovatio, IP Ventures (Innovatio)*, with respect to pre-suit patent enforcement letters. Part II will summarize the history surrounding the creation of the Noerr-Pennington doctrine and its extensions outside antitrust law. Part III will review the current circuit split regarding whether apply Noerr-Pennington to pre-lawsuit communication and Part IV will analyze the circuit split, particularly with respect to patent trolls. The Ninth Circuit was correct in its extension of the doctrine, and *Innovatio* adds more support to its conclusion in the patent law context. However, while the Noerr-Pennington doctrine might seem like a safe harbor for patent trolls, its sham litigation exception could be a powerful tool in stopping patent trolls from sending

competition”; Count LI alleges a civil conspiracy; Count LII alleges breach of contract; Count LIII alleges promissory estoppel; Count LIV alleges intentional interference with prospective economic advantage; and Count LV alleges unclean hands.” *Id.* at 906.

³³ *Id.* at 909-10.

vast amounts of demand letters to low-tech companies solely to get licensing fees, with no intention of actually going to court.

II. History

The Noerr-Pennington doctrine arose in the antitrust context with respect to petitioning the legislative and executive branches of government for redress, despite such petitioning possibly having an anticompetitive effect. Later, the doctrine was extended to the judicial branch and administrative agencies. Moreover, the Noerr-Pennington doctrine has been extended outside of antitrust law into such areas as labor law, RICO claims, §1983 actions, and other statutory and common law causes of action.

A. The Noerr-Pennington Doctrine's Origins

As its name suggests, the Noerr-Pennington doctrine comes from two United States Supreme Court cases: *Eastern Railroad Presidents Conference v. Noerr Motor Freight, Inc.* and *United Mine Workers of America v. Pennington*. Overall, the doctrine is derived from the First Amendment's right to petition the government for redress of any grievances.³⁴

The *Noerr* case was an action commenced by long-distance trucking companies against a number of major railroads for violating the Sherman Antitrust Act.³⁵ The truckers charged that the railroads “conspired to restrain trade in and monopolize the long-distance freight business in violation of §§1 and 2 of the Sherman Act . . . [by] conducting a publicity campaign against the

³⁴ *Id.* at 910 (quoting [U.S. CONST. amend. I](#)).

³⁵ The Sherman Antitrust Act is “[a] federal anti-monopoly and anti-trust statute, passed in 1890 . . . which prohibits activities that restrict interstate commerce and competition in the marketplace.” [Sherman Antitrust Act, LEGAL INFORMATION INSTITUTE \(last visited Feb. 9, 2014\)](#). §1 states in relevant part, “[e]very contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal”; §2 states in relevant part, “[e]very person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty.” [15 U.S.C. §§1-2 \(1890\)](#).

truckers designed to foster the adoption and retention of laws and law enforcement practices destructive of the trucking business, to create an atmosphere of distaste for the truckers among the general public, and to impair the relationships existing between the truckers and their customers.”³⁶ In an opinion written by Justice Black, the Supreme Court held that the railroads’ publicity campaign was lawful even though it may have been initiated with an anticompetitive purpose in mind.³⁷ Holding the opposite would substantially weaken the legislative and executive branch’s ability to take actions that would operate to restrain trade.³⁸ Further, construing the Sherman Act in such a manner would raise serious constitutional questions, especially the First Amendment’s right to petition the government.³⁹ The right of the people to inform their representatives in government of their desires with respect to the passage or enforcement of laws cannot properly be made to depend upon their intent in doing so. It is neither unusual nor illegal for people to seek action on laws in the hope that they may bring about an advantage to themselves and a disadvantage to their competitors.⁴⁰

In *Pennington*, a coal miners’ union sought to recover royalty payments owed to them by a small coal mine.⁴¹ In response, the small coal mine operators alleged that the union, its trustees, and a number of larger coal mines “conspired to restrain and to monopolize interstate commerce in violation of §§1 and 2 of the Sherman Antitrust Act.”⁴² The larger companies and the union allegedly sought to eliminate the smaller coal mine operators, by forcing increased minimum wages for workers and royalty payments to the union.⁴³ “They jointly and successfully approached the

³⁶ [E. R. R. Presidents Conference v. Noerr Motor Freight, Inc., 365 U.S. 127, 129 \(1961\).](#)

³⁷ [Id. at 139-40.](#)

³⁸ [Id.](#)

³⁹ [Id. at 138.](#)

⁴⁰ [Id. at 139.](#)

⁴¹ [United Mine Workers of Am. v. Pennington, 381 U.S. 657, 659 \(1965\).](#)

⁴² [Id.](#)

⁴³ [Id. at 660.](#)

Secretary of Labor to obtain”⁴⁴ such increased minimum wages, creating difficulties for smaller companies to compete in the coal mining industry.⁴⁵ The Supreme Court, per Justice White, found that joint efforts to influence public officials, either standing alone or as part of a broader scheme, do not violate antitrust laws, even if such efforts are intended to eliminate competition.⁴⁶ *Noerr* and *Pennington* conclude that immunity arises whether or not the act of petitioning, or government action stemming from such petitioning, causes an anticompetitive effect.

These two cases involved parties attempting to influence the legislative and executive branches of government to pass and enforce laws. However, its reasoning was extended to administrative agencies and the judicial branch in *California Motor Transport Co. v. Trucking Unlimited*.⁴⁷ The Supreme Court ruled that the reasoning from *Noerr* was applicable to citizens or interest groups’ usage of administrative agencies, which are “creatures of the legislature, and arms of the executive, and to courts, the third branch of government.”⁴⁸ The First Amendment’s right to petition extends to all departments of government and includes the right of access to the courts.

