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Federalism, First Amendment & Patents: The Fraud Fallacy

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FEDERALISM, FIRST AMENDMENT & PATENTS:
THE FRAUD FALLACY[†]

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Introduction.....	32
I. The Modern Patent Assertion Business Model.....	37
II. The Rise of the Fraud Fallacy	43
A. Setting the Stage: The Supreme Court’s Antitrust Immunity Cases.....	46
B. Lower Courts Import Antitrust Case Law into Patent Preemption	49
C. Wrapping the Weak “Bad Faith” Decisions into a Patent Preemption Doctrine	53
D. Importing the Supreme Court’s Antitrust Test into the Bad Faith Patent Preemption Rule.....	56

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E. How Should One Analyze Whether Noerr Applies to Patent Demands Outside of Litigation?.....	58
III. A Preemption Analysis	63
A. Preemption in General.....	64
IV. The Fraud Fallacy and Corporate Speech	85
Conclusion.....	89

INTRODUCTION

Few arguments echo as strongly throughout United States constitutional history as those related to the role of the states in the federal union. Although scholars debate the extent to which federal and state powers were ever strictly separated, the states and the federal government today occupy overlapping spheres. In the modern context of overlapping powers, the pre-emption doctrine manages the intricate areas of overlap,¹ with topics ranging from banking, to food and drug laws, to immigration. As a general matter, overlapping and concurrent powers are the norm, even when the federal government has staked out considerable territory.

In one critical modern arena, however, the role of the states has been relegated to little more than the curtailment of active fraud. It is an insidious notion, rooted in a mistaken twist of precedent, that then winds its way through various doctrines, increasingly circumscribing the ability of the states to act. Patent law is this arena, and here, the various threads come together resulting in a positive chokehold on any state activity.

Paralysis for the states is occurring at a particularly important time in the history of patent law. Government actors at many levels are grappling with the emergence of a new business model in patents. It is popularly called patent trolling or more tamely non-practicing entity (NPE) activity or patent assertion entity (PAE) activity. In this model, the core business involves licensing and litigating stripped patent rights, as opposed to making products with those patents. The rapid expansion of this business model over the last decade has left courts and legislators grappling with its legal implications.

The relevant federalism question concerns the extent to which state laws that affect this type of business are valid. In other words, does a state have the power to say that if one wishes to engage in the business of asserting patents in this state, here are the basic codes by which one must abide? In the modern context of overlapping federal and state powers, this is classic territory, involving both a state's traditional ability to regulate business within its borders and a federally-created scheme that involves the power of federal sovereignty.

At present, courts and some early commentators have concluded that states are confined to a tiny corner, policing

1. See generally Ernest A. Young, *"The Ordinary Diet of the Law": The Presumption Against Preemption in the Roberts Court*, 2011 SUP. CT. REV. 253 (tracing the evolution of preemption doctrine).

occurrences of outright bad faith or fraudulent activity. In the patent context, these notions are generally defined to mean that the patent holder's statements are objectively false and the patent holder knows they are false.²

Such a limitation on the power of the states cannot possibly be right. Surely, if a patent holder sends a letter saying, "If you do not buy a patent license from me, I will kill your family," the state may have something to say about it. This should be true even if the patent is valid and the patent holder has a sufficiently plausible infringement argument to withstand a charge of sham litigation. A state must be able to specify certain things one cannot do with one's patent. And in that context, fraud cannot be the sole domain in which the state may operate.

Some readers may think that the above example is simply a straw man; no one could possibly take the position that states are forbidden to act against such a threat. To those readers, I would note that at a recent conference presenting this Article, one patent scholar argued vigorously that states should be impotent to act if a patent holder threatens to kill one's family unless one pays for a patent license. The scholar asserted that only the federal government could respond, and any power to respond would have to be found in the Patent Act.

This view might come as a surprise to state law enforcement agencies, which are generally accustomed to having the power to bring criminal charges for a threat of murder. Nevertheless, it is emblematic of a strain of patent law analysis that sees states as severely limited in their power over any activity in which patents appear.

At a broader level, if states have the power to regulate disclosure in the sale of federal securities, transparency for banking

2. See *Globetrotter Software, Inc. v. Elan Computer Grp., Inc.* 362 F.3d 1367, 1375–76 & n.8 (Fed. Cir. 2004) (applying Supreme Court precedents in antitrust cases to conclude that state lawsuits related to patent demand actions outside of litigation must demonstrate that the behavior is both objectively and subjectively baseless); Paul R. Gugliuzza, *Patent Trolls and Preemption*, 101 VA. L. REV. 1579, 1618–19 (2015) (explaining that while good faith takes on different meanings in different contexts, good faith in patent enforcement has traditionally referred to whether the speaker sincerely believed in the truth of the statement); see also *Activision TV, Inc. v. Pinnacle Bancorp, Inc.*, 976 F. Supp. 2d 1157, 1166–69 (D. Neb. 2013) (issuing preliminary injunctions against the Attorney General of Nebraska restraining the office from enforcing orders against two parties for their patent demand letters on the grounds that demand letters are preempted absent a showing of bad faith; allegations of unfair and deceptive practices contained in the Attorney General's papers apparently were insufficient).

and real estate transactions, and pressure sales tactics for businesses from automobiles to insurance, why should states remain silent when the topic of commerce is intellectual property?³ Commercial, contractual, and consumer laws traditionally are viewed as appropriate forums for reflecting and promoting local values—ones that may vary across state jurisdictions.⁴ Quite simply, the states must be left with something to do.⁵

Leaving room for state activity is particularly important in the modern context of overlapping and concurrent federal and state powers. As one scholar has noted, “[p]reemption must be cabined more carefully . . . in a concurrent world where preemptive federal action threatens to cut off state access to the wellsprings of popular support.”⁶

Fraud is certainly valid terrain for state activity. Rather than understanding fraud as an example of the territory in which a state may tread, however, the lower courts have seized hold of the fraud example and transformed it into a bright line beyond which a state may not pass. As discussed later in the Article, this distortion is not helped by open questions in federal preemption doctrine. Nevertheless, whatever disputes may be happening at the margins of federalism, one conclusion is clear: fraud remediation cannot be the only permissible basis for state action, and the fraud fallacy must be addressed.

Concerns reach well beyond the bounds of intellectual property. The concepts embedded in the fraud fallacy are expressed in general terms. Thus, if the legal system does not rein in this jurisprudential approach, patent law could become the first

3. See, e.g., *Blue Sky Laws*, U.S. SEC. AND EXCHANGE COMM’N, <http://www.sec.gov/answers/bluesky.htm> (last modified Oct. 14, 2014) (describing state laws that govern securities); S. GUY PUCCIO, CAL. DEP’T OF REAL ESTATE, *DISCLOSURES IN REAL PROPERTY TRANSACTIONS* (2005), available at <http://www.dre.ca.gov/files/pdf/re6.pdf> (describing California’s stringent real estate disclosure regulations); cases cited *infra* note 20 (exemplifying sales tactics courts have found to constitute improper pressure sales).

4. For discussions of intellectual property law in the context of respecting these federalism values, see Camilla Hrdy, *Commercialization Awards*, 2015 WIS. L. REV. 13, 48, 58 (2015); Jeanne C. Fromer, *The Intellectual Property Clause’s Preemptive Effect in INTELLECTUAL PROPERTY AND THE COMMON LAW* 265, 279 (Shyamkrishna Balganesh ed., 2013); see also Gugliuzza, *supra* note 2, at 1605–06 (discussing the fact that states traditionally have played a role in disciplining abusive or improper assertion of legal rights); Ernest Young, *Two Cheers for Process Federalism*, 46 VILL. L. REV. 1349, 1387 (2001) (noting that the states must be left with something to do).

5. See Young, *Two Cheers*, *supra* note 4, at 1387.

6. Young, *Ordinary Diet*, *supra* note 1, at 264.

of many areas in which states find themselves severely constrained. In that case, the role of the states in the federal union will have traveled a long way from any notions embodied in federalism.

Section I of this Article discusses the modern patent demand business model, describing the emergence of that model, the extent of the activity, and examples of troubling behaviors. Section II traces the tangled path the lower courts have taken to arrive at the conclusion that a state's ability to act is limited to fraud and bad faith. That path begins with a set of Supreme Court cases from the 1960s regarding a citizen's First Amendment right to petition government without fear of antitrust liability. Known as the *Noerr/Pennington* cases, the cases hold that no antitrust liability can attach when one petitions the government, even if that petition would harm one's competitors. The *Noerr/Pennington* cases embody the notion that antitrust law cannot be allowed to chill the exercise of one's right to speak to the government.

The Federal Circuit then applies *Noerr's* rule regarding the limitations of federal antitrust law, extending the rule to create limitations on state laws that might affect patents. It is a particularly odd theoretical leap. *Noerr* can be understood as celebrating states' rights, in essence finding that citizens should be able to tell their state legislatures how they want to be governed and that federal law should stay out of the way. Thus, it is ironic that the Federal Circuit dispatches *Noerr* to serve the opposite master—that is, preventing states from responding to their citizens' concerns. Most importantly, missing from the Federal Circuit's logic is the Supreme Court's focus on the chilling effect that antitrust's treble damages might have on one's ardor for speaking to the sovereign. Such treble damages concerns do not apply in the patent realm.

In addition to stretching the *Noerr* line of cases, the Federal Circuit supports its preemption decisions with a series of thin and shaky patent cases. The series begins with a breathtakingly short decision from the early years of the Federal Circuit's existence—a ruling noting simply that a patent holder has the right to threaten infringers with a lawsuit.⁷ While the statement is undoubtedly true, it does not answer the question of the limits to which a patent holder may go in enforcing those rights, not to mention whether a state can regulate such actions. With only slightly more analysis and support, the Federal Circuit then declared that patent holder demands cannot be challenged unless those demands are in bad

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

faith—defined as whether the speaker believes in the truth of the statement. From these shaky foundations, the Federal Circuit constructed a rule that states are preempted from regulating any patent demand behavior unless that behavior is both objectively and subjectively baseless.

If the Federal Circuit's logic is weak and without basis, however, how should patent preemption apply in these circumstances? After all, patent law is a federal scheme, and it cannot be true that states are free to rummage around in everything related to patents. Section III of the Article examines these issues under Supreme Court preemption doctrine, both as the doctrine applies to intellectual property and to other areas of law. The section concludes that state law cannot be entirely displaced simply because a particular commercial behavior relates to patents.

Understanding the interplay between federal and state power related to patent demands requires an understanding of the commercial and economic context in which patent rights exist. The granting of patents in the federal Patent Act relies upon and presupposes a functioning state system of commerce and contract law. Without this, inventors would be unable to form the commercial relationships and licensing transactions necessary to bring their ideas to fruition. The maintenance of conduct within such systems is the proper domain of the state. Moreover, as noted above, commerce, contract, and consumer laws traditionally are viewed as appropriate for experimentation across state jurisdictions and appropriate forums for reflecting local values. Thus, Section III explains that states must have some space in which they can express local preferences in relation to the business of patent demands.

Section III also explores a theme that bubbles up through a number of modern Supreme Court decisions. Although not clearly articulated in the language of the cases, it provides a useful lens for making sense out of preemption cases in general and patent preemption in particular. One can call the concept “heart and periphery.” Specifically, a state law that goes to the heart of federal legislation is more likely to be problematic; a state law that affects the periphery is more likely to be accepted. Section III explains how the heart/periphery concept differs from the familiar “congressional purpose” test in preemption analysis and describes how the two concepts play out in modern cases.

Applying this analysis to the Patent Act, issues such as validity, infringement, and procedures for challenging a patent lie at the

heart of the federal scheme. Thus, a state's ability to establish its own rules related to these areas is more likely to be preempted. In contrast, issues such as notice requirements, transparency, protection against pressure sales tactics, basic contract principles, and others stand at the periphery, and states should have breathing space to establish their own dictates.

The most important point in Section III, however, is the following: in moving through preemption analysis, none of the possible approaches for analyzing a state's proper role would suggest that a state should be limited to policing fraud and bad faith. That notion seems to be spun out of thin air.

I. THE MODERN PATENT ASSERTION BUSINESS MODEL

The rapid expansion of the non-practicing entity business model has created challenges for courts and legislatures alike. In the esoteric lingo of patent law, the term "non-practicing entity" refers to a business that does not make products from the inventions named in their patents. Rather, non-practicing entities hold patents for the purpose of asserting them against companies that do make products, on the grounds that those products are infringing.

No one wants to be labeled a patent troll.⁸ Thus, there has been much skirmishing over terms and definitions, with various groups trying to ensure that the definition can be trimmed so that they fall outside of it. Points of debate include whether the relevant term should include those who buy patents as well as those who were originally granted the patents. Should it include trusts and individuals as well as corporations and partnerships? Should it include only those who sue companies or also those who make patent demands under the threat of transferring to those who will sue? Do we call them NPEs, PAEs, PMEAs, or simply trolls?

Although the debate is endlessly interesting, both from an academic and a political perspective,⁹ this Article uses a simple and broad notion: non-practicing entities are those who assert patents as their core business activity. This Article also uses the

8. Robin Feldman, *Patent Demands & Startup Companies: The View From the Venture Capital Community*, 16 YALE J.L. & TECH. 236, 244 (2014) ("[N]o one wants to be branded a bad guy, and if patent trolls are bad guys, everyone wants the definition to point somewhere else.").

9. See *id.* at 244–54 (discussing the various terms used and their implications).

term most commonly found in the literature, NPE, despite its resemblance to alphabet soup.

NPE activity has risen significantly over the last decade. The number of patent lawsuits has more than doubled since 2007, with much of the increase from lawsuits by NPEs.¹⁰ The increase in litigation activity by NPEs can be measured both in terms of the lawsuits filed and in terms of the number of defendants sued. Although the amount of patent litigation declined in 2014 following key Supreme Court decisions,¹¹ lawsuit filings are still far above 2007 levels, before the modern increase began, and far above levels going back for twenty years.¹² In addition, despite the recent Supreme Court decisions, new NPEs and new models of NPE activity continue to blossom. One private study concluded that 143 new NPEs filed patent lawsuits in 2014.¹³ Although different studies focus on different segments of the data, the results are remarkably consistent across similar measures.¹⁴ The amount of litigation activity from NPEs has risen substantially since 2007.

10. See Robin Feldman, Tom Ewing & Sara Jeruss, *The AIA 500 Expanded: The Effects of Patent Monetization Entities*, 17 UCLA J.L. & TECH. 1, 42 (2013); see also Matthew Sag, *IP Litigation in United States District Courts: 1994 to 2014*, 101 IOWA L. REV. (forthcoming 2016) (manuscript at 17) (on file with the Iowa Law Review), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2570803 (finding that patent litigation volume doubled from 2010 to 2013).