Thus, “parties may petition [any branch of] government for official action favorable to their interests without fear of suit, even if the result of the petition, if granted, might harm the interests of others.”⁴⁹ However, the *Noerr-Pennington* immunity contains a sham litigation exception, where the petitioning activity is merely a cover in order to interfere directly with the business relationships of competitors.⁵⁰ *California Motor Transport* discussed the sham litigation exception, holding that allegations where proceedings and actions are instituted with or without probable cause and

⁴⁴ *Id.*

⁴⁵ *Id.*

⁴⁶ *Id.* at 670.

⁴⁷ [404 U.S. 508 \(1972\)](#).

⁴⁸ *Id.* at 510-11.

⁴⁹ [In re Innovatio, IP Ventures, LLC Patent Litigation](#), 921 F.Supp.2d 903, 910 (N.D. Ill. 2013) (quoting [Tarpley v. Keistler](#), 188 F.3d 788, 794 (7th Cir.1999)).

⁵⁰ [E. R. R. Presidents Conference v. Noerr Motor Freight, Inc.](#), 365 U.S. 127, 144 (1961).

regardless of the merits of the case were on their face within the sham exception.⁵¹

This sham exception was later modified in *Professional Real Estate Investors, Inc. v. Columbia Pictures Industries, Inc.* Some resort hotel operators rented videodiscs to guests to use with videodisc players located in each room and sought to create a market for the sale of such players to other hotels.⁵² Major motion picture studios, which held copyrights to the movies recorded on the resort hotel's videodiscs and licensed the transmission of such pictures to hotel rooms, sued the resort hotel operators for alleged copyright infringement.⁵³ The hotel operators counterclaimed, alleging that the movie studios' action "was a mere sham that cloaked underlying acts of monopolization and conspiracy to restrain trade" in violation of the Sherman Antitrust Act.⁵⁴ The Supreme Court held that an "objectively reasonable effort to litigate cannot be sham regardless of subjective intent."⁵⁵

The Court created a two-part definition of sham litigation.

First, the lawsuit must be objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits. If an objective litigant could conclude that the suit is reasonably calculated to elicit a favorable outcome, the suit is immunized under *Noerr*, and an antitrust claim premised on the sham exception must fail. Only if challenged litigation is objectively meritless may a court examine the litigant's subjective motivation. Under this second part of our definition of sham, the court should focus on whether the baseless lawsuit conceals "an attempt to interfere *directly* with the business relationships of a competitor," through the "use [of] the governmental *process*—as opposed to the *outcome* of that process—as an anticompetitive weapon."⁵⁶

Using this test, the Court found that the movie studios had probable cause to sue the hotel operators for copyright infringement, and thus was not sham litigation.⁵⁷ In order to prevail on a sham litigation theory, the plaintiff must prove that the lawsuit was objectively meritless before determining whether the defendant had a subjective intent to commence a lawsuit solely for its

⁵¹ [California Motor Transport, 404 U.S. at 512.](#)

⁵² [Prof'l Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc., 508 U.S. 49, 51-52 \(1993\).](#)

⁵³ [Id. at 52.](#)

⁵⁴ [Id.](#)

⁵⁵ [Id. at 57.](#)

⁵⁶ [Id. at 60-61.](#)

⁵⁷ [Id. at 62.](#)

anticompetitive effect. The Supreme Court created a higher standard for finding sham litigation than the test originally found in *California Motor Transport*. Thus, because of the objective component of the sham litigation test, it is considerably harder for defendants to prove that a sham exists.

In sum, *Noerr* and *Pennington* created First Amendment immunity to antitrust lawsuits when petitioning the government might have an anticompetitive effect. The Noerr-Pennington doctrine, as the immunity would be called, was later extended to lawsuits and administrative judicial proceedings as well. However, the Noerr-Pennington doctrine does have its limits and will not apply where sham litigation exists. Two separate tests have emerged, with a lower standard in *California Motor Transport* and a higher standard in *Professional Real Estate*.

B. Extension of Noerr-Pennington Doctrine

While the Noerr-Pennington doctrine originally arose in the antitrust context, it has been applied broadly to a number of other legal subjects, including interpreting the National Labor Relations Act (NLRA). *Bill Johnson's Restaurants, Inc. v. National Labor Relations Board* involved the issue of whether the NLRB could enjoin state court lawsuits through analogy to antitrust law. A restaurant owner filed a state court lawsuit against picketers of his restaurant because a waitress was fired, alleging that the protesting was harassment and dangerous.⁵⁸ In response, the waitress filed a charge with the NLRB claiming the suit was nothing but retaliation for participating in the picketing.⁵⁹ The ALJ hearing the case found that the owner's suit lacked a reasonable basis and was intended to penalize protected activity, and the NLRB upheld this determination.⁶⁰ The Supreme Court vacated the judgment, however, holding that the First Amendment's right to petition precluded the prosecution of a reasonable lawsuit from being enjoined as an unfair labor practice,

⁵⁸ [Bill Johnson's Restaurants, Inc. v. N.L.R.B., 461 U.S. 731, 734 \(1983\).](#)

⁵⁹ [Id. at 734-35.](#)

⁶⁰ [Id. at 736-37.](#)

even if it may have been initiated by an employer's intent to retaliate against an employee for exercising his or her protected NLRA rights.⁶¹

In another labor related case, *BE & K Construction Company v. National Labor Relations Board*, a construction company filed a federal lawsuit against a number of unions, claiming that the unions engaged in lobbying, litigation, and other activities solely to delay the construction company's project because it had nonunion employees.⁶² The construction company ultimately lost on all of its claims, but after the lawsuit ended, the NLRB's general counsel filed an administrative complaint alleging that the construction company violated the NLRA because it filed and maintained its lawsuit.⁶³ The NLRB ruled for the general counsel, determining that the construction company's lawsuit was unmeritorious because all of its claims were ultimately dismissed or withdrawn and that the lawsuit was filed to retaliate against protected union conduct.⁶⁴ Like in *Bill Johnson's*, The Supreme Court also vacated the judgment, finding that the construction company's unsuccessful lawsuit against unions could not be used to impose unfair labor practice liability on the company, unless such a lawsuit was an objectively baseless sham.⁶⁵ These two cases show little change in the Noerr-Pennington analysis when used in the labor law context as opposed to the antitrust framework. The doctrine still gives immunity to employers who want to file lawsuits, even if those lawsuits might be retaliatory or hurt labor practices. As long as the lawsuit is not an "objectively baseless" sham, it is protected under the First Amendment's right to petition.

In addition to labor law, the lower courts have applied the Noerr-Pennington doctrine to a number of other areas of law. For instance, the Seventh Circuit has applied the Noerr-Pennington doctrine broadly to include RICO claims and §1983 causes of action. In *International Brotherhood of*

⁶¹ [Id. at 742-43.](#)

⁶² [BE & K Constr. Co. v. N.L.R.B., 536 U.S. 516, 520 \(2002\).](#)

⁶³ [Id. at 522.](#)

⁶⁴ [Id. at 522-23.](#)

⁶⁵ [Id. at 537.](#)

Teamsters, Local 734 Health and Welfare Trust Fund v. Philip Morris, Inc., welfare benefit funds sued cigarette manufacturers, alleging violations of the Sherman Act and Racketeer Influenced and Corrupt Organizations Act (RICO Act).⁶⁶ The funds claimed that the cigarette manufacturers “collusively suppressed research into the health effects of tobacco, lied to the public about these effect, and conspired to suppress the output (and increased the price) of safer cigarettes.”⁶⁷ The funds sought compensation for the costs of smokers’ health care. The Seventh Circuit found that the Noerr-Pennington doctrine’s rationale was equally applicable to RICO suits, and circumscribed the cigarette manufacturers’ liability to the extent that such liability was premised on attempting to influence Congress to pass favorable laws with misstatements concerning the relation between smoking and health.⁶⁸

Tarpley v. Keistler was a Seventh Circuit case involving a §1983 suit.⁶⁹ A candidate for a position at a state operated hospital, who ultimately was not hired, brought a §1983 suit against state officials and political party functionaries, alleging that his political party affiliation was the reason he was not hired, thus violating his First Amendment rights.⁷⁰ On one hand, an applicant has a First Amendment right to affiliate politically with whichever party he or she favors. On the other hand, a political party’s recommendation for which candidate should fill the open position is also a First

⁶⁶ The RICO Act allows for extended criminal penalties and civil causes of action for alleged undertakings commenced as part of an ongoing criminal organization, particularly racketeering. See [Racketeer Influenced and Corrupt Organizations Act, 18 U.S.C. §§ 1961-1968 \(1990\)](#).

⁶⁷ [Int’l Bhd. of Teamsters, Local 734 Health & Welfare Trust Fund v. Philip Morris Inc., 196 F.3d 818, 821 \(7th Cir. 1999\)](#).

⁶⁸ [Id. at 826](#).

⁶⁹ 42 U.S.C. §1983 was created to provide a civil, private remedy against violations of federal law, particularly civil rights abuses, and has been expanded into an entire area of tort liability. §1983 provides:

Every person who, under color of any statute, ordinance, regulation, custom, or usage, of any State or Territory or the District of Columbia, subjects, or causes to be subjected, any citizen of the United States or other person within the jurisdiction thereof to the deprivation of any rights, privileges, or immunities secured by the Constitution and laws, shall be liable to the party injured in an action at law, suit in equity, or other proper proceeding for redress, except that in any action brought against a judicial officer for an act or omission taken in such officer’s judicial capacity, injunctive relief shall not be granted unless a declaratory decree was violated or declaratory relief was unavailable.

[Civil Action For Deprivation of Rights, 42 U.S.C. § 1983 \(1996\)](#).

⁷⁰ [Tarpley v. Keistler, 188 F.3d 788, 790 \(7th Cir. 1999\)](#).

Amendment right to petition the government. Even with this added First Amendment complexity, analysis of whether a §1983 conspiracy exists requires similar analysis as to whether sham litigation exists under the Noerr-Pennington doctrine. In this case, the Seventh Circuit balanced the two competing constitutional issues and sided with the right to petition as stronger.⁷¹ The court found that making suggestions about whom to hire is a traditional form of political activity, and a private party's political motives are irrelevant.⁷²

Other circuits have extended the Noerr-Pennington doctrine to a number of statutory and common law claims. In *IGEN International, Inc. v. Roche Diagnostics GmbH*, the Fourth Circuit applied the Noerr-Pennington doctrine to business tort claims. The licensor of patented electrochemiluminescence (ECL) technology used in medical diagnostic products brought an action against the licensee, claiming miscalculation of royalties, tortious unfair competition, breach of implied duty of good faith and fair dealing, and breach of contract.⁷³ The matter was complicated by the licensee acquiring a patent from a third party that the ECL technology was allegedly infringing, and continuing a pending lawsuit from that patent.⁷⁴ The Fourth Circuit found that the Noerr-Pennington doctrine was a valid defense to the licensor's claim that such activity amounted to a collateral tort.⁷⁵