11. See Robin Feldman, *Theme of Restraint in Term's IP Cases*, DAILY JOURNAL (July 8, 2014) <https://www.dailyjournal.com/public/pubmain.cfm?logout=&seloption=&eid=&vid=&CFID=8088329&CFTOKEN=23429742> (describing key Supreme Court decisions in 2014).

12. See Feldman et al., *Monetization Entities*, *supra* note 10, at 42 (showing that the number of patent lawsuits rose from 2,512 in 2007 to 5,038 in 2012, using data from PACER, EDIS, the U.S. Patent and Trademark Office website, and district court websites); see also Sag, *supra* note 10, at 19 tbl.3 (reporting the number of patent cases as 1,555 in 1994, 2,883 in 2007, 5,620 in 2012, and 5,368 in 2014, using data from Bloomberg Law and closely matching the PACER data); *id.* at 17 fig.4 (demonstrating that while the number of patent lawsuits doubled in the 16 years between 1994 and 2010, they doubled again between 2010 and 2013).

13. RPX, 2014 NPE LITIGATION REPORT 6 (2015), available at http://www.rpxcorp.com/wp-content/uploads/sites/2/2015/03/RPX_Litigation-Report-2014_FNL_040615.pdf.

14. Variation between studies generally depends on definitional choices made by researchers. For example, using a sample of 500 patent infringement cases, Jeruss, Feldman & Walker found that the proportion of lawsuits filed by NPEs increased from 22% of cases in 2007 to almost 40% of cases in 2011. See Sara Jeruss, Robin Feldman & Joshua Walker, *The America Invents Act 500: Effects of Patent Monetization Entities on US Litigation*, 11 DUKE L. & TECH. REV. 357, 377 (2012). Meanwhile, using the same sample, the nonpartisan

Modern patent demand behavior frequently is based on exploiting the costs and risks of litigation to extract a settlement, rather than on the value of the patent. With two million patents outstanding, serious concerns about patent quality,¹⁵ and patent litigation defense costs often reaching well into the millions of dollars, a rational company may choose to settle a patent demand,

Government Accountability Office (GAO) found that the proportion rose from 17% in 2007 to only 24% in 2011. See U.S. GOV'T ACCOUNTABILITY OFFICE, GAO-13-465, INTELLECTUAL PROPERTY: ASSESSING FACTORS THAT AFFECT PATENT INFRINGEMENT LITIGATION COULD HELP IMPROVE PATENT QUALITY 17 (2013), available at <http://www.gao.gov/assets/660/657103.pdf>. The majority of the difference can be explained by the GAO's choice not to include individuals and trusts as potential NPEs, choosing instead to focus only on entities organized as corporations and partnerships. For a more detailed discussion on the choice of who to include as a potential patent monetizer, see Feldman et al., *Monetization Entities*, *supra* note 10, at 4–6. Cotropia, Kesan, and Schwartz (CKS) criticize the *AIA 500* studies and conclude that “the often-repeated ‘explosion’ of PAE litigation from 2010 to 2012 is almost completely a myth” by asserting that the number of alleged infringers and defendants did not increase from 2010 to 2012. See Christopher A. Cotropia, Jay P. Kesan & David L. Schwartz, *Unpacking Patent Assertion Entities (PAEs)*, 99 MINN. L. REV. 649, 655 (2014). However, CKS examine only litigation in 2010 and 2012 for their study. By 2010, the increase in assertion activity was already well underway. While it is certainly true that changes to joinder rules from the America Invents Act contributed to the increase in the number of lawsuits filed in 2011 and beyond, Feldman, Ewing & Jeruss (FEJ) show that the number of defendants sued by monetizers has climbed substantially over time, from 1,814 in 2008 to 6,244 in 2011 and 4,606 in 2012. See Feldman et al., *Monetization Entities*, *supra* note 10, at 44. Considering that the number of defendants has climbed substantially *despite* AIA rules making it *harder* for multiple defendants to be added to a patent infringement lawsuit, these results suggest an increase in total litigation activity. Further, the CKS data for 2012 is not significantly different from that of FEJ. FEJ found that 58.7% of cases in 2012 were filed by monetizers, while CKS, who combined “large aggregators, patent holding companies, and individuals” to define PAEs, found that 51.5% of cases were filed by PAEs. Also, per calculations by CKS, FEJ found that 49.9% of alleged infringers in patent cases were involved in monetizer suits in 2012. Using their definition of PAE, CKS concluded this percentage was 46.9% in their study. See Cotropia et al., *supra*, at 692 tbl.2 & 692–94.

15. See U.S. GOV'T ACCOUNTABILITY OFFICE, *supra* note 14, at 28–32 (detailing how many stakeholders believe some patents “have unclear property rights and make overly broad claims”); COLLEEN V. CHIEN, NEW AM. FOUND., OPEN TECH. INST., PATENT ASSERTION AND STARTUP INNOVATION 15 (2013), available at <http://ssrn.com/abstract=2321340> (reporting similar beliefs among survey respondents); Shawn P. Miller, *Where's the Innovation: An Analysis of the Quantity and Qualities of Anticipated and Obvious Patents*, 18 VA. J.L. & TECH. 1, 6–7 (2013) (estimating that up to 39% of software patents and 56% of business method patents could be found at least partially invalid, compared to 28% of all patents).

even if the patent is weak or if the company is unlikely to be infringing the patent. NPEs have become adept at pointing out the costs and risks of challenging a patent demand in comparison to the ease of purchasing a license.

Large-scale, generalizable information on the impact of NPEs on innovation is difficult to come by. Nevertheless, the results of small sample studies are not encouraging. These observations have included troubling impacts NPEs have had on startups,¹⁶ a lack of markers of innovation from NPE licensing,¹⁷ losses to businesses due to NPE demands,¹⁸ and additional suggestions of negative impacts on innovation.¹⁹ Other literature has reported pressure sales tactics and disturbing behaviors, sometimes aimed at small businesses or individuals.²⁰

16. See, e.g., Feldman, *Patent Demands*, *supra* note 8, at 263–67 (finding that 70% of venture capitalists have experienced patent demands against a portfolio company, with 59% of the venture capitalists reporting that all or most of these demands were launched by NPEs); CHIEN, PATENT ASSERTION, *supra* note 15, at 10–11 (reporting that 75% of venture capitalists had received an NPE demand against a company in their portfolio); see also Colleen V. Chien, *Startups and Patent Trolls*, 17 STAN. TECH. L. REV. 461, 472–78 (2014) (detailing the costs and impacts of NPE demands on startups and small companies).

17. See Robin Feldman & Mark A. Lemley, *Do Patent Licensing Demands Mean Innovation?* (Feb. 15, 2015) (unpublished manuscript) (on file with the Iowa Law Review), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2565292 (finding that NPE licenses rarely lead to technology transfer).

18. See James Bessen & Michael J. Meurer, *The Direct Costs from NPE Disputes*, 99 CORNELL L. REV. 387, 408 & tbl.4 (2014) (estimating the direct aggregate cost of NPE patent assertions to U.S. companies to be \$29 billion in 2011).

19. See, e.g., Catherine Tucker, *Patent Trolls and Technology Diffusion* (TILEC Discussion Paper No. 2012-030, 2013), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2136955 (finding that sales of a firm's medical imaging software dropped by one-third during litigation, relative to the firm's products not covered by the litigated patents, and attributing this drop to the lack of new product releases and stalled innovation among sued companies); see also EXECUTIVE OFFICE OF THE PRESIDENT, PATENT ASSERTION AND U.S. INNOVATION 9–10 (June 2013), available at http://www.whitehouse.gov/sites/default/files/docs/patent_report.pdf (discussing the Tucker study and other evidence of costs to innovation); Fiona M. Scott Morton & Carl Shapiro, *Strategic Patent Acquisitions*, 79 ANTITRUST L.J. 463, 482 (2014) (applying the “leaky bucket” concept to NPE demands to explain how little revenue earned by NPEs is actually returned to original patentees, and citing Bessen & Meurer, *supra* note 18, at 423, who find that only 20% of payments to NPEs flows back to inventors or to research and development at NPEs).

20. See, e.g., Robin Feldman & Tom Ewing, *The Giants Among Us*, 2012 STAN. TECH. L. REV. 1, 30–31 (2012) (giving the example of a mass aggregator

Much attention has focused on the impact of lawsuits and litigation reform. Nevertheless, reports suggest that 90% of patent demand activity never reaches the litigation stage. This activity takes place largely outside the purview of the courts or other sovereign authority.²¹ Such business approaches can be as simple

using escalating pressure to push companies to become “members” of the aggregator); Robin Feldman, *Intellectual Property Wrongs*, 18 STAN. J.L. BUS. & FIN. 250, 273–298 (2013) (detailing numerous examples of troubling schemes); Assurance of Discontinuance (No. 14-015), In the Matter of the Investigation by Eric T. Schneiderman, Attorney General of the State of New York, of MPHJ Technology Investments, LLC 2–8 (assurance filed January 13, 2014), *available at* <http://www.ag.ny.gov/pdfs/FINALAODMPHJ.pdf> (announcing a settlement against an NPE accused of deceptive tactics, such as: sending nearly identical patent demands to hundreds of New York companies, falsely claiming that other businesses had already entered into licensing agreements, conveying the misleading “impression . . . that an outside attorney had conducting a meaningful review of the facts and circumstances of [each business] alleged infringement,” and creating hundreds of subsidiaries with “cryptic names” to make “it more difficult to find information about the Company and the Company’s licensing program”); Robin Feldman & Evan Frondorf, *Patent Demands and Initial Public Offerings*, 19 STAN. TECH. L. REV. (forthcoming 2015) (manuscript at 55) (on file with the Stanford Technology Law Review), *available at* <http://ssrn.com/abstract=2591648> (finding evidence of companies receiving patent demands shortly before or after their initial public offering). For examples of sales techniques that courts have found to constitute improper pressure sales tactics in areas outside of patent law, *see* *Brown v. Kerkhoff*, 279 F.R.D. 479 (S.D. Iowa 2012) (pressuring patients into paying for treatment upfront in exchange for discount); *M & T Mortg. Corp. v. Miller*, 323 F. Supp. 2d 405, 413 (E.D.N.Y. 2004) (abbreviated two-day sales contract period); *Niemiec v. Kellmark Corp.*, 581 N.Y.S.2d 569, 570–71 (Tonawada City Ct. 1992) (persistent telephone solicitation and requirement of immediate decision on “once in a lifetime offer”); *National Housewares, Inc.*, 90 F.T.C. 512, 568–569 (1977) (fast-talking sales pitch which does not give customer chance to think about real purpose of sales presentation or object to it); *State ex rel. Celebrezze v. Consumer's Edge, Inc.*, No. 90CVH04-2646 1990 WL 677012, at *3 (Ohio C.P. Oct. 1, 1990) (techniques that result in the customer's inability to understand, review, and inspect the entire contract with care before signing); *see also* Mass. Office of the Attorney Gen., 1993 REP. OF THE ATTN'Y GEN. 83 (discussing the successful conclusion of a case in 1992, titled *Commonwealth v. Greatex of Mass., Inc.*, which included tactics such as telling the consumer the price would increase significantly if a contract was not signed immediately).

21. Robin Feldman, *RETHINKING PATENT LAW* 39 (2012) (“Throughout all of the bargaining that a patent holder faces during the life of the patent, it is important to note that only some of the process will involve the sovereign’s active participation. Although judicial proceedings, agency reexaminations, and even legislative changes will involve the sovereign’s participation in one of its various forms, much of the process will take place outside the sovereign’s purview. For some crucial junctures, such as the exchange of exploratory letters, licensing negotiations, and internal decisions of what to defend and what to abandon, the sovereign may not participate at all.”).

as a call or letter saying, for example, “I have patents; you are infringing them; it will cost \$1–6 million in legal fees if you try to fight; lots of people have taken licenses from me, so let’s just be reasonable and work this out. Oh, and if you want any details, you must sign a nondisclosure agreement.”

A number of states have begun reviewing this activity in the context of their business or consumer protection codes,²² and one could imagine a variety of categories that might be applicable to the NPE business model. Potential laws could include transparency requirements, such as the requirement to identify who the party asserting the patent is and what patent claims are being asserted. Other types of transparency considerations could include a requirement to identify entities that the patent holder is related to so the target could determine if it already holds a license from a related entity.²³ With the proliferation of non-disclosure agreements and complex structures, targeted businesses and individual at times have been unable to find even the most basic information, making it difficult to challenge the patent or to know whether they already hold a license.²⁴ For example, the New York Attorney General’s

22. See *Bad Faith Assertions of Patent Infringements*, VT. STAT. ANN. tit. 9, §§ 4195–4199 (West, Westlaw through 2013–2014 Sess.) (delineating factors that courts can consider as evidence of bad faith assertions of patent infringement, and creating remedies and enforcement policies, making it the first state to pass legislation against patent trolling). Since the passage of the Vermont act, at least 17 other states have passed similar legislation, many of which are nearly identical to the Vermont act. See, e.g., *Actions for Bad Faith Assertion of Patent Infringement*, ME. REV. STAT. tit. 14, §§ 8701–8702 (West, Westlaw through 2015 ch. 1); *Bad Faith Assertions of Patent Infringement*, VA. CODE ANN. §§ 59.1-215.1–59.1-215.4 (West, Westlaw through 2015 ch. 1); *Patent Infringement Claims*, MO. ANN. STAT. §§ 416.650–416.658 (West, Westlaw through 2014 Sess.). Bills have been introduced in numerous other states. *Patent Progress’s Guide to State Patent Legislation*, PATENT PROGRESS (last visited Mar. 24, 2014), <http://www.patentprogress.org/patent-progress-legislation-guides/patent-progress-guide-state-patent-legislation/>.

23. For an example of the problems target companies can encounter without such information, see *Summit Data Systems v. EMC Corp.*, Civil Action No. 10-749-GMS, 2014 WL 4955689, at *2 (Fed. Cir. Sept. 25, 2014), *aff’d sub nom.* *Summit Data Systems v. NetApp Inc.*, No. 2015-1103, 2015 WL 5894214, at *1 (Fed. Cir. Oct. 9, 2015) (large NPE collected settlements from five end-user companies, ranging from \$60,000 to \$170,000 each, despite the fact that these companies were covered by a license between the NPE and a third party).