Similarly, the Third Circuit extended the Noerr-Pennington doctrine to state common law claims for malicious prosecution, tortious interference with contract, tortious interferences with prospective economic advantage, and unfair competition arising out of petitioning activity. In *Cheminor Drugs v. Ethyl Corporation*, an Indian ibuprofen manufacturer sued an American manufacturer after the American manufacturer filed a petition with the Department of Commerce

⁷¹ [Id. at 795.](#)

⁷² [Id.](#)

⁷³ [IGEN Int'l, Inc. v. Roche Diagnostics GmbH, 335 F.3d 303, 307-08 \(4th Cir. 2003\).](#)

⁷⁴ [Id.](#)

⁷⁵ [Id. at 311.](#)

and United States International Trade Commission requesting the enactment of anti-dumping and countervailing duties on imports of bulk ibuprofen from India.⁷⁶ The Indian manufacturer brought both federal and state antitrust claims, as well as state common law claims, alleging that the American manufacturer's administrative complaints were baseless, made in bad faith, contained false statements, and were brought only for anti-competitive reasons.⁷⁷ The Third Circuit used Noerr-Pennington analysis for all of the claims asserted and found the American Manufacturer was protected by it.⁷⁸

In *Video International Production v. Warner-Amex Cable Communications*, a cable television company sued a city and cable television franchisee for antitrust liability, §1983 liability, and tortious interference with contracts, for trying to put the cable television company out of business through zoning ordinances.⁷⁹ The Fifth Circuit extended Noerr-Pennington to the §1983 claim and the common law tort claims. Regarding the common law tort claims, it found that “[t]here is simply no reason that a common-law tort doctrine can any more permissibly abridge or chill the constitutional right of petition than can a statutory claim such as antitrust.”⁸⁰

Another case, *Thermos Co. v. Igloo Products Corp.*, involves antitrust allegations arising out of a trademark infringement lawsuit. The court in this case found that the Noerr-Pennington doctrine grants antitrust immunity to those who wish to protect valid trademarks.⁸¹ Further, a trademark holder has the right to send trademark enforcement letters to alleged infringers as a defense against infringement.⁸²

Finally, in *Brownsville Golden Age Nursing Home v. Wells*, a nursing home, which had its license

⁷⁶ [Cheminor Drugs, Ltd. v. Ethyl Corp.](#), 168 F.3d 119, 120 (3d Cir. 1999).

⁷⁷ *Id.*

⁷⁸ *Id.* at 128.

⁷⁹ [Video Int'l Prod., Inc. v. Warner-Amex Cable Commc'ns, Inc.](#), 858 F.2d 1075, 1080 (5th Cir. 1988).

⁸⁰ *Id.* at 1084.

⁸¹ [Thermos Co. v. Igloo Products Corp.](#), No. 93 C 5826, 1995 WL 745832 (N.D. Ill. Dec. 13, 1995).

⁸² *Id.*

revoked, sued private individuals, state officials and a United States Senator, alleging that they engaged in a civil conspiracy to interfere with the nursing home's present and prospective business relations, and maliciously used process in improperly instituting Department of Health proceedings against the nursing home.⁸³ The court found that the *Noerr-Pennington* doctrine extends to tortious interference, abuse of process, and civil conspiracy claims.⁸⁴

The United States Supreme Court and lower courts have applied the *Noerr-Pennington* doctrine broadly outside of its antitrust origins. The doctrine applied to labor disputes, §1983 suits, tort claims, trademark and patent infringement cases, and other statutory and common law issues. The *Noerr-Pennington* doctrine is no longer a First Amendment principle particular to antitrust law, but has expanded to an extensive number of areas of the law.

III. Circuit Split Regarding Noerr-Pennington and Pre-Lawsuit Communication

One of the main issues in *Innovatio* is whether the Noerr-Pennington doctrine extends to pre-lawsuit demand letters enforcing patents. The Ninth and Tenth Circuits are split on the issue with respect to pre-lawsuit communication in general, where the former believes that the immunity should extend and the latter finds that the doctrine is too attenuated to extend to pre-lawsuit communication.

The Ninth Circuit's pivotal case on this issue is *Sosa v. DIRECTV*. DIRECTV sent tens of thousands of demand letters claiming that the recipients of the letters were illegally using DIRECTV's satellite television signal.⁸⁵ The letters threatened a lawsuit if recipients did not quickly settle with DIRECTV under the Federal Communications Act.⁸⁶ Some of the recipients, including

⁸³ [Brownsville Golden Age Nursing Home, Inc. v. Wells](#), 839 F.2d 155, 156 (3d Cir. 1988).

⁸⁴ *Id.* at 160.

⁸⁵ [Sosa v. DIRECTV, Inc.](#), 437 F.3d 923, 926-27 (9th Cir. 2006).

⁸⁶ *Id.*

recipients who only received the letter and those who had already settled with DIRECTV, filed a class action lawsuit alleging that, by mailing pre-lawsuit demand letters, DIRECTV violated the RICO Act.⁸⁷ The Ninth Circuit first found that the *Noerr-Pennington* doctrine applied to RICO lawsuits, just as the Seventh Circuit had in *International Brotherhood of Teamsters*.⁸⁸ The Ninth Circuit further determined that the immunity extended to pre-litigation demand letters for a settlement of alleged signal theft.⁸⁹ While the demand letters were directed to private parties prior to a petition being filed with the court, and thus not “petitions” within the meaning of the First Amendment’s right to petition, the letters were nonetheless protected as conduct incidental to the prosecution of a suit and protected by the First Amendment’s right to petition.⁹⁰

By contrast, the Tenth Circuit ruled differently in *Cardtoons L.C. v. Major League Baseball Players Association*. Cardtoons designed trading cards that parodied images of major league baseball players and contracted to print the cards for a set fee.⁹¹ After discovering this, the Major League Baseball Players Association (MLBPA) sent a cease-and-desist letter to Cardtoons, claiming that the production and sale of the parody cards violated publicity rights of both the MLBPA and the baseball players.⁹² The MLBPA threatened to enforce its rights with all available legal remedies.⁹³ The MLBPA also sent a similar cease-and-desist letter to the company printing the parody cards, and in response, that company decided to back out of its contract with Cardtoons, fearing the litigation the MLBPA threatened in its letter.⁹⁴ Cardtoons then commenced a lawsuit against MLBPA, seeking a declaratory judgment that it did not violate any publicity rights and further alleging that the

⁸⁷ [Id. at 927.](#)

⁸⁸ [Id. at 938.](#)

⁸⁹ [Id.](#)

⁹⁰ [Id. at 934.](#)

⁹¹ [Cardtoons, L.C. v. Major League Baseball Players Ass'n, 208 F.3d 885, 886 \(10th Cir. 2000\).](#)

⁹² [Id.](#)

⁹³ [Id.](#)

⁹⁴ [Id. at 886-87.](#)

MLBPA tortuously interfered with its printing contract.⁹⁵ The Tenth Circuit held that “pre-litigation threats communicated solely between private parties are [not] afforded immunity from suit by the right to petition guaranteed by the First Amendment.”⁹⁶ Thus, the Noerr-Pennington doctrine does not apply to claims of prima facie tort, libel, and negligence based on cease-and-desist letters threatening litigation.

With respect to patent litigation, *Innovatio* agrees with the Ninth Circuit in extending the Noerr-Pennington doctrine to pre-lawsuit communication, but bases its analysis on a Federal Circuit case, *Globetrotter Software v. Elan Computer Group*. In this case, the owner of a number of patents for license management software sued a competitor for infringement. In response, that competitor counterclaimed for tortious interference and unfair competition.⁹⁷ *Globetrotter* determined whether federal patent law preempts state law counterclaims based on pre-suit demand letters. The Federal Circuit first noted the rule that state law claims based on a patent holder’s assertion of infringement in litigation can survive federal preemption only to the extent that those claims are based on a showing of bad faith in asserting infringement.⁹⁸ This “bad faith” standard, to be applied in preemption cases, was derived from the Noerr-Pennington sham litigation exception, particularly the Supreme Court’s decision in *Professional Real Estate*.⁹⁹ Based on that background, the court determined that both the objective and subjective prongs of the “bad faith” standard applied to pre-suit demand letters in the preemption context.¹⁰⁰ Therefore, *Globetrotter* requires the application of Noerr-Pennington to shield pre-suit communications from state law claims. The court in *Innovation* determined that *Globetrotter*’s preemption reasoning was equally applicable to whether Noerr-

⁹⁵ [Id. at 887.](#)

⁹⁶ [Id. at 891.](#)

⁹⁷ [Globetrotter Software, Inc. v. Elan Computer Grp., Inc., 362 F.3d 1367, 1370 \(Fed. Cir. 2004\).](#)

⁹⁸ [Id. at 1374.](#)

⁹⁹ [Prof'l Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc., 508 U.S. 49, 60-61 \(1993\).](#)

¹⁰⁰ [Globetrotter, 362 F.3d at 1375.](#)

Pennington creates an immunity in pre-suit communications alleging patent infringement.¹⁰¹ Thus, according to *Innovatio*, the Noerr-Pennington doctrine extends to pre-suit demand letters involving alleged patent infringement.

IV. Analysis

The Ninth Circuit's decision was already a sound result, and now *Innovatio* adds more support for its decision to expand the Noerr-Pennington doctrine to pre-lawsuit communication, especially in the context of patent infringement litigation. Many states or circuits protect pre-lawsuit communication either statutorily or through case law precedent. Further, pre-lawsuit communication that leads to a negotiation of settlement is often less burdensome than proceeding directly to litigation and is common practice in modern times. Finally, extending immunity to pre-lawsuit communication protects the same interests required for the protection of private litigation. However, while the Noerr-Pennington doctrine should extend to pre-lawsuit communication, its sham litigation exception should be a viable defense against patent trolls. Conduct that virtually amounts to extortion via onerous litigation threats should fall under the sham litigation test of either *Professional Real Estate* or *California Motor Transport*.

A. The Noerr-Pennington Doctrine Should Extend to Pre-Lawsuit Communication

When determining whether to widen the Noerr-Pennington immunity to pre-lawsuit demand letters, the Ninth Circuit has more persuasive arguments. First, a number of states protect pre-litigation under statutorily granted litigation privileges. For instance, California's Civil Code section 47(b) shields litigation-related conduct from liability, which includes pre-lawsuit

¹⁰¹ [In re Innovatio, IP Ventures, LLC Patent Litigation](#), 921 F.Supp.2d 903, 910 (N.D. Ill. 2013).

communication.¹⁰² The principal purpose is to afford litigants and witnesses the utmost freedom of access to the courts without fear of being harassed subsequently by derivative tort actions.¹⁰³ California and about half of the states have enacted anti-SLAPP statutes (Strategic Lawsuits Against Public Participation).¹⁰⁴ These lawsuits are meritless suits, commenced primarily to chill a defendant's exercise of its First Amendment right to free speech. Moreover, although in the context of defamation, the Restatement (Second) of Torts gives an attorney absolute privilege to publish defamatory matter concerning others in "communications preliminary to a proposed judicial proceeding, or in the institution of, or during the course and as a part of, a judicial proceeding in which [the attorney] participates as counsel."¹⁰⁵ Such laws illustrate the close connection and necessity for pre-lawsuit settlement demands to the litigation process.