24. See, e.g., Feldman & Ewing, *The Giants Among Us*, *supra* note 20, at 39–40 (describing how a company called Xilinx had several parties dismissed from its declaratory judgment action against a mass aggregator because Xilinx could not “identify the formal [patent] owner among a group of extremely related parties,” all members of the aggregator’s “network of affiliated shell companies”).

office recently reached a settlement with an NPE, finding, among other allegations, that the NPE had created hundreds of subsidiaries for patent assertion activity, with cryptic names like “CalNeb” and “JabTre” that made it difficult for targeted businesses to discover any information about the company.²⁵ Further, targets were required to sign non-disclosure agreements before they were provided with basic information about the patents in question.²⁶ Other requirements might address notice issues, for example, what is the target company doing that might be infringing the patent. Still others could be designed to curtail pressure sales tactics or to include information about relevant state offices. Regardless of the merits of any particular requirement, the underlying question remains: does a state have the power to say, “if one wishes to engage in this type of business in our state, here are the basic requirements one must abide by?”

II. THE RISE OF THE FRAUD FALLACY

In examining a state’s power to regulate the business of patent assertion, lower courts have concluded that states are limited to the remediation of active fraud or sham activity. The development of this approach has occurred primarily at the Federal Circuit,²⁷ but other courts have followed suit.²⁸

In particular, the Federal Circuit has ruled that any behavior involving a patent is governed by federal law and is not a matter of state law.²⁹ From this general rule, the Federal Circuit carved out a

25. See Assurance of Discontinuance (No. 14-015), Attorney General of the State of New York, *supra* note 20, at 2.

26. *Id.* at 7.

27. See, e.g., GP Indus. v. Eran Indus., 500 F.3d 1369, 1375 (Fed. Cir. 2007).

28. Activision TV, Inc. v. Pinnacle Bancorp, Inc., No. 8:13CV215, 2014 WL 197808, at *3 (D. Neb. Jan. 14, 2014); *In re Innovatio IP Ventures*, 921 F. Supp. 2d 903, at *912 (N.D. Ill. 2013); cf. *Red Wing Shoe Co. v. Hockerson-Halberstadt, Inc.*, 148 F.3d 1355, 1361 (Fed. Cir. 1998) (finding that patent holders are not subject to personal jurisdiction for declaratory judgment actions based on demand letters); *Integrity Mgmt. of Fla., LLC v. Dental Websmith, Inc.*, No. 4:08CV3079, 2008 WL 4372878, at *5 (D. Neb. Sept. 19, 2008) (same); *Lab. Corp. of Am. Holdings v. Schumann*, 474 F. Supp. 2d 758, 762 (M.D.N.C. 2006) (same); Megan M. La Belle, *Against Settlement of (Some) Patent Cases*, 67 VAND. L. REV. 375, 429–30 (2014) (discussing the implications of the Federal Circuit’s *Red Wing* decision and the decisions that have followed).

29. See, e.g., *Mikohn Gaming Corp. v. Acres Gaming, Inc.*, 165 F.3d 891, 896 (Fed. Cir. 1998) (“[D]etermination of the propriety of [the patent holder’s] actions in giving notice of its patent rights is governed by federal statute and precedent and is not a matter of state tort law.”).

narrow exception covering when patent holders engage in fraud before the patent office or otherwise engage in “bad faith” behavior.³⁰ Specifically, the Circuit has ruled that “the protection otherwise afforded by the patent laws to a patentee’s conduct in enforcing its patent may be lost if the patentee acts in bad faith.”³¹ As will be described below, this is an odd way to think about preemption, particularly Patent Act preemption. Nevertheless, the Federal Circuit maintains this rule, even borrowing from antitrust law to establish a high bar for bad faith. Those who wish to show that a patent holder has acted in bad faith must demonstrate that the party’s behavior satisfies the bad faith threshold both subjectively and objectively.³²

Other courts have followed the Federal Circuit’s lead. Consider *Activision v. Pinnacle*, a procedurally complex case in the federal district court of Nebraska.³³ The Nebraska Attorney General’s

30. See *Globetrotter Software, Inc. v. Elan Computer Grp., Inc.*, 362 F.3d 1367, 1374 (Fed. Cir. 2004) (“[S]tate law claims such as [the plaintiff’s] can survive federal preemption only to the extent that those claims are based on a showing of ‘bad faith’ action in asserting infringement.”); *Zenith Elecs. Corp. v. Exzec, Inc.*, 182 F.3d 1340, 1348 (Fed. Cir. 1999) (holding that bad faith is a prerequisite for the state-law tortious interference claim and that without a showing of bad faith, the claim is preempted by patent law); *Hunter Douglas, Inc. v. Harmonic Design, Inc.*, 153 F.3d 1318, 1336–37 (Fed. Cir. 1998) (finding that federal law preempts state law regarding publicizing a patent in the marketplace “unless the plaintiff can show that the patentholder acted in bad faith”) *overruled in part on other grounds by* *Midwest Indus.*, 175 F.3d 1356, 1359 (Fed. Cir. 1999); see also *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 710 (Fed. Cir. 1992) (“[I]nfringement notices have been enjoined when the patentee acted in bad faith, for example by making threats without intending to file suit.”).

31. *Zenith*, 182 F.3d at 1343.

32. See *Globetrotter*, 362 F.3d at 1368 (finding that the state law suit related to actions outside of litigation failed because the plaintiff did not establish that the patent holder’s actions were objectively baseless and referencing requirements that the statements must be subjectively baseless).

33. *Activision TV, Inc. v. Pinnacle Bancorp, Inc.*, 976 F. Supp. 2d 1157 (D. Neb. 2013). The procedural complexity flows from the fact that the Nebraska Attorney General first issued the cease and desist orders to Activision’s attorneys, a firm with a reputation for representing non-practicing entities in patent demand letter campaigns and which had sent the demand letters in question. See Memorandum and Order 31, *Activision TV, Inc. v. Pinnacle Bancorp, Inc.*, 976 F. Supp. 2d 1157 (D. Neb. 2013) (8:13CV00215) (clarifying that Nebraska’s cease and desist order related only to demand letters and concluding that the attorneys could represent the Activision in any lawsuit activity). The court later allowed the patent holder itself, Activision, to enter the case and issued a preliminary injunction against the Nebraska Attorney General and in favor of Activision and its attorneys. See *Activision TV, Inc. v. Pinnacle Bancorp, Inc.*, 976 F. Supp. 2d 1157 (D. Neb. 2013). Referencing the same logic,

Office had opened investigations and issued cease and desist orders against particular patent holders and their attorneys related to demand letter activity. In briefing on the case, the Attorney General, among other arguments, cited Supreme Court precedent holding that unfairness is broader in scope than deception and explained that common features of unfair practices include coercive, high pressure sales and collection tactics.³⁴ The Attorney General went on to describe such tactics by the patent holders.³⁵ Additional concerns expressed by other state Attorneys General offices in similar cases include demand letters with little information on either the identity of the patent holder, the allegedly infringing activity, or the patents at issue so that recipients cannot find sufficient information to file an action to prove non-infringement.³⁶ This has been a problem for companies both large and small.³⁷ Regardless of whether the sender evidenced fraudulent or bad faith intent, the effect on those receiving the letters is the same and echoes the types of concerns that are typically raised in state laws related to commercial practices.

the court later allowed another patent holder, MPHJ, to enter the suit, and extended the preliminary injunction to cover current actions by Nebraska against MPHJ and any future actions by the state against either Activision or MPHJ. *See* Activision TV, Inc. v. Pinnacle Bancorp, Inc., No. 8:13CV215, 2014 WL 197808 (D. Neb. Jan. 14, 2014). The 8th Circuit then granted the patent holder's request to transfer the appeal to the Federal Circuit, a decision that stands somewhat in tension with a District Court opinion in a case involving the Attorney General of Vermont. *Compare* Activision TV, Inc. v. Pinnacle Bancorp, Inc., 976 F. Supp. 2d 1157 (D. Neb. 2013) (8th Cir. 13-03374) *with* State of Vermont v. MPHJ Tech. Investments, 763 F.3d 1350 (Fed. Cir. 2014) (mandamus petition to prevent district court from remanding patent demand letter case to state court rejected by the Federal Circuit panel for lack of jurisdiction in which district court had ruled that the case rested on Vermont state law and that federal patent law issues are not necessarily raised).

34. *See* Brief in Support of Motion to Dismiss for Failure to State a Claim and for Lack of Subject Matter Jurisdiction and Brief in Opposition to Plaintiff's Motion for Preliminary Injunction at 21–23, Activision TV, Inc. v. Pinnacle Bancorp, Inc., 976 F. Supp. 2d 1157 (D. Neb. 2013) (8:13CV00215) (citing FTC v. Sperry & Hutchinson Co., 405 U.S. 233 (1972)).

35. *See id.*

36. *See, e.g.*, Testimony of Vt. Att'y Gen. William H. Sorrell Before the United States House of Representatives Committee on Energy and Commerce, Subcommittee on Commerce, Manufacturing, and Trade, (April 8, 2014), <http://docs.house.gov/meetings/IF/IF17/20140408/102105/HHRG-113-IF17-Wstate-SorrellW-20140408.pdf>.

37. *See* Order Re: Motions To Enjoin, Dismiss And/Or Transfer, Xilinx v. Invention Investment Fund I LP, No. 11-CV-0671 (N.D. Cal. July 27, 2011) (describing the dismissal of Xilinx's declaratory judgment action of non-infringement because Xilinx had named the wrong shell company in its papers).

Nevertheless, in the Nebraska case, the trial court rejected Nebraska's arguments, issuing a series of preliminary injunctions that prevented the Attorney General's Office from enforcing its orders. The trial court concluded that any state action against demand letters is preempted unless there is a showing of bad faith. The allegations of unfair and deceptive practices apparently were insufficient. The court also ruled that Nebraska's orders operated as an improper prior restraint on speech, in violation of the First Amendment. District courts in at least four other states have echoed the bad faith requirement.³⁸

Since 2013, more than 20 states have either passed legislation related to patent holder behavior or have used existing legislation to fight inappropriate patent holder behavior in their states.³⁹ Sensing the winds, these state legislators and attorneys general on the whole have attempted to carefully circumscribe their actions to conform to the fraud and bad faith requirements. Thus, the Federal Circuit's pronouncements have had a profound effect on the shape of state law and state behavior throughout the nation.

A. *Setting the Stage: The Supreme Court's Antitrust Immunity Cases*

The bad faith requirement flows from an over-extension of doctrines that have now been stretched well beyond the breaking point. Beginning with Supreme Court case law concerning the

38. See, e.g., *In re Innovatio IP Ventures, LLC Patent Litigation*, 921 F.Supp.2d 903, 914 (N.D. Ill. 2013); *Clearplay, Inc. v. Nissim Corp.*, No. 07-81170-CIV, 2011 WL 3878363, at *7-8 (D. Fla. Sept. 2, 2011); *DeSena v. Beekley Corp.*, 729 F.Supp.2d 375, 401 (D.Me. 2010); *Alien Tech. Corp., v. Intermec, Inc.*, No. 3:06-CV-51, 2008 WL 504527, at *4 (D.N.D. Feb. 20, 2008).

39. *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 Apr. 1, 2014). See, e.g., *Bad Faith Assertions of Patent Infringements*, VT. STAT. ANN. tit. 9, §§ 4195-4199 (West, Westlaw through 2015-2016 Legis. Sess.) (delineating factors that courts can consider as evidence of bad faith assertions of patent infringement, and creating remedies and enforcement policies, making it the first state to pass legislation against patent trolling). See also *Assurance of Discontinuance* (No. 14-015), *supra* note 20. In many other states, the acts signed into law are nearly identical to the Vermont legislation. See, e.g., *Actions for Bad Faith Assertion of Patent Infringement*, ME. REV. STAT. tit. 14, §§ 8701-8702 (West, Westlaw through 2015); *Bad Faith Assertions of Patent Infringement*, VA. CODE ANN. tit. 59.1, §§ 59.1-215.1-59.1-215.4 (West, Westlaw through 2015 Reg. Sess.); *Patent Infringement Claims*, MO. ANN. STAT., tit. 26, §§ 416.650-416.658 (West, Westlaw through 2014 Sess.). For a detailed description of the provisions of these pieces of legislation, see Paul R. Gugliuzza, *Patent Trolls and Preemption*, 101 VA. L. REV. 1579 (2015).

right to petition government to pass legislation, the Federal Circuit eventually concludes that states may not pass any laws related to patent demands, outside the realm of fraud or sham. As the Federal Circuit spins this out, the doctrines become more and more attenuated from the Supreme Court's original concern about chilling one's ability to speak to the legislature.

The trail begins with a set of Supreme Court antitrust decisions from the 1960s regarding the First Amendment right to petition the government for a redress of grievances. This right is enshrined in the First Amendment: "Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof; or abridging the freedom of speech, or of the press, or of the right of the people peaceably to assemble, and to petition the government for a redress of grievances."⁴⁰ In case law commonly known as the Noerr-Pennington doctrine, the Justices created a general antitrust immunity for those who petition the government. Specifically, parties are immune from antitrust liability for engaging in conduct aimed at influencing governmental decision-making.

First, in construing the Sherman & Clayton Antitrust Acts in *Noerr Motor Freight*, the Justices rejected an antitrust suit brought against railroad industries for their campaign to prevent the Pennsylvania legislature from passing a measure related to permitting heavier trucking loads.⁴¹ The Justices stressed the right of the people to inform representatives of their wishes regarding passage or enforcement of laws, even in the hopes that such laws may disadvantage their competitors in ways that fall "far short of the ethical standards generally approved in this country."⁴²

The opinion reflected the Supreme Court's deep concern that the Sherman Antitrust Act should not be permitted to interfere with the right of the people to engage in representative democracy. With soaring language, the Justices noted that the three branches of government act on behalf of the people and that "the whole

40. U.S. CONST. amend. I.

41. See *Eastern Railroad Presidents Conference v. Noerr Motor Freight Inc.*, 365 U.S. 127 (1961). The railroads responded with their own antitrust counterclaims against the trucking industry for the legislative fight, which were denied by a lower court and not appealed. *Id.* at 145.

42. See *id.* at 139–140 (finding that "[t]he 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").

concept of representation depends upon the ability of the people to make their wishes known to their representatives.”⁴³

Thus, although the Federal Circuit would eventually enlist this opinion to prevent states from enacting patent demand legislation at the behest of their populations, the *Noerr* opinion did the opposite. In *Noerr*, the Supreme Court championed the ability of state governments to respond to the desires of their citizens and rejected attempts to stifle that process through a piece of federal legislation.