A majority of other circuits have decided to extend Noerr-Pennington to activities preliminary to the formal filing of litigation. In *Primetime 24 Joint Venture v. National Broadcasting Company*, a satellite operator sued broadcast television networks, their affiliates, and television trade organizations for attempting to restrict the availability of network programming to direct-to-home satellite subscribers.¹⁰⁶ The Second Circuit held that Noerr-Pennington protected the challenges to the signal strength determinations by satellite broadcasters.¹⁰⁷ In *Glass Equipment Development v. Besten*, a patent assignee sued another company, claiming that the company induced infringement of a patent on a method for fabrication of space frames for insulating windows, and the defending company counterclaimed under the Sherman Act.¹⁰⁸ The Federal Circuit found that the threat of patent enforcement litigation could not subject a patent holder to antitrust liability unless the patent

¹⁰² [Cal. Civ. Code § 47 \(2005\)](#).

¹⁰³ [Matthew A. Hodel & Fred L. Wilks, *Lawful and Unlawful Prelitigation Demand Letters*, ORANGE COUNTY BAR ASSOCIATION \(Aug. 2013\)](#).

¹⁰⁴ [James J.S. Holmes, *Anti-SLAPP Statutes: California Moves Towards the National Consensus*, SEDGWICK LAW \(Fall 2007\)](#).

¹⁰⁵ Restatement (Second) of Torts § 586 (1977).

¹⁰⁶ [Primetime 24 Joint Venture v. Nat'l Broad. Co., Inc.](#), 219 F.3d 92, 94-95 (2d Cir. 2000).

¹⁰⁷ [Id.](#) at 100.

¹⁰⁸ [Glass Equip. Dev., Inc. v. Besten, Inc.](#), 174 F.3d 1337, 1339-40 (Fed. Cir. 1999).

was obtained through knowing and willful fraud or the infringement lawsuit was a sham to directly interfere with the business relationships of a competitor.¹⁰⁹

In *McGuire Oil Company v. Mapco*, petroleum wholesalers of branded gasoline sued a retailer of unbranded gasoline products for violating the Alabama Motor Fuel Marketing Act, and the retailer counterclaimed that the lawsuit violated the Sherman Act.¹¹⁰ The Eleventh Circuit held that concerted threats of litigation are protected under the Noerr-Pennington doctrine, so long as such action was directed towards influencing governmental bodies.¹¹¹ In *CVD, Inc. v. Raytheon Company*, a corporation of former employees brought an antitrust action against their former employer because that employer allegedly asserted trade secrets in bad faith, and the employer counterclaimed for breach of contract and misappropriation of trade secrets.¹¹² The First Circuit held that the possessors of trade secrets are entitled to assert their rights against would-be infringers and defend their rights in court, as long as the assertion is not in bad faith.¹¹³ In *Coastal States Marketing v. Hunt*, an oil distributor brought an antitrust lawsuit against former Libyan oil concession owners for conducting an alleged secondary boycott.¹¹⁴ The Fifth Circuit held that the Noerr-Pennington immunity extended to generalized threats to litigate to protect claims to oil assets.¹¹⁵ As shown from the above cases, most circuits agree that the Noerr-Pennington doctrine should extend to pre-lawsuit communication.

A common, possibly universal feature of modern litigation is preceding the formal filing of litigation with an invitation to engage in settlement negotiations. Even if negotiations do not resolve the dispute, pre-litigation settlement offers permit parties to frame their legal positions, which can

¹⁰⁹ *Id.* at 1343.

¹¹⁰ [McGuire Oil Co. v. Mapco, Inc.](#), 958 F.2d 1552, 1555 (11th Cir. 1992), *certified question answered*, 612 So. 2d 417 (Ala. 1992).

¹¹¹ *Id.* at 1559.

¹¹² [CVD, Inc. v. Raytheon Co.](#), 769 F.2d 842, 847-48 (1st Cir. 1985).

¹¹³ *Id.* at 850-51.

¹¹⁴ [Coastal States Mktg., Inc. v. Hunt](#), 694 F.2d 1358, 1361-62 (5th Cir. 1983).

¹¹⁵ *Id.* at 1364.

streamline any subsequent litigation. This leads to reduced legal costs and facilitates access to the courts.¹¹⁶ Not subjecting related pre-lawsuit conduct to similar protections that commencing lawsuits offers would “render the entire litigation process more onerous, imposing a substantial burden on a party’s ability to seek redress from the courts.”¹¹⁷ Specifically, in the case of patent litigation, sending pre-suit demand letters is a necessary component to enforce patent rights.¹¹⁸ Parties are often compelled to defend lawsuits that ultimately have little merit. While responding to demands to settle possibly unfounded claims might be burdensome, proceeding directly to litigation for fear of tort or antitrust liability for demanding settlement of a possibly weak claim would likely be more burdensome in the long run. For truly unmeritorious claims, the established sham litigation exception to the Noerr-Pennington doctrine should provide protection to pre-litigation demand letters.

The interests implicated in the First Amendment’s right to petition are the same interests implicated in protecting pre-lawsuit demand letters. First Amendment interests involved in private litigation include compensation for violated rights and interests, the psychological benefits of vindication, and public airing of disputed facts.¹¹⁹ Further, the ability to lawfully prosecute grievances, even if ultimately unsuccessful, adds legitimacy to the court as an alternative to individuals taking matters into their own hands, possibly with the use of force.¹²⁰ Interests such as these are equally served as long as the disputes are resolved, either straight through the formal litigation process, or through pre-lawsuit settlement negotiation with resorting to the courts as a backup.

Finally, the reasoning in *Cardtoons* is unpersuasive. The Tenth Circuit examined precedent

¹¹⁶ [Sosa v. DIRECTV, Inc.](#), 437 F.3d 923, 936 (9th Cir. 2006).

¹¹⁷ *Id.*

¹¹⁸ [In re Innovatio, IP Ventures, LLC Patent Litigation](#), 921 F.Supp.2d 903, 910 (N.D. Ill. 2013).

¹¹⁹ [Bill Johnson’s Restaurants, Inc. v. N.L.R.B.](#), 461 U.S. 731, 743 (1983).

¹²⁰ [BE & K Const. Co. v. N.L.R.B.](#), 536 U.S. 516, 532 (2002).

cases and found that the Noerr-Pennington doctrine was extended to pre-suit demand letters only in the context of antitrust lawsuits.¹²¹ However, extending pre-suit demand letters is no longer relevant when the Noerr-Pennington doctrine has been extended to so many other areas of the law. As already shown from the above cases and Section II, Part B of this note, the Noerr-Pennington doctrine had been extended to labor law disputes, RICO actions, intellectual property issues, and other statutory and common law claims.

The Tenth Circuit also took the literal language of the First Amendment, which states that it protects petitions made “to the Government.”¹²² Pre-lawsuit cease and desist letters “threatening suit [are] never sent to the government; [do] not ask the government for any response or ‘redress of grievances’; [are] not even known to the government prior to [any later] action [taken in court]; and [may] not ever result in any litigation.”¹²³ However, this argument ignores the realities of modern litigation and the Supreme Court’s pronouncement that First Amendment rights require “breathing space” to survive,” thereby affording conduct incidental to the prosecution of a suit First Amendment protection.¹²⁴ The dissent in *Cardtoons* states, “there is no sound basis for the conclusion that a complaint will be afforded immunity while a “cease-and-desist” letter will not, when both documents contain identical allegations.”¹²⁵ Not allowing pre-lawsuit demand letters protection under the Noerr-Pennington doctrine encourages more litigation.¹²⁶ Those wishing to send pre-lawsuit demand letters must “bypass the post office on the way to the court house and avoid the letter carrier in a rush to get to the process server.”¹²⁷ Although pre-lawsuit communication involves direct demands rather than through the legal system as a government

¹²¹ [Cardtoons, L.C. v. Major League Baseball Players Ass'n](#), 208 F.3d 885, 889 (10th Cir. 2000).

¹²² [Id.](#) at 892.

¹²³ [Id.](#)

¹²⁴ [New York Times Co. v. Sullivan](#), 376 U.S. 254, 272 (1964).

¹²⁵ [Cardtoons](#), 208 F.3d 885, at 894 (Lucero, J. dissenting).

¹²⁶ [Id.](#)

¹²⁷ [Id.](#)

mechanism, they are still demanding adherence to the law, while seeking vindication and protection of significant economic interests.¹²⁸

Thus, the Noerr-Pennington doctrine should expand to pre-lawsuit communication in all areas of the law, especially in the context of patent infringement litigation. A large number of states, and many of the federal circuit courts protect pre-lawsuit communication either statutorily or through case law precedent. Moreover, public policy supports allowing pre-lawsuit communication protection, since it leads to a negotiation of settlement, which is often less arduous than proceeding directly to litigation. Lastly, extending the Noerr-Pennington doctrine to pre-lawsuit demand letters protects the same interests as direct litigation, and is conduct incidental to the prosecution of a suit under the breathing space principle of the First Amendment.

B. The Conduct of Patent Trolls Should Fall Under the sham Litigation Exception

While the Noerr-Pennington doctrine should extend to pre-lawsuit communication, its sham litigation exception should be broadened to prevent patent trolls from abusing the doctrine. *Innovatio* based its sham litigation analysis on *Globetrotter*, which established that pre-litigation communications are a sham if they are sent in “bad faith,” which includes both an objective and subjective component.¹²⁹ Specifically, in order for bad faith to exist, the claims “must be so baseless that no reasonable litigant could realistically expect to secure favorable relief.”¹³⁰ A litigant cannot act in bad faith if the litigant has “probable cause” to institute a lawsuit.¹³¹ From this, the court determined that *Innovatio*’s pre-lawsuit demand letters were not a sham, looking at each of the

¹²⁸ *Id.* at 897.

¹²⁹ *In re Innovatio IP Ventures, LLC Patent Litig.*, 921 F. Supp. 2d 903, 914 (2013).