In the decade after *Noerr*, the Supreme Court expanded the range of activities protected from antitrust liability. In *United Mine Workers v. Pennington*, the Supreme Court extended the protection to include attempts to influence regulatory officials, specifically, the Secretary of Labor in the context of labor and wage negotiations.⁴⁴ In the *California Motor Transport* case, the Court extended antitrust immunity to include appeals to the courts, as well as to regulatory bodies and legislatures.⁴⁵

Having firmly established the notion of antitrust immunity for petitioning the government, the Supreme Court in 1993 tackled the tricky question of when that antitrust immunity might be lost.⁴⁶ In the original case in this series, *Noerr*, the Justices had left the door open a crack for a hypothetical way in which immunity from antitrust action could be forfeited. The opinion commented that,

There may be situations in which a publicity campaign, ostensibly directed toward influencing governmental action, is a mere sham to cover what is actually nothing more than an attempt to interfere directly with the business relationships of a competitor and the application of the Sherman Act would be justified. But this certainly is not the case here. No one denies that the railroads were making a

43. *Id.* at 137. The Justices also emphasized the difference between regulation of business activity and the regulation of political activity, noting that nothing in the Sherman Act's legislative history suggested an intent to regulate the political arena. *See id.*

44. *See United Mine Workers of America v. Pennington*, 381 U.S. 657 (1965).

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

46. *See Prof'l Real Estate Investors, Inc. v. Columbia Pictures Indust., Inc.*, 508 U.S. 49 (1993).

genuine effort to influence legislation and law enforcement practices.⁴⁷

The language offered no more than a hint, and a puzzling one at that. How could an attempt to influence legislation *not* be an attempt to influence legislation, and how would one show that?

Nevertheless, the Justices allowed a sham allegation to go forward in the *California Motor Transport* case. The Justices found the allegation that the defendants had not “sought to influence public officials” to be sufficient.⁴⁸ Rather, the Justices concluded that the defendants sought “to bar their competitors from meaningful access to adjudicatory tribunals and so to usurp that decision-making process” instituting proceedings and actions “with or without probable cause, and regardless of the merits of the case.”⁴⁹

Two decades later, the Supreme Court did its best to slam the door, expressing frustration that the lower courts had defined sham “in inconsistent and contradictory ways.”⁵⁰ The Justices described as “prescient” an earlier observation that the term sham might become “no more than a label courts could apply to activity they deem unworthy of antitrust immunity.”⁵¹ In light of these concerns, the Justices in *Professional Real Estate* set a high bar for demonstrating sham activity for the purposes of an antitrust case. Specifically, one must demonstrate that the defendant’s anticompetitive activity was a sham, from both an objective and subjective standpoint.⁵² This antitrust case became the peg on which the lower courts would hang their modern patent preemption jurisprudence.

B. Lower Courts Import Antitrust Case Law into Patent Preemption

As described above, the Supreme Court set a high bar for what constitutes sham activity that is sufficient to bring an antitrust claim. The Federal Circuit took this notion and ran with it at full speed. As the Federal Circuit has stretched out the doctrine, however, it

47. *Eastern Railroad Presidents v. Noerr*, 365 U.S. 127, 144 (1961).

48. *Cal. Motor Transp. v. Trucking*, 404 U.S. at 511–512 (internal quotation mark omitted).

49. *Id.* at 512.

50. *Prof'l Real Estate Investors, Inc. v. Columbia Pictures Indust., Inc.*, 508 U.S. at 55.

51. *Id.* at 55 (citing *Allied Tube & Conduit Corp. v. Indian Head*, 486 U.S. 492, 508 (1988)).

52. *Id.* at 57.

became more and more attenuated from the context of antitrust's treble damages and the Supreme Court's original concern that the threat of such liability could chill one's ardor for speaking to the legislature. This progression will be traced through a series of Federal Circuit cases below.

In addition to stretching the *Noerr* doctrine, the Federal Circuit's line of cases presses into service several patent law notions, related to federal preemption and appropriate patent demand behavior, that rest on extremely shaky foundations. The series of cases begins with a short Federal Circuit decision from the early years of that court's existence.⁵³ In the 1985 case of *Concrete Unlimited v. Cement*,⁵⁴ the Federal Circuit began by agreeing with the trial court that the patent was invalid as obvious over the prior art. The court then rejected claims related to what the trial court had deemed "threats and infringement actions based on the fraudulently obtained patent."⁵⁵ The Federal Circuit's decision offered little discussion, noting simply that a patent holder has the right to enforce its patent, and that *Concrete* merely did what any patent owner has the right to do, including threatening infringers with suit.

The fact that a patent holder has the right to enforce its patent and to threaten infringers with a lawsuit is clearly true. That simple statement, however, does not answer the question of the limits to which a patent holder may go in enforcing those rights.

With little more analysis than the declaration in *Concrete*, the Federal Circuit declared a decade later that demands from patent holders cannot be challenged as long as they are promulgated in good faith. The good faith requirement was added without elaboration in *Mallinckrodt*, a case that has been overruled *sub silencio* by the Supreme Court on other grounds.⁵⁶

The cases cited in *Mallinckrodt* provided scant support for such a sweeping generalization. In addition to citing the cursory declaration in *Concrete*, which said nothing about good faith, *Mallinckrodt* cited language from an older Supreme Court case,⁵⁷

53. The Federal Circuit was promulgated by the Federal Courts Improvement Act of 1982, Pub. L. No. 97-164, 96 Stat. 25 (1982) which amended 28 U.S.C.A. § 41 (West, Westlaw through P.L. 114-51).

54. *Concrete Unlimited Inc. v. Cementcraft, Inc.*, 776 F.2d 1537 (1985).

55. *See id.* at 1538.

56. *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 701 (Fed. Cir. 1992), *abrogated by* *Quanta Comput., Inc. v. LG Elecs., Inc.*, 553 U.S. 617 (2008). *See* *Static Control Components, Inc. v. Lexmark Int'l, Inc.*, 615 F. Supp. 2d 575, 585 (E.D. Ky. 2009).

57. *See* *Mallinckrodt v. Medipart*, 976 F.2d at 709-710.

which also did not support the new rule. Specifically, in 1913, the Supreme Court considered antitrust claims against a patent holder in *Virtue v. Creamery Package Mfg. Co.*⁵⁸ The case included an allegation that certain lawsuits were part of a larger antitrust scheme.⁵⁹ The Justices noted that it would take something more than simply filing a lawsuit to create illegality, and stressed that the claims in the case involved an antitrust action seeking treble damages:

Patents would be of little value if infringers of them could not be notified of the consequences of infringement, or proceeded against in the courts. Such action, *considered by itself*, cannot be said to be illegal. Patent rights, it is true, may be asserted in malicious prosecutions as other rights, or asserted rights, may be. But this is not an action for malicious prosecution. It is an action under the Sherman antitrust act for the violation of the provisions of that act, seeking treble damages. (emphasis added).⁶⁰

Thus, the Justices in *Virtue Creamery* certainly did not suggest that bad faith should be the only basis to challenge a patent lawsuit, and in fact, did not mention bad faith at all. Nevertheless, the Federal Circuit elevated the simple statement that filing a patent lawsuit by itself is not actionable, to a blanket rule that no patent demand activity of any kind is actionable unless the activity is in bad faith.⁶¹

The Federal Circuit in *Mallinckrodt* also referenced an older Second Circuit case, which did not directly conclude that bad faith is the only basis for challenging patent demands.⁶² The Second Circuit case concerned an actual finding of bad faith from the trial court, on an allegation that the patent holder sent threats to sue despite never intending to file a lawsuit. In an opinion focused on the meaning of bad faith, the Second Circuit rejected the trial evidence, particularly the trial court's failure to appropriately

58. See *Virtue v. Creamery Package Mfg. Co.*, 227 U.S. 8 (1913).

59. *Id.* at 37.

60. *Id.* at 37–38 (emphasis added).

61. And, of course, *Virtue v. Creamery* was an antitrust case, with the special considerations that such cases entail. See *id.*

62. See *Mallinckrodt v. Medipart*, 976 F.2d at 710 (citing *Kaplan v. Helenhart Novelty Corp.*, 182 F.2d 311, 314 (2d Cir. 1950) (citing *Kelly v. Ypsilanti Dress-Stay Mfg. Co.*, 44 F. 19 (C.C.E.D. Mich. 1890))).

consider the patent holder's explanation for never filing suit.⁶³ Thus, the Second Circuit opinion concerned the meaning of bad faith but never directly stated that bad faith is the only basis for challenging patent demands. Moreover, in providing support for its holding, the Second Circuit opinion cited an 1890 case implying that bad faith would not be the only basis for a challenge. The Circuit Court decision from Michigan, *Kelly v. Ypsilanti*, considered a libel suit against a patent holder for sending letters to a potential infringer's customers.⁶⁴ Among other reasons for rejecting the claim, the court noted that the language of the notices was "perfectly respectful and courteous" and "nothing . . . to which the person receiving it can take a just exception."⁶⁵ The court also noted that there was undoubtedly authority for granting an injunction "if the language of such letters or circulars be false, malicious, offensive, or opprobrious, or used for the willful purpose of inflicting an injury." While one could argue that false circulars would be in bad faith—in the sense of being made up of baseless assertions⁶⁶—offensive or opprobrious ones certainly would not. Even the notion of "used for the willful purpose of inflicting injury" would not clearly fall within the definition of bad faith. In other words, contrary to the Federal Circuit's *Mallinckrodt* opinion, the *Ypsilanti* court noted that there are a variety of bases for challenging patent demands. On thin reeds such as these, however, the Federal Circuit moved forward with its pronouncement that demands from patent holders cannot be challenged, as long as the demands are promulgated in good faith.

The old cases cited in *Mallinckrodt* were part of a line of federal cases originating in the 1880s in which courts exercised their powers of equity to enjoin inappropriate patent holder behavior.⁶⁷ The decisions frequently focused on concerns about threats and intimidation, for example, noting that "acts of intimidation should fall within the preventive reach of a court of equity" and that while those in business avoid lawsuits of any kind, patent suits are so far outside of people's knowledge base that they

63. See *Kaplan v. Helenhart Novelty Corp.*, 182 F.2d 311, 313–314 (2d Cir. 1950).

64. See *Kelly v. Ypsilanti Dress-Stay Mfg. Co.*, 44 F. 19 (C.C.E.D. Mich. 1890). The case was decided by the predecessor court to the 6th Circuit.

65. *Id.* at 23.

66. See Paul R. Gugliuzza, *Patent Trolls and Preemption*, 101 VA. L. REV. 1579 (2015) (explaining that while good faith takes on different meanings in different contexts, good faith in patent enforcement has traditionally referred to whether the speaker sincerely believed in the truth of the statement).

67. See Gugliuzza, *supra* note 39, at 35–37 (describing these cases).

are “terrorized by even the threat of such a suit.”⁶⁸ The concerns about preventing intimidation echo across time, but one might suspect that the analysis of which behaviors raise intimidation concerns would benefit from being updated a century later. Nevertheless, the Federal Circuit fixated on the behaviors that emerged in these cases, and the notion that evidence of bad faith is the only basis upon which patent holder behavior can be restrained.

Most importantly, these early cases did not seem to contemplate whether the good faith rule arose as a matter of federal law or state law, let alone whether preemption might come into play. Although both state and federal law claims were raised in the cases at times, the decisions were simply discussed in general terms of what one does with a patent. Nevertheless, the Federal Circuit used these cases to move another step toward its pronouncement that demands from patent holders cannot be challenged, as long as the demands are promulgated in good faith.⁶⁹

C. Wrapping the Weak “Bad Faith” Decisions into a Patent Preemption Doctrine

The preemption notion would grow out of another set of Federal Circuit decisions. In the 1991 case of *Abbott Labs v. Brennan*, the Federal Circuit considered whether state law remedies might be available for improper behavior at the Patent & Trademark Office during the patent application process.⁷⁰

68. See *Emach v. Kane*, 34 F. 46, 50, 52 (N.D. Ill. 1888).

69. A later Federal Circuit case citing this line of logic would cite Section 287 of the Patent Act as further support. See *Mikhon Gaming Corp. v. Acres Gaming, Inc.* 165 F.3d 891, 897 (Fed. Cir. 1998) (“[p]atentee has the right to inform a potential infringer of the existence of the patent . . . [t]he statute contemplates such notice. See 35 U.S.C. Section 287.”). Section 287 allows patent holders to mark their goods to provide notice that the good is covered by a particular patent and specifies that a patent holder may not recover damages unless the patent holder notified the infringer in one of a variety of methods and the infringement continued. It is certainly true that the statute contemplates and even requires notice to potential infringers. Federal authorization of notice, however, does not answer the question of whether certain behavior in the context of notice might violate state statutes.

70. See *Abbott Labs v. Brennan*, 952 F.2d 1346 (Fed. Cir. 1991). Getting lost in bad faith is understandable. A number of the cases that arose during this period were based on claims that required an allegation of bad faith, such as inequitable conduct. Nevertheless, although bad faith may be a key to certain type of claims, no logic suggests that bad faith behavior should be the only basis upon which a state may act.

Declining to opine about administrative proceedings in general, the court ruled on what it described as the narrow question: “whether the state tort action for abuse of process can be invoked as a remedy for inequitable or other unsavory conduct of parties to proceedings in the Patent & Trademark Office.”⁷¹ The court declined to allow a state law remedy, concluding that the process of granting a patent falls within the purview of federal law.

Without discussing potential differences between antitrust and patent statutes, the *Abbott* court referenced the *Noerr* line of cases. It concluded from *Noerr* that no state law abuse of process claim could arise for activity at the Patent & Trademark Office, unless “the entire federal agency action was a ‘sham.’”⁷²

The question of whether there can be a state remedy for misbehavior at a federal agency raises particular preemption complications.⁷³ Nevertheless, through a series of cases in 1998–1999, the Federal Circuit combined its patent law “bad faith” rulings with its preemption decisions regarding state law claims for actions at the federal patent office to create an awkward, bifurcated rule. Specifically, the Federal Circuit ruled that any state law claims related to patent holder conduct in obtaining or publicizing a patent are preempted unless 1) the patent holder engaged in fraud before the patent office or 2) the patent was publicized in bad faith.⁷⁴

The Federal Circuit is no stranger to promulgating awkward rules and tests in its patent jurisprudence that have been later rejected by the Supreme Court. In particular, the odd, bifurcated rule described above is reminiscent of the now discredited “machine-or-transformation” test, which arose in the Federal

71. *Id.* at 1355.

72. *See id.* at 1356.

73. In fact, a Federal Circuit panel a few years later would distinguish *Abbott*, holding that a state law claim for intentional interference with contractual relationships based on patent demand activity is not preempted by federal law. *See Dow Chemical Co. v. Exxon Corp.*, 139 F.3d 1470, 1472, 1477 (Fed. Cir. 1998).

74. *See Hunter Douglas, Inc. v. Harmonic Design, Inc.*, 153 F.3d 1318, 1336–1337 (Fed. Cir. 1998), *overruled by* *Midwest Indus., Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356 (Fed. Cir. 1999). For a case that applies the “publicizing in bad faith” prong, characterizing this prong as required by preemption, *see Mikohn Gaming Corp. v. Acres Gaming, Inc.*, 165 F.3d 891, 896 (Fed. Cir. 1998) (“National uniformity, in confluence with the national scope of the patent grant and the general federal exclusivity in patent causes, require that determination of the propriety of Acres’ actions in giving notice of its patent rights is governed by federal statute and precedent and is not a matter of state tort law.”).

Circuit at the same time.⁷⁵ With the machine-or-transformation rule, the Federal Circuit held that a process satisfies patentable subject matter if 1) it is tied to a particular machine, or 2) it transforms a particular article into a different state.⁷⁶ The machine-or-transformation rule was not well received when it reached the Supreme Court. In a quartet of cases, the Supreme Court would first note that the machine-or-transformation test could not be the *sole* test (although it might offer an important and useful clue),⁷⁷ and would eventually jettison the test entirely, focusing on the underlying concepts from which the Federal Circuit had tried to construct the rule.⁷⁸ As the Justices noted, nothing in the ordinary meaning of the statutory authority “would require [inventions either] to be tied to a machine or to transform an article.”⁷⁹

The discredited machine-or-transformation test and the odd bifurcated preemption test suffer from the same flaws. The problem lies in forgetting that such “tests” are merely a proxy for the underlying concepts.⁸⁰ It is not that everything embodied in the test is wrong, or that the notion of developing a proxy is wrong, the problem lies in allowing the proxy to take on a life of its own,

75. See Robin Feldman, *A Conversation on Judicial Decision-Making*, 5 HASTINGS SCI. & TECH. L.J. 1, 21 (2013) (the “Federal Circuit [] derive[d] the requirement that all process patents must constitute either a machine or transformation” from the Supreme Court’s decision in *Gottschalk v. Benson*, 409 U.S. 63 (1972)). See also FELDMAN, RETHINKING PATENT LAW, *supra* note 21, at 91–135.

76. See, e.g., *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368, 1373 (Fed. Cir. 1998), *abrogated by In re Bilski*, 545 F.3d 943 (Fed. Cir. 2008).

77. See *Bilski v. Kappos*, 561 U.S. 593, 659 (2010) (“Adopting the machine-or-transformation test as the sole test for what constitutes a ‘process’ (as opposed to just an important and useful clue) violates these statutory interpretation principles.”).

78. See *id.* at 601–02, 606–09; *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289, 1293–94 (2012); *Ass’n for Molecular Pathology v. Myriad Genetics, Inc.*, 133 S.Ct. 2107, 2116–17 (2013); *Alice Corp. Pty. Ltd. v. CLS Bank Int’l*, 134 S. Ct. 2347, 2354–55 (2014); see also Robin Feldman, *Coming of Age for the Federal Circuit*, 18 GREEN BAG 2D 27, 32 [hereinafter *Coming of Age*] (discussing the Supreme Court’s patentable subject matter test of first determining whether the patent is directed to one of several ineligible categories, such as an abstract idea, and second, looking at any additional elements in the claim to see if the core of what is new, “the inventive concept” adds enough).

79. See *Bilski v. Kappos*, 561 U.S. at 617.

80. See Feldman, *Coming of Age*, *supra* note 78, at 33; see also *Mayo v. Prometheus*, 132 S. Ct. at 1303 (noting that the exceptions to patentable subject matter serve as a “proxy for the underlying ‘building-block’ concern”).

disembodied from the underlying concepts.⁸¹ With both of these tests, the Federal Circuit picked out isolated elements, constructing a test as if these were the sole examples, rather than developing a test that embodied the entirety of the underlying concept.

To its credit in these cases, the Federal Circuit does identify key issues in a preemption analysis and notes the importance of the role that states play in regulating contracts and business behavior. For example, the Federal Circuit explains that commercial contracts traditionally are the domain of state law,⁸² and it waxes poetic on the notion that “[i]t is difficult to fathom how such a state law cause of action could have any discernible effect on the incentive to invent, the full disclosure of ideas, or the principle that ideas in the public domain remain in the public domain.”⁸³ Nevertheless, at the end of the day, the Federal Circuit chooses its odd bifurcated test, in which state law is preempted unless the patent holder engaged in fraud before the patent office or the patent was publicized in bad faith.⁸⁴

D. Importing the Supreme Court’s Antitrust Test into the Bad Faith Patent Preemption Rule

From this shaky foundation, the Federal Circuit builds an even weaker construct by importing the Supreme Court’s test for petitioning the government in antitrust cases into patent demand notices. As described above, the Justices in *Professional Real Estate* set a high bar for demonstrating sham activity for the purposes of an antitrust claim.⁸⁵ In choosing to apply the antitrust standard to patent cases, the Federal Circuit observed that a number of circuits had applied this high bar, not just to antitrust cases regarding petitioning the legislature—the original *Noerr* circumstances—and not just to antitrust cases involving litigation—the *Professional Real*

81. See Feldman, *Coming of Age*, *supra* note 78, at 33.

82. *Dow Chemical Co. v. Exxon Corp.*, 139 F.3d 1470, 1477 (Fed. Cir. 1998) (citing *Aronson v. Quick Point Pencil Co.*, 44 U.S. 257, 262 (1979)); see also *Hunter Douglas, Inc. v. Harmonic Design, Inc.*, 153 F.3d 1318, 1334 (Fed. Cir. 1998) (noting in the context of field preemption that “Title 35 [the Patent Act] occupies the field of patent law, not commercial law between buyers and sellers” and that “the regulation of business affairs is traditionally a matter for state regulation”).

83. *Dow v. Exxon*, 139 F.3d at 1475 (referencing *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974)).

84. See *Hunter Douglas v. Harmonic*, 153 F.3d at 1336–37.

85. See *supra* text accompanying note 2 (explaining the requirement that one must demonstrate activity was a sham, both from an objective and from a subjective perspective, in antitrust cases).

Estate circumstances—but to antitrust activities involving demands outside of litigation.⁸⁶ These cases rested on the logic that if a particular immunity from antitrust liability applies to filing lawsuits, then the same immunity should apply to threats to file patent lawsuits. After all, threats to file a lawsuit could eventually lead to a lawsuit. The problem with this logic, particularly in the context of patent demands, is that patent threats take place outside the purview of a judge. As such, they are not subject to the potential disciplining effect that judicial proceedings have the potential to bring.

The Federal Circuit noted that these cases extending *Professional Real Estate's* high bar almost exclusively involved antitrust liability.⁸⁷ Nevertheless, the court ruled that this high bar should be applied to patent cases as well and to demand activity outside of litigation. Not finished yet, the Federal Circuit raised the bar even further by ruling that plaintiffs must establish bad faith by clear and convincing evidence, rather than by the lower standard of preponderance of the evidence.⁸⁸ At the end of the day, the Federal Circuit cobbled together the following doctrine: all state laws relating to patent demand activity outside of litigation are preempted unless the activity in question is both objectively and subjectively baseless, a finding that must be proven by clear and convincing evidence.

In creating this rule, the Federal Circuit has strayed far from the original concerns that animated the Supreme Court in *Noerr*.⁸⁹ Rather than protecting the right to petition the legislature from the chilling effect of antitrust's treble damages, the doctrine has been stretched to protect behavior involving patent demands from regulation by the states.

86. See *Globetrotter Software, Inc. v. Elan Computer Grp., Inc.*, 362 F.3d 1367, 1375 (Fed. Cir. 2004); see also *Coastal States Mktg., Inc. v. Hunt*, 694 F.2d 1358, 1367 (5th Cir. 1983); *McGuire Oil Co. v. Mapco, Inc.*, 958 F.2d 1552, 1560 n.12 (11th Cir. 1992); *A.D. Bedell Wholesale Co. v. Philip Morris Inc.*, 263 F.3d 239, 252–53 (3d Cir. 2001); *Primetime 24 Joint Venture v. Nat'l Broad. Co.*, 219 F.3d 92, 100 (2d Cir. 2000); *Sosa v. DIRECTV, Inc.*, 437 F.3d 923, 936–38 (9th Cir. 2006); *In re DDAVP Direct Purchaser Antitrust Litig.*, 585 F.3d 677, 685–86 (2d Cir. 2009); Philip E. Areeda & Herbert Hovenkamp, *Antitrust Law* ¶¶ 205f–g, at 302–10 (4th ed. 2013). *But cf.* *Cardtoons, L.C. v. Major League Baseball Players Ass'n*, 208 F.3d 885, 890–91 (10th Cir. 2000).

87. See *Globetrotter Software, Inc. v. Elan Computer Grp., Inc.*, 362 F.3d at 1376.

88. See *Golan v. Pingel, Ent. Inc.*, 310 F.3d 1360, 1371–73 (Fed. Cir. 2002); see also *Gugliuzza*, *supra* note 2, at 1625 (describing *Golan*).

89. See *supra* text accompanying notes 40–51 (describing *Noerr*).

In short, the Federal Circuit has enlisted *Noerr* to serve the opposite master of its original design. As described at the start of this section, *Noerr* can be understood as championing states' rights. Citizens should be able to tell their state legislators how they want to be governed, and the federal government should stay out of the way. Ignoring this, the Federal Circuit has dispatched *Noerr* to suppress states' rights, eventually concluding that federal law preempts almost any state law related to behavior involving patent demands. Throughout this journey, the Federal Circuit has lost its way, jumbling questions together and sliding from one concept to another, without the strong foundation that can support enduring doctrinal analysis.

*E. How Should One Analyze Whether Noerr Applies to Patent Demands Outside of Litigation?*⁹⁰

If the Federal Circuit is wrong, however, how should one analyze whether *Noerr* or other federal doctrines apply to the issues at hand? The solution rests on a comparison of the original issues addressed in *Noerr* to the issues that arise with patent demands outside of litigation.

Noerr concerned the question of whether a federal scheme—embodied in the federal antitrust statutes—was being applied in a way that would interfere with the right to petition government. Over time, the line of cases at the Supreme Court level would consider whether application of the federal antitrust statutes was getting in the way of an approach to the legislature, an approach to regulatory bodies, and eventually, an approach to the courts.⁹⁰

In contrast, the question for demand letters concerns whether a state scheme could get in the way of an effort to vindicate rights granted under a federal scheme. Answering that question requires several layers. The first layer involves the rights that have been granted under the federal scheme. Perhaps the federal scheme itself preempts the type of state statute at issue? As described above, the Federal Circuit's analysis of that question has been tremendously thin and weak. In addition, to the extent that the question relates to statutory preemption, such an analysis must rest on an examination of the Patent Act, not on a discussion of other federal schemes, such as the *Noerr* analysis of the antitrust statutes. Section III below will analyze preemption implications arising from the Patent Act.

90. The lower courts would extend the logic to encompass pre-suit communications as well.

The second layer is the following: regardless of statutory preemption, does the state law violate the First Amendment right to petition government? This is a question of a different texture, but once again, the question must be grounded in an examination of the specific rights and regimes involved. In other words, is there something about the state statute that chills the patent holder's right to petition government in a manner that rises to the level of a *constitutional* violation? In answering this question, it is helpful to look at the two other circumstances in which the Justices have applied the logic of *Noerr* outside of antitrust.

The Supreme Court has used the *Noerr* logic by analogy in two other circumstances, one related to labor activity and one related to civil rights boycott activity. In each of these two cases, along with *Noerr* itself, the Court carefully examined the legislative schemes involved, as well as any special burdens or considerations that were relevant to potentially chilling the right to petition government. In the *Noerr* line of cases, the concern over the chilling effect revolved around antitrust's harsh threat of treble damages, and whether application of that federal scheme was interfering with the right to petition government. In *NAACP v. Claiborne*,⁹¹ the Court extended *Noerr* immunity to protect nonviolent boycotting activities. The *NAACP* case involved a state law tort claim for malicious interference with business relationships in light of the boycott activity.⁹² Thus, the question was whether state tort law, as applied in this circumstance, interfered with the right to petition government for political change. Although the boycott activity did not directly petition the legislators, the boycott clearly was aimed at encouraging political change, a core First Amendment concern.⁹³ As the Justices noted, the case implicated the special recognition afforded a federal constitutional amendment and in particular, the importance of Fourteenth Amendment rights.⁹⁴

The final case, *Bill Johnson's Restaurants v. NLRB*,⁹⁵ operated as a vindication of the importance of *state* interests, particularly a state's ability to provide a civil remedy for conduct touching on

91. See *NAACP v. Claiborne Hardware Co.*, 458 U.S. 886 (1982).

92. *Id.* at 892.

93. See *Buckley v. Am. Const. Law Found.*, 525 U.S. 182, 186 (1999) (finding that core political speech, such as petition circulation, "involves 'interactive communication concerning political change' . . . [and] First Amendment protection for such interaction [] is 'at its zenith.'" (citing *Meyer v. Grant*, 486 U.S. 414, 422, 425 (1988))).

94. See *id.* at 914–15.

95. *Bill Johnson's Restaurants, Inc. v. NLRB*, 461 U.S. 731 (1983).

issues deeply rooted in local sentiment. The case involved an attempt by the National Labor Relations Board (NLRB) to enjoin a suit by an employer in state court. The NLRB argued that filing the state court suit was an act of retaliation for protected labor activities. The Justices allowed the state lawsuit to go forward, ruling that “a well-founded lawsuit may not be enjoined as an unfair labor practice, even if it would not have been commenced but for the plaintiff’s desire to retaliate against the defendant for exercising rights protected by the Act.”⁹⁶ Delving deeply into the Labor Act and the Court’s accompanying jurisprudence, the Justices stressed that in light of the “recognition of the States’ compelling interest in the maintenance of domestic peace,” the Court had “repeatedly construed the Act as not preempting the States from providing a civil remedy for conduct touching interests ‘deeply rooted in local feeling and responsibility.’”⁹⁷ Thus, in *Bill Johnson’s Restaurant*, the Supreme Court did not allow a federal scheme to enjoin recourse to the courts, showing particular concern for a state’s ability to respond to behavior that implicates local concerns.

Thus, the two circumstances in which the Supreme Court has extended *Noerr* outside of antitrust do not provide much hope for a similar extension in the case of patent demands. As a general matter, the Court has carefully examined the legislative schemes involved, along with any special burdens or considerations, and the Justices have shown particular concern for a state’s ability to respond to local concerns, even in the face of federal schemes.