¹³⁰ *Id.*

¹³¹ *Id.*

manufacturers' allegations.¹³²

However, sham litigation should be broader than merely "bad faith." The definition articulated in *Professional Real Estate* involved using the petitioning process simply as an anti-competitive tool without legitimately seeking a positive outcome.¹³³ As mentioned above, the Supreme Court created a two-part test to determine the existence of sham litigation.¹³⁴ First, such suits must be objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits. If that threshold is met, the court will then inquire whether the suit demonstrates evidence of a subjective intent to use governmental process to interfere with a competitor's business.¹³⁵

A number of circuits have decided to create two separate tests to determine whether sham litigation exists. The Fourth Circuit discusses this split in *Waugh Chapel South, LLC v. United Food and Commercial Workers Union Local 27*. This circuit, as well as the Second and Ninth Circuits, are unclear as to whether *Professional Real Estate* overrules *California Motor Transport's* sham litigation test, or whether the two tests are for different circumstances.¹³⁶ The circuits decide that the cases are in fact distinguishable. The test in *Professional Real Estate* applies to "whether a single action constitutes sham petitioning."¹³⁷ However, if the defendant is accused of "bringing a whole series of legal proceedings," then the test in *California Motor Transport* applies.¹³⁸

However, cases involving patent trolls do not fit perfectly into either category. Patent trolls may engage in numerous lawsuits, but only a single action per defendant. No case has determined whether such a situation should apply the *California Motor Transport* test or the *Professional Real Estate*

¹³² *Id.* at 922.

¹³³ [Prof'l Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc., 508 U.S. 49, 51-52 \(1993\)](#).

¹³⁴ *Id.*

¹³⁵ *Id.*

¹³⁶ [Waugh Chapel South, LLC v. United Food and Commercial Workers Union Local 27, 728 F.3d 354, 363 \(4th Cir. 2013\)](#).

¹³⁷ *Id.*

¹³⁸ *Id.*

test, likely because these quasi-reverse class action lawsuits are extremely rare.¹³⁹ Patent trolls may send out thousands of demand letters, but only a few of the recipients may actually end up in court, since most just pay the licensing fee. Because of the possibility that a patent troll could end up suing a large amount of defendants for patent infringement, the *California Motor Transport* test should apply. The *Professional Real Estate* test should be limited solely to cases where a plaintiff is suing a single defendant once. The higher standard of *Professional Real Estate* is consistent with the chance that sham litigation is occurring to only one defendant in a single action. Not taking the specific facts of a case into account, such a situation is much less likely to be sham litigation than a plaintiff suing an enormous number of defendants in different lawsuits, or a plaintiff suing one defendant numerous, consecutive times. The former is usually just a typical lawsuit, while the latter two situations appear to be harassment.

Patent trolls, especially ones such as Innovatio, IP Ventures (“Invatio”), which threaten thousands of businesses with lawsuits, should pass the sham litigation test created in *Professional Real Estate*. At the very least, patent trolls should pass the lower sham litigation standard from *California Motor Transport*, considering the trolls sue literally thousands of companies. In cases where a whole series of legal proceedings are brought, the test is not “retrospective” but “prospective.”¹⁴⁰ Some relevant questions are whether the legal filings were made, not out of a genuine interest in redressing grievances, but as part of a pattern or practice of successive filings undertaken essentially for the purposes of harassment.¹⁴¹ The fact that some of the claims might, by chance, have merit is irrelevant.¹⁴² The key issue is whether the legal challenges “are brought pursuant to a policy of

¹³⁹ Reverse class action lawsuits, where one plaintiff sues a class of defendants, while legal, are looked down upon, mostly as a loophole around personal jurisdiction issues. However, they have gained some ground in online copyright infringement cases and may gain more popularity in the future. See [Terry Hart, *The Reverse Class Action Lawsuit: Challenges of Enforcing Copyright Online*, COPYHYPE \(February 10, 2011\)](#).

¹⁴⁰ [Primetime 24 Joint Venture v. NBC](#), 219 F.3d 92, 101 (2d Cir. 2000).

¹⁴¹ *Id.*

¹⁴² *Id.*

starting legal proceedings without regard to the merits and for the purpose of injuring a market rival.”¹⁴³ Innovatio campaigned vigorously to enforce its patents against users of Wi-Fi technology, such as bakeries, restaurants, cafes, hotels, and other small businesses, rather than the manufacturers of the allegedly infringing devices.¹⁴⁴ They sent more than 8,000 letters in all fifty states alleging infringement of its patents and demanding payments for a license.¹⁴⁵ Those letters threatened costly litigation with anyone that does not comply, and the threats are particularly effective against the users of Wi-Fi technology, because they overall lack the expertise in the patented technologies and money to engage in costly litigation.¹⁴⁶ These facts should be sufficient to pass the first part of the sham litigation exception test.

Innovatio’s demand letters and its business practices as a patent troll are also sufficient for the subjective part of the sham litigation exception test. Their intent is to enforce its patents on smaller, “low-tech” businesses that “use” the allegedly infringing technology rather than the “high-tech” manufacturers who create and understand how the technology works. This is solely to make a “quick buck” against companies that cannot afford the extremely expensive litigation that comes with patent infringement cases. If Innovatio really intended to use its patent as they were meant to “promote the progress . . . of useful Arts,” it would go after the manufacturers, who not only have the money for patent litigation, but also have a direct connection to the lawsuit. Thus, patent troll suits demonstrate a subjective intent to use the judicial process to interfere with a competitor’s business.

V. Conclusion

¹⁴³ *Id.*

¹⁴⁴ [*In re Innovatio, IP Ventures, LLC Patent Litigation*, 921 F.Supp.2d 903, 907 \(N.D. Ill. 2013\)](#).

¹⁴⁵ *Id.*

¹⁴⁶ *Id.* at 908.

Innovatio bolsters the decision to extend the Noerr-Pennington doctrine to pre-lawsuit communication, particularly regarding patent infringement cases. However, its sham litigation exception should be a viable defense against patent trolls. Targeting smaller businesses who neither understand the complicated technology at stake nor can afford the costly litigation required for patent infringement suits, is both objectively baseless and demonstrates an intent to directly hurt competitors.