In addition, *Noerr* and its Supreme Court progeny are specifically focused on potentially chilling the right to petition government in the form of an appeal to the legislature or the courts. In contrast, the type of state patent troll legislation under consideration would not enjoin recourse to the legislature or the courts at all. Patent holders would be free to file and litigate a patent lawsuit at any time, the course of which would be governed by the appropriate federal patent and civil litigation rules.⁹⁸ Rather, the state statutes would relate entirely to activity outside of the courthouse. Such behavior takes place entirely outside the purview of the sovereign, making it much more susceptible to abuse.

96. *See id.* at 743.

97. *See id.* at 741.

98. Section 287 of the Patent Act provides that patent holders must give notice of their patent in order to recover damages. The statute specifies, however, that filing a lawsuit constitutes notice. *See* 35 U.S.C. § 287(a).

To some extent, one could argue that the states are actually trying to protect access to the courts for those who receive patent demands. The chilling effect of a threat of treble damages is reversed in the case of patent law, given that a patent holder, sending a cease and desist order to a company, can threaten to impose the risk of treble damages. When settlement demands include pressure sales tactics,⁹⁹ such tactics may have the effect of frightening an accused infringer away from trying to validate its rights in court—precisely the type of chilling effect that animates concerns over the right to petition government. Other approaches can confuse patent holders into thinking that they cannot vindicate themselves in court, or that it would be hopeless to try. A state statute, attempting to curb such tactics, for example, would align with First Amendment interests by protecting targets’ access to courts from the chilling tactics of NPEs. In contrast, a doctrine that severely limits a state’s rights to pass such legislation should raise First Amendment concerns over the right to petition government.

Moreover, the Supreme Court’s rule in antitrust cases that activity is immunized unless it is both objectively and subjectively baseless is particularly inapt for patent law. Uncertainties about the boundaries of an individual patent and the meaning of each word within a patent are endemic to the patent system. One could argue that the uncertainty flows from inevitable elements in the patent system—for example, the fact that scientific innovation is rapidly changing, and that the words of a patent must constantly be compared to products that did not exist when the patent was

99. See Feldman & Ewing, *The Giants Among Us*, *supra* note 20, at 28–29 (describing mass aggregator RPX’s notice to Kaspersky Labs “that RPX had acquired the patents in the lawsuit [against 22 other companies] and could release Kaspersky from the suit in exchange for a 3-year membership in RPX at a cost of \$160,000 a year” and that “RPX could sell its patents to third parties to be used against non-RPX members”); see also *id.* at 26–29 (describing horizontal collusion and other anticompetitive tactics by mass aggregators). Customer letters provide a variation on this theme. Consider, for example, the letters sent to a competitor’s distributors and contractors in the *GP Industries* case. They accuse the competitor of engaging in mail fraud, interstate transportation of stolen property and an unlawful pattern of racketeering activity in violation of the Racketeer Influenced and Corrupt Organizations Act (RICO). The letters conclude by noting that they are “intended to place you on notice that Eran Industries will consider naming your company as an additional defendant.” See *GP Indus. Inc. v. Eran Indus. Inc.*, 500 F.3d 1369 (Fed. Cir. 2007); see also *RETHINKING PATENT LAW*, *supra* note 21, at 63–64 (discussing that the Federal Circuit ruled that the behavior did not meet *Professional Real Estate’s* objectively baseless test) (citing *GP Indus. v. Eran*, 500 F.3d at 1374)).

drafted.¹⁰⁰ One could also argue that the uncertainty flows from the way in which the modern patent system operates, through practice at the Patent & Trademark Office and custom among patent prosecutors.¹⁰¹ Regardless of the origin, the patent system provides so much room for argument over each word and each implication, it would be difficult, if not impossible, to establish that all of the patent holder's arguments were completely baseless, even when a patent holder has lost every individual argument. This is the patent system, after all, in which the Federal Circuit once ruled that "a" can mean "more than one" unless the patent holder evidenced clear intent to limit the meaning of the word.¹⁰² It is also the patent system in which the Supreme Court recently held that a patent claim is acceptable if it is "reasonably certain," rather than "insolubly ambiguous."¹⁰³ All of this uncertainty has the merry outcome of ensuring that a patent holder can almost always argue that a position might have been something more than baseless.

Finally, the Justices have already demonstrated, in another context, that they are wary of extending antitrust's objectively and subjectively baseless test to patent law. The Federal Circuit had borrowed that test from antitrust and applied it to determining under the Patent Act whether a case is so exceptional that it justifies a fee award. In last term's *Octane* case, the Court rejected the Federal Circuit's importation of the objectively and subjectively baseless test, noting "[t]he threat of antitrust liability (and the attendant treble damages) far more significantly chills the exercise of the right to petition than does the mere shifting of attorneys' fees."¹⁰⁴

100. See RETHINKING PATENT LAW, *supra* note 21.

101. See *id.* at Chapter 2, *How Modern Patents Operate*.

102. See ROBIN FELDMAN, THE ROLE OF SCIENCE IN LAW 178 (2009) (citing *Baldwin Graphic Systems, Inc. v. Siebert, Inc.*, 512 F.3d 1338, 1342 (Fed. Cir. 2008)).

103. See *Nautilus, Inc. v. Biosig Instruments, Inc.* 134 S. Ct. 2120 (2014). On remand, the Federal Circuit implied somewhat sarcastically that little has changed, noting "The Court has accordingly modified the standard by which lower courts examine allegedly ambiguous claims; we may now steer by the bright star of 'reasonable certainty,' rather than the unreliable compass of 'insoluble ambiguity.'" *Biosig Instruments, Inc. v. Nautilus, Inc.*, 783 F.3d 1374, 1380 (Fed. Cir. 2015).

104. See *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, 134 S. Ct. 1749, 1757 (2014) (citations omitted). The extended quote without citations is the following:

ICON argues that the dual requirement of 'subjective bad faith' and 'objective baselessness' follows from this Court's decision in *Professional Real Estate Investors (PRE)*, which involved an exception to the *Noerr-Pennington*

In short, the type of careful analysis the Supreme Court has used when choosing to apply *Noerr* analysis would suggest that *Noerr* is inappropriate for these circumstances. In analyzing whether the First Amendment's right to petition government should prevent states from regulating patent demands outside of lawsuits, the analysis falls in favor of the states. Without a careful analysis of this kind, however, the Federal Circuit has blithely applied *Noerr*. Weaving this together with its exceedingly thin preemption threads, the Federal Circuit has reached its conclusion that state laws regulating patent demand behavior outside of litigation are preempted unless the behavior is objectively and subjectively baseless. Other courts have followed suit, raising the concern that the doctrinal entanglement will spill over into other preemption analyses.¹⁰⁵

III. A PREEMPTION ANALYSIS

As described above, on the basis of exceedingly limited analysis, the Federal Circuit has held that state statutes related to patent behavior are preempted unless the behavior is in bad faith. The fact that the analysis is weak, however, does not answer the question of what a full-blown preemption analysis might look like. After all, patent law is a federal scheme, and it cannot be that states are free to rummage around in everything related to patents. Moreover, the Supreme Court, in dicta, lists patent law in its litany of uniquely federal areas of regulation.¹⁰⁶ Thus, what might be the

doctrine of antitrust law. It does not . . . the Federal Circuit imported the *PRE* standard into § 285. But the *PRE* standard finds no roots in the text of § 285, and it makes little sense in the context of determining whether a case is so 'exceptional' as to justify an award of attorney's fees in patent litigation. The threat of antitrust liability (and the attendant treble damages) far more significantly chills the exercise of the right to petition than does the mere shifting of attorney's fees.

105. See *In re Innovatio IP Ventures, LLC Patent Litig.*, 921 F. Supp. 2d 903 (N.D. Ill. 2013) (rejecting case related to patent demand letters outside litigation); *Activision TV, Inc. v. Pinnacle Bancorp, Inc.*, No. 8:13CV215, 2013 WL 5963142 (D. Neb. Nov. 7, 2013) (blocking, on First Amendment grounds among others, Nebraska state attorney general actions to prevent a law firm from sending cease and desist patent letters).

106. See *Chamber of Commerce of U.S. v. Whiting*, 131 S. Ct. 1968, 1983 (2011) (listing patent as example of an "area of dominant federal concern" in a case related to state business licensing requirements and immigration); see also *POM Wonderful v. Coca-Cola Co.*, 134 S. Ct. 2228, 2239–40 (2014) (finding that the Lanham Act is integral in the federal regulation of misleading labels).

contours of state authority to regulate behavior that is in any way relates to patents?

A. Preemption in General

Understanding the relationship between the power of the states and the power of the federal government has been a complex challenge since the founding of the nation. Scholars have debated the nature of early conceptions of the federal government's relationship to the states—with some arguing that early federalism involved separate spheres delineating the exclusive domains of federal and state authority,¹⁰⁷ and others arguing that such dualism was no more than a rhetorical device that not followed in practice. The modern approach to the relationship between the states and the federal government, however, is undoubtedly one of concurrent and overlapping powers, with numerous state and federal regulatory programs existing in parallel.¹⁰⁸ Using a very broad brush, one could say that the general approach today is that state law can coexist with federal law, unless there is a very good reason to the contrary.

At the core of these issues, lies preemption. Preemption flows from the Supremacy clause of the Constitution, which holds that “[t]he Constitution, and the Laws of the United States which shall be made in pursuance thereof . . . shall be the supreme law of the land; and the judges in every state shall be bound thereby,

107. Young, *supra* note 1; *see also* Hoke v. United States, 227 U.S. 308, 322 (1913) (noting that while “state and Nation [have] different spheres of jurisdiction [] it must be kept in mind that we are one people; and the powers reserved to the states and those conferred on the nations are adapted to be exercised, whether independently or concurrently, to promote the general welfare”); Ernest A. Young, *The Puzzling Persistence of Dual Federalism*, in FEDERALISM AND SUBSIDIARITY, 34–82 (2014); Robert A. Schapiro, *From Dualism to Polyphony*, in PREEMPTION CHOICE: THE THEORY, LAW, AND REALITY OF FEDERALISM'S CORE QUESTION 33, 42 (William W. Buzbee ed., 2009). *See generally* Edward S. Corwin, *The Passing of Dual Federalism*, 36 VA. L. REV. 1 (1950) (describing the transition from “dual federalism” to concurrent powers). Corwin refers to this as cooperative federalism, if you prefer to use his language. *Id.* at 19–21.

108. Numerous jurisprudential moments have left little doubt about the concurrent nature of federal and state powers. These include the arrival of Roosevelt's New Deal, the increasing movement of the federal government into the role of a regulatory state, and the expansion of Congressional authority in the sphere of interstate commerce through a broadening conception of the Commerce Clause. *See, e.g.*, sources cited *supra* note 106. On the state side, these involved transformation of the negative commerce clause doctrine—which had seriously constricted state power—into a nondiscrimination rule. *See id.*

anything in the constitution or laws of any state to the contrary notwithstanding.”¹⁰⁹ And although the federal-state relationship plays out in different doctrinal forums—including commerce clause and sovereign immunity analyses—preemption has occupied so critical a role in recent years, that one scholar has called preemption, “the most important issue in modern federalism.”¹¹⁰ Despite its central role in modern debates—or perhaps because of it—preemption doctrine has suffered an avalanche of criticism.¹¹¹

Preemption generally comes in three forms, although courts and scholars argue about the areas of overlap between the three. These three forms are express preemption, field preemption, and conflict preemption.¹¹² For express preemption, Congress must specify that it is exercising authority to preempt state law. Express preemption language, however, does not necessarily end the inquiry into whether a state is acting appropriately. In various cases, the Court’s analysis has shifted to examining the extent to which Congress intended to displace state law and the areas covered by the language.¹¹³

On the flip side, express language is not the only way in which federal law may preempt state law. Federal law may still preempt state law if the “federal regulation [is] so pervasive as to make reasonable the inference that Congress left no room to supplement it.”¹¹⁴ As described in the 2015 Supreme Court decision of *Oneok v. Learjet*, field preemption occurs when Congress “intended to foreclose any state regulation in the *area*, irrespective of whether

109. U.S. CONST. art. VI, cl. 2.

110. See Garrick Pursley, *Preemption in Congress*, 71 OHIO ST. L.J. 511, 513 (2010); see also Young, *supra* note 1, at 254–55 (discussing Pursley’s comment and noting that although the reach of the commerce clause and state sovereign immunity may garner headlines, preemption constitutes the functional heart of the Court’s federalism).

111. See Daniel J. Meltzer, *Preemption and Textualism*, 112 MICH. L. REV. 1, 2 (2013).

112. For a general discussion of preemption, see Jeanne C. Fromer, *The Intellectual Property Clause’s Preemptive Effect*, in INTELLECTUAL PROPERTY AND THE COMMON LAW 265, 279 (Shayamkrishna Balganesch ed., 2014); Mark A. Lemley, *Beyond Preemption: The Law and Policy of Intellectual Property Licensing*, 87 CAL. L. REV. 111 (1999).

113. See, e.g., *Altria Group, Inc. v. Good*, 555 U.S. 70, 76 (2008) (finding lack of preemption despite express language and noting that “[i]f a federal law contains an express pre-emption clause, it does not immediately end the inquiry because the question of the substance and scope of Congress’ displacement of state law still remains”).

114. *PG&E v. State Energy Res. Conservation & Dev. Comm’n*, 461 U.S. 190, 204 (1983) (citing *Fid. Fed. Sav. & Loan Ass’n v. de la Cuesta*, 458 U.S. 141, 152 (1982)).

state law is consistent or inconsistent with federal standards.”¹¹⁵ The key battleground, however, occurs not with express or field preemption, but with the third area—conflict preemption. With conflict preemption, either “compliance with both federal and state regulations is a physical impossibility” or “state law ‘stands as an obstacle to the accomplishment and execution’” of the federal scheme.¹¹⁶ Thus, the two brands of conflict preemption can be described as the “impossibility” type and the “obstacle” type. There are numerous modern disputes among the Justices regarding the proper analysis for conflict preemption, but in particular, Justice Thomas has maintained a consistent minority viewpoint that obstacle preemption is not a valid basis for ousting state authority.¹¹⁷

Another area of confusion within federalism is a series of recent cases regarding the existence of a presumption against preemption—the so-called “*Rice*” rule.¹¹⁸ The issue flows from language in the 1933 case of *Mintz v. Baldwin*, in which the Court held that “[t]he purpose of Congress to supersede or exclude state action . . . is not lightly to be inferred. The intention so to do must definitely and clearly appear,” and the logic echoed 14 years later in the case of *Rice v. Santa Fe Elevator*.¹¹⁹ The Justices disagree

115. See *Oneok v. Learjet*, 135 S. Ct. 1591, 1595 (2015) (internal citation marks omitted).

116. See *id.*

117. See *Oneok v. Learjet*, 135 S. Ct. at 1603 (Thomas, J., concurring in part) (“I have doubts about the legitimacy of . . . defining the pre-empted field in light of the objectives of the Act.”) (internal citation and quotation marks omitted); *Wyeth v. Levine*, 555 U.S. 555, 583, 594 (2009) (Thomas, J., concurring in judgment) (finding that the “Court’s entire body of ‘purposes and objectives’ pre-emption jurisprudence is inherently flawed” and is so removed from the statutory text that it is inconsistent with the Constitution); *Hillman v. Maretta*, 133 S. Ct. 1943, 1955 (2013) (Thomas, J., concurring in judgment) (same); *Williamson v. Mazda Motor of Am.*, 562 U.S. 323, 340 (2011) (Thomas, J., concurring in judgment) (same); *PLIVA v. Mensing*, 131 S. Ct. 2567, 2590 n.13 (2011) (Sotomayor, J., dissenting) (explaining that in writing for the majority, Justice Thomas employed a “novel expansion of impossibility pre-emption”). See also Caleb Nelson, *Preemption*, 86 VA. L. REV. 225 (2000); Young, *supra* note 1, at 328, 328–32 (explaining Justice Thomas’ jurisprudence that impossibility is the only valid basis for finding conflict preemption and describing that jurisprudence in detail).

118. The *Rice* rule arises from the case of *Rice v. Santa Fe Elevator Corp.*, 331 U.S. 218 (1947).

119. *Mintz v. Baldwin*, 289 U.S. 346, 350 (1933); *Rice v. Santa Fe Elevator*, 331 U.S. at 350. For in depth discussion of the development of the *Rice* rule and the variations and debates across time, see Young, *supra* note 1; Mary J. David, *Unmasking the Presumption in Favor of Preemption*, 53 S.C. L. REV. 967, 971

vigorously over whether, and under what circumstances, a formal presumption exists. As the debate rages on, the modern inquiry has become somewhat circular, making it less useful as a principled basis for decision making. In particular, the rule in *Rice* is framed as a presumption against preempting state activity when Congress has legislated in an area that the states have traditionally occupied. Sometimes, however, the Court has inverted the notion, framing the question in terms of whether the area has a history of significant *federal* presence, rather than whether the area has a history of significant state presence.¹²⁰ As commentators have noted, the inquiry largely depends on how you frame the question, rather than any principle one can hold onto. Consider the *Whiting* case from 2011.¹²¹ The case concerned a state business licensing statute that included provisions related to hiring undocumented workers. One could characterize the issue as relating to immigration—a traditional area of federal activity—or relating to business licensing—a traditional area of state concern.¹²² In an era of concurrent powers, the *Rice* rule risks becoming more of a justification for a decision than a basis for the decision.

Interpreting the boundaries of legislation is always an enterprise fraught with difficulty. As I have discussed at length in the past, human nature and the structure of legal argument constantly drive law into new territory, as those wishing to escape the constraints of precedent reach for the open spaces, the interstices among those things that have been decided.¹²³

(2002); Stephen A. Gardbaum, *The Nature of Preemption*, 79 CORNELL L. REV. 767, 787 (1994).

120. See *U.S. v. Locke*, 529 U.S. 89, 90, 108 (2000) (discussing “when the State regulates in an area where there has been a history of significant federal presence”) reviewed by Young, *supra* note 1, at 334 (describing the shift in *Locke* from discussing state presence to federal presence).

121. *Chamber of Commerce of U.S. v. Whiting*, 131 S. Ct. 1968 (2011).

122. See Young, *supra* note 1, at 336; see generally Daryl J. Levinson, *Framing Transactions in Constitutional Law*, 111 YALE L.J. 1311 (2002).

123. See FELDMAN, *THE ROLE OF SCIENCE IN LAW*, *supra* note 102, at 79–90 (2009); see also Young, *supra* note 1, at 316–17 (stressing the importance of rules of statutory construction since “[a]ll new laws, though penned with the greatest skill and passed on the fullest and most mature deliberation, are considered as more or less obscure and equivocal, until their meaning be liquidated and ascertained by a series of particular discussions and adjudications (quoting THE FEDERALIST No. 37, at 236 (James Madison) (Jacob E. Cook ed., Wesleyan Univ. Press 1961) (1788))); cf. Feldman & Lemley, *supra* note 217, at 13–18 (unpublished manuscript) (on file with the Iowa Law Review) (arguing that the boundaries of a patent cannot be fully understood until the end of the patent term, when all questions about the patent that will be asked, have been asked).

Nevertheless, various themes and sensitivities emerge from the modern preemption case law. At a general level, these include a certain fidelity to what Congress has actually intended,¹²⁴ although there are differing views on the meaning of silence.¹²⁵ These also include sensitivity to courts supplanting congressional decision-making. Thus, for example, modern case law would not allow courts to say what Congress *would* have decided, if it had thought about the issue.¹²⁶ Similarly, there is an instinct to hold the legislators' feet to the fire.¹²⁷ Thus, one might try to avoid allowing Congress to shirk its duty by creating ambiguous language, leaving each side to argue in court that it won on the Hill,¹²⁸ or failing to give notice to those on the Hill who would defend the states

124. *See, e.g.*, *New York State Conference of Blue Cross & Blue Shield Plans v. Travelers Ins. Co.*, 514 U.S. 645, 655 (1995) (noting that preemption claims turn on congressional intent and, therefore, must begin with statutory construction); *Medtronic, Inc. v. Lohr*, 518 U.S. 470, 485 (1996) (“The purpose of Congress is the ultimate touchstone’ in every pre-emption case.” (quoting *Retail Clerks v. Schermerhorn*, 375 U.S. 96, 103 (1963))); *see also PLIVA*, 131 S. Ct. at 2590–91 (2011) (Sotomayor, J., dissenting) (discussing the *Rice* rule and the Court’s history of requiring a “clear and a manifest purpose” to preempt); *Altria Group, Inc. v. Good*, 555 U.S. 70, 77 (2008) (“When the text of a pre-emption clause is susceptible of more than one plausible reading, courts ordinarily ‘accept the reading that disfavors pre-emption’” (quoting *Bates v. Dow Agrosciences LLC*, 544 U.S. 431, 449 (2005))). *See also, e.g.*, Calvin Massey, “*Joltin’ Joe Has Left and Gone Away*”: *The Vanishing Presumption Against Preemption*, 66 ALB. L. REV. 759, 763 (2003) (arguing in a discussion of *United States v. Locke*, 529 U.S. 89 (2000), that “[i]n the absence of a clear directive from Congress, the burden of proof of preemptive intent ought to be on those asserting such congressional intent” and showing that modern scholars echo the Supreme Court’s exhortation).

125. *See, e.g.*, *Cipollone v. Liggett Group*, 505 U.S. 504, 546 (1992) (Scalia, J., concurring in part and dissenting in part) (“To be sure, our jurisprudence abounds with rules of ‘plain statement,’ ‘clear statement,’ and ‘narrow construction’ designed variously to ensure that, absent unambiguous evidence of Congress’s intent, extraordinary constitutional powers are not invoked, or important constitutional protections eliminated, or seemingly inequitable doctrines applied. . . . But *none* of those rules exists alongside a doctrine whereby the same result so prophylactically protected from careless explicit provision can be achieved *by sheer implication*, with no express statement of intent at all. That is the novel regime the Court constructs today.”).

126. *Cf. AT&T Mobility LLC v. Concepcion*, 131 S. Ct. 1740, 1751 (2011) (noting that class arbitration was not envisioned when Congress passed the federal act in 1925 and that it is a relatively recent development).

127. *See, e.g., PLIVA*, 131 S. Ct. at 2582 (“Congress and the FDA retain the authority to change the law and regulations if they so desire.”).

128. *Cf. Young, supra* note 4, at 1359 (noting that when a governmental actor seeks to blur responsibility, it is attempting to shift the political costs onto other governmental entities).

against Congressional intrusion.¹²⁹ As one scholar has noted, “If our system of political checks is to rest on a foundation of popular loyalty, the people need to know when to get upset and at whom.”¹³⁰ These are general and useful themes.

All of these themes take place against a backdrop of concurrent powers. Numerous overlapping state and federal regimes exist. For example, states are allowed to impose additional notice requirements on the sale of securities.¹³¹ Similarly, banking operates under a dual system with chartering allowed at either the national or the state level. As the Treasury Department has noted:

Commentators and state bank supervisors rightly assert, for example, that a separate system of state banks allows the states to serve as laboratories for innovation and change, not only in bank powers and structures, but also in the area of consumer protection. State supervisors also make what is, in effect, a “smaller is better” argument in favor of the attributes of state systems, lauding the physical proximity of state bank regulators to the institutions they supervise, suggesting that state banks have greater access to state regulators and that geographic proximity gives state regulators greater familiarity with the banks they oversee.¹³²

Although coexistence is not always peaceful nor are the boundaries crystal clear, the notion of such coexistence is deeply engrained. What would be outside the norm would be an area that is exclusively reserved to one or the other, particularly without express language in the relevant federal act delineating it as “federal only; states keep out.”

129. *See, e.g.*, *Gregory v. Ashcroft*, 501 U.S. 452, 464 (1991) (noting the importance of not giving “the state-displacing weight of federal law to mere Congressional ambiguity”); *see also* Young, *supra* note 4, at 1359 (discussing the *Gregory v. Ashcroft* passage in the context of providing adequate notice to those in Congress who would defend the states).

130. Young, *supra* note 4, at 1360.

131. This is true even for offerings that were made exempt from so-called state “Blue Sky” laws in the 1996 National Securities Markets Improvement Act. *See* National Securities Markets Improvement Act of 1996, Pub. L. No. 104-290, § 18(c)(2), 110 STAT. 3416, 3419 (1996).

132. OFFICE OF THE COMPTROLLER OF THE CURRENCY, U.S. DEP’T OF THE TREASURY, NATIONAL BANKS AND THE DUAL BANKING SYSTEM 10 (2003) (internal quotation marks omitted), *available at* <http://www.occ.treas.gov/publications/publications-by-type/other-publications-reports/national-banks-and-the-dual-banking-system.pdf>.

Into this pantheon of preemption jurisprudence comes patent law. The Constitution provides Congress the power to grant rights to inventors for limited times, in order to promote the progress of the useful arts.¹³³ This power has been realized through various federal Patent Acts. As the Court has noted, “Patents are not given as favors, as was the case of monopolies given by the Tudor monarchs,” but are “meant to encourage invention.”¹³⁴ The innovation benefit to society is the anchoring concept of the granting of patents. Throughout patent jurisprudence, the words of the Justices ring from a decision of more than 150 years old; in encouraging invention, “the rights and welfare of the community must be fairly dealt with and effectually guarded.”¹³⁵

In recent years, and particularly as the public debate about patent trolls has heated up, some commentators have begun calling patents “property rights,” while others argue against doing so.¹³⁶

133. See U.S. CONST. art. I, § 8, cl. 8 (“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”).

134. *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 229 (1964) (internal citations omitted).

135. *Kendall v. Winsor*, 62 U.S. 322, 329 (1858); see also *Woodbridge v. U.S.*, 263 U.S. 50, 61 (1923) (explaining that “[t]he public . . . is a most material party to, and should be duly considered in, every application for a patent, securing to the individual a monopoly for a limited time, in consideration for the exercise of his genius and skill,” so as to further the “large public policy to promote . . . science and the useful arts”); *Graham v. John Deere Co.*, 383 U.S. 1, 9 (1966) (“The patent monopoly was not designed to secure to the inventor his natural right in his discoveries. Rather, it was a reward, an inducement, to bring forth new knowledge.”); *Brenner v. Manson*, 383 U.S. 519, 534–36 (1966) (“The basic quid pro quo contemplated by the Constitution and the Congress for granting a patent monopoly is the benefit derived by the public [and therefore, a patent] is not a reward for the search, but compensation for its successful conclusion.”); *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 480 (1974) (“The productive effort thereby fostered [by patent laws] will have a positive effect on society through the introduction of new products and processes of manufacture into the economy, and the emanations by way of increased employment and better lives for our citizens.”).

136. See, e.g., Doug Schoen, *Congress Must Act On Patent Reform*, FORBES (May 21, 2015, 8:50 AM), <http://www.forbes.com/sites/dougschoen/2015/05/21/congress-must-act-on-patent-reform/> (“A patent is a property right granted through the [USPTO] to protect a specific invention and to prevent others from making, using, or selling that invention.”); *Time to Fix Patents*, THE ECONOMIST (Aug. 8, 2015), <http://www.economist.com/news/leaders/21660522-ideas-fuel-economy-todays-patent-systems-are-rotten-way-rewarding-them-time-fix> (arguing that patents are not an absolute property right). For perspectives on the notion that patents were not historically treated as property rights, see, e.g., LAWRENCE LESSIG, *THE FUTURE OF IDEAS* 58–59, 94–96 (2001) (explaining the historic view of patents and copyrights as special, limited monopolies); SIVA

From a constitutional perspective, the respect for real property evidenced in constitutional language and history is worlds apart from what is reflected in the Constitution's intellectual property clause. The intellectual property clause gives Congress the power to grant rights for limited times in pursuit of a specific goal. This creation of a narrow public franchise for limited policy reasons stands in sharp contrast to the Framers' conception of core private property rights, and the way in which those rights are treated in the Constitution. I use the term "franchise" with some trepidation, because it can be easily confused with the type of Tudor favors that the Founders clearly rejected.¹³⁷ Nevertheless, in the language of constitutional history, the term "franchise" seems appropriate.

Justices Thomas and Alito highlighted that patents are not core property rights in their 2015 dissent in the *Teva* case.¹³⁸ The case

VAIDHYANATHAN, COPYRIGHTS AND COPYWRONGS 23–24 (2001) (historic view of patents and copyrights as a necessary evil); Caleb Nelson, *Adjudication in the Political Branches*, 107 COLUM. L. REV. 559, 567 (2007) (explaining the difference between "core" private rights and "privileges" or "franchises"); Michael A. Carrier, *Cabining Intellectual Property Through a Property Paradigm*, 54 DUKE L.J. 1, 1 (2004) (arguing that the "propertization" of intellectual property has been a revolutionary change in the past generation); Tyler T. Ochoa & Mark Rose, *The Anti-Monopoly Origins of the Patent and Copyright Clause*, 84 J. PAT. & TRADEMARK OFF. SOC'Y 909, 919 (2002) (describing founding perspectives of patents and copyrights as limited monopolies); Mark A. Lemley, *Romantic Authorship and the Rhetoric of Property*, 75 TEX. L. REV. 873, 895–904 (1997) (book review) (objecting to "propertization" of intellectual property and exploring property rhetoric in intellectual property policy debates); Mark A. Lemley, *Property, Intellectual Property, and Free Riding*, 83 TEX. L. REV. 1031, 1033 (2005) (noting that the modern "propertization" of intellectual property lies in a shift in terminology in which the descriptive term "intellectual property" takes hold). For an opposing viewpoint, in the context of the Constitution's takings clause, see Adam Mossoff, *Patents as Constitutional Private Property: The Historical Protection of Patents Under the Takings Clause*, 87 B.U. L. REV. 689, 691 (2007) (asserting that patents were secured as constitutional private property in the nineteenth century); but see Shubha Ghosh, *Toward a Theory of Regulatory Takings for Intellectual Property: The Path Left open After College Savings v. Florida Prepaid*, 37 SAN DIEGO L. REV. 637, 667 (2000) (arguing that the takings clause can be applied to intellectual property or intangible property only by analogy); Thomas F. Cotter, *Do Federal Uses of Intellectual Property Implicate the Fifth Amendment?*, 50 FLA. L. REV. 529, 529 (1998) (characterizing the law of takings in relation to intellectual property as a muddle).

137. See *supra* text accompanying note 134; see also Camilla A. Hrdy, *State Patent Laws in the Age of Laissez Faire*, 28 BERKELEY TECH. L.J. 45, 54 (2013) (describing the Founders' intent to avoid a patchwork of patent rights that were conditioned on state-specific terms and conditions).

138. *Teva Pharm. USA, Inc., v. Sandoz, Inc.*, 135 S.Ct. 831, 848 (2015) (Thomas, J., dissenting).

concerned an esoteric area of patent law, but the dissenting opinion included historic perspectives discussing the contrast between patents and property:

The Anglo-American legal tradition has long distinguished between “core” private rights—including the traditional property rights represented by deeds—and other types of rights. These other rights [include] “privileges” or “franchises,” “which public authorities have created purely for reasons of public policy and which ha[ve] no counterpart in the Lockean state of nature. Notwithstanding a movement to recognize a core property right in inventions, the English common law placed patents squarely in the final category as franchises¹³⁹

As the text of the dissent explained further, our own “Framers adopted a similar scheme.”¹⁴⁰ In other words, from a constitutional perspective, patent rights simply are not analogous to property rights. They are, however, government grants established by the federal Patent Act, which means that state statutes and common laws that intersect with patents should be analyzed under preemption doctrine.

In approaching this question, it is tempting to grab hold of a set of messy cases related to preemption in intellectual property. These cases are from the 1960s, 1970s, and 1980s, with each decade representing one swing of the pendulum. Specifically, in the companion cases of *Sears* and *Compco*, the Court ruled that patent law preempted interpretations of two state statutes extending patent-like protection for copying articles that would not qualify for protection under the Patent Act.¹⁴¹ In both cases state unfair competition laws would have been interpreted to protect against copying lighting fixtures that did not qualify for patent protection. The Justices held that such an approach was preempted.

In contrast, the *Goldstein*, *Kewanee*, and *Aaronson* cases allowed intellectual property protection under state statutes for articles that did not qualify for copyright or patent protection. In *Goldstein*, the Court upheld a state statute protecting against copying sound recordings, which were not protected under the

139. *Id.* at 848 n.2 (citations omitted) (quoting Caleb Nelson, *Adjudication in the Political Branches*, 107 COLUM. L. REV. 559, 567 (2007)).

140. *Id.* at 847.

141. *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 232–33 (1964); *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234, 238–39 (1964).

Copyright Act.¹⁴² In *Kewanee*, the Court upheld a state statute protecting against misappropriation of trade secrets, including innovations that would not qualify for protection under the Patent Act.¹⁴³ In *Aronson*, the Court upheld the application of state contract law to enforce royalty payments to a patent applicant after the application was rejected.¹⁴⁴ In each of these cases, the Court found no preemption.

Finally, in 1989, the Court swung back in the other direction in a case related to moldings for boat hulls. In *Bonito Boats*, the Court ruled that patent law preempted a state statute that forbid using a direct molding process to copy unpatented boat hulls.¹⁴⁵

Some of the language in the opinions, located at both ends of the pendular arc, is troubling for its largely unmoored policy analysis of whether the incentives created by the various state intellectual property schemes would be consistent with the incentives created by the federal scheme. At times, these analyses come perilously close to encouraging judges to substitute their own judgment for that of Congress. For example, in discussing the patent system's emphasis on disclosure in *Kewanee*, the Court noted the following:

[I]t is hard to see how the public would be benefited by disclosure of customer lists or advertising campaigns; in fact, keeping such items secret encourages businesses to initiate new and individualized plans of operation, and constructive competition results. This, in turn, leads to a greater variety of business methods than would otherwise be the case if privately developed marketing and other data were passed illicitly among firms involved in the same enterprise.¹⁴⁶

Such discussions threaten to encroach on the economic and policy choices adopted by Congress. Similarly, in *Bonito Boats*, the court focused on “the policies behind the patent system.”¹⁴⁷ Explaining why state trade secret protection was not preempted while boat hull protection was, the opinion expounded on the different incentives created, in a manner that seemed somewhat

142. *Goldstein v. California*, 412 U.S. 546, 571 (1973).

143. *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 479 (1974).

144. *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 266 (1979).

145. *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 168 (1989).

146. *Kewanee*, 416 U.S. at 483.

147. *Bonito Boats*, 489 U.S. at 156.

unmoored. Noting that the boat hull statute would be “eroding the general rule of free competition upon which the attractiveness of the federal patent bargain depends,”¹⁴⁸ the opinion compared the incentive structures of the different state schemes:

The protections of state trade secret law are most effective at the developmental stage, before a product has been marketed and the threat of reverse engineering becomes real. During this period, patentability will often be an uncertain prospect, and to a certain extent, the protection offered by trade secret law may “dovetail” with the incentives created by the federal patent monopoly. In contrast, under the Florida scheme, the would-be inventor is aware from the outset of his efforts that rights against the public are available regardless of his ability to satisfy the rigorous standards of patentability.¹⁴⁹

In discussing the *Kewanee/Bonito Boats* line of cases, one scholar noted that it represents a court’s own factual findings without the benefit of empirical studies. He further notes that this methodology leads to the “sort of conclusion [that] makes critics of *Bonito Boats* uneasy because they fear the Court will use this casual approach to strike down state laws merely on efficiency grounds.”¹⁵⁰ In other words, regardless of whether the right result occurred in these cases, some of the analysis wanders widely.

Bonito Boats also makes a muddle of the question of whether the Patent Act creates field preemption. As described above, field

148. *Id.* at 161.

149. *Id.* (citations omitted). At the end of the day, approval of state trade secret laws may have depended heavily on the fact that they have existed across time with tacit recognition by Congress. *See id.* at 166 (“The law of unfair competition and state trade secret law have coexisted harmoniously with federal patent protection for almost 200 years. . . .”). This cannot, however, explain *Goldstein’s* approval of state protection for then uncopyrightable sound recordings. *See Goldstein v. California*, 412 U.S. 546, 576 (1973) (holding that, under the Constitution, the states have not relinquished all power to grant to authors “the exclusive Right to their respective Writings” and that until Congress takes further action, the California statute against piracy may be enforced).

150. Paul Heald, *Federal Intellectual Property Law and the Economics of Preemption*, 76 IOWA L. REV. 959, 978 (1991) (emphasis removed). Heald took comfort that although Justice O’Connor’s opinion in *Bonito Boats* “recommends economic analysis to determine the existence of direct conflicts with the mechanics of federal law, it does not authorize courts to use freewheeling findings of inefficiency in spite of the Court’s own use of sloppy ‘fact-finding’ in cases such as *Kewanee*.” *Id.* (emphasis removed). I find the logic in the line of cases less reassuring than Heald did.

preemption exists when the federal regulation is entirely pervasive, while conflict preemption exists either when it is impossible to comply with both the state and the federal scheme or when the state scheme stands as an obstacle to the federal one.¹⁵¹ Prior Supreme Court cases had suggested that field preemption does not exist for patent law. Specifically, the *Sears* opinion used language that evokes the notion of the state scheme creating an obstacle to the federal one, rather than field preemption language: “When state law touches upon the area of these federal statutes, it is ‘familiar doctrine’ that the federal policy ‘may not be set at naught, or its benefits denied’ by the state law.”¹⁵²

Similarly, the *Compco* companion case used conflict preemption language, finding the state law was “in conflict with the federal patent laws” and that it would “interfere” with the intellectual property clause of the constitution and the implementing copyright and patent laws.¹⁵³ *Kewanee* followed the same path: “[T]here is ‘neither such actual conflict between the two schemes of regulation that both cannot stand in the same area, nor evidence of a congressional design to pre-empt the field.’”¹⁵⁴ Likewise *Aronson* also specifically analyzed the question under conflict preemption: “In this as in other fields, the question of whether federal law pre-empts state law ‘involves a consideration of whether that law stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress.’”¹⁵⁵

151. See *supra* text accompanying notes 97–101.

152. *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 229 (1964) (quoting *Sola Elec. Co. v. Jefferson Elec. Co.*, 317 U.S. 173, 173, 176 (1942)).

153. *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234, 237 (1964). Citing the language in *Sears*, among other arguments, one scholar has suggested that the intellectual property clause of the Constitution should be considered a separate basis for preemption outside of the Supremacy Clause—one that would prevent states from extending protections for copyright holders beyond what is provided in the Copyright Act. See Jeanne C. Fromer, *The Intellectual Property Clause’s Preemptive Effect* 8–9 (N.Y. Univ. Sch. Law Pub. Law & Legal Theory Research Paper Series, Paper No. 12-71, 2013), available at <http://papers.ssrn.com/sol3/papers.cfm?abstractid=2194755>. She acknowledges, however, that language in the *Goldstein* opinion makes it unlikely that the Court will take such an approach; see also *supra* text accompanying notes 100–104 (“Although some see the Supreme Court’s assertions as dicta that could be worked around in future cases, it is unlikely that the Court will soon come to see the IP clause as working on its own to preempt state laws.”) (citations omitted).

154. *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 494 (1974) (quoting *Florida Lime & Avocado Growers v. Paul*, 373 U.S. 132, 141 (1963)).

155. *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 262 (1979) (quoting *Kewanee*, 416 U.S. at 479) (internal quotation marks omitted).

Bonito Boats, however, contained muddled language about whether field preemption applies to the Patent Act. Some of the language appears to specifically reject the notion that the Patent Act creates field preemption. For example, in discussing *Sears* and *Compco*, the *Bonito Boats* decision explains that at the “highest level of generality,” the two cases could be interpreted to mean that states “are completely disabled from offering any form of protection to articles or processes which fall within the broad scope of patentable subject matter.”¹⁵⁶ The opinion then rejects such a broad interpretation, holding that “extrapolation of such a broad pre-emptive principle from *Sears* is inappropriate” given that opinion’s “implicit recognition that all state regulation of potentially patentable but unpatented subject matter is not *ipso facto* pre-empted by the federal patent laws.”¹⁵⁷

Notwithstanding such conflict preemption language and analysis, *Bonito Boats*, concludes with language that invokes the classic field preemption analysis:

[The state] thus enters a field of regulation which the patent laws have reserved to Congress. The patent statute’s careful balance between public right and private monopoly to promote certain creative activity is a “scheme of federal regulation . . . so pervasive as to make reasonable the inference that Congress left no room for the States to supplement it.”¹⁵⁸

Ultimately, however, *Sears*, *Kewanee*, and *Bonito Boats* are tangential at best in analyzing the preemptive effect of patent troll legislation because the cases concern efforts by the states to *create* protections—specifically for things that federal patent and copyright do not protect. The creation of state intellectual property protection schemes raises the tricky question of whether Congress intended that anything unprotected should be left in the public domain. Moreover, the fact that Congress created uniform patent and copyright acts prompts particular sensitivity when states try to impose their own, differing protections. In contrast, an effort to provide limits on the behavior in which patent holders may engage

156. *Bonito Boats v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 154 (1989) (citing *Lear, Inc. v. Adkins*, 395 U.S. 653, 677 (1969)).

157. *Id.* Similar to *Kewanee*, 416 U.S. at 491, the *Bonito Boats* opinion also speaks of conflict and interference with the federal patent laws. See *Bonito Boats*, 489 U.S. at 160, 165.

158. *Id.* at 167 (quoting *Rice v. Santa Fe Elevator Corp.*, 331 U.S. 218, 230 (1947)).

implicates a different set of issues.¹⁵⁹ When examining state activity related to adequacy of contracts, sales behavior, or consumer disclosure, for example, one would certainly ask whether federal legislation preempts state action—either because the federal legislation expressly preempts state activity or because the state activity improperly conflicts with the federal scheme. Nevertheless, analysis of these issues would delve into questions other than those that arise with state creation of additional schemes for the protection of inventions.

Most importantly, despite the muddled language in *Bonito Boats*, conflict preemption is the more likely inquiry for issues related to patents. It would be difficult to square field preemption with cases upholding state trade secret law.¹⁶⁰ In addition, the entire approach in *Bonito Boats*, both the policy analysis and the analysis of field preemption, follows a less particularized approach than preemption analysis in this millennium, which tends to be more precisely grounded in the words of the relevant statute.¹⁶¹

159. *See* *Gunn v. Minton*, 133 S. Ct. 1059 (2013) (Supreme Court held that state court had jurisdiction even given arising under language).

160. *Cf.* *Gunn v. Minton*, 133 S. Ct. 1059, 1068 (2013) (finding in a case related to a state court's ability to hear a malpractice claim based on whether a patent would have been approved that "[a]s we recognized a century ago, '[t]he Federal courts have exclusive jurisdiction of all cases arising under the patent laws, but not of all questions in which a patent may be the subject-matter of the controversy'" (quoting *New Marshall Engine Co. v. Marshall Engine Co.*, 223 U.S. 473, 478 (1912))).

161. *Compare* *Bonito Boats v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 154 (1989), *with* *Chamber of Commerce of U.S. v. Whiting*, 131 S. Ct. 1968, 1970 (2011) (grounding the discussion of the policy breadth in the wording of the statute), *and* *AT&T Mobility LLC v. Vincent Concepcion*, 131 S. Ct. 1740, 1745 (2011) (same). Even with the divided opinions, both the majority and the dissent go to great lengths to ground their analysis in the text. *See* *Geier v. American Honda Motor Co.*, 529 U.S. 861, 869–70 (2000) (finding that "[n]othing in the language of the saving clause suggests an intent to save state-law tort actions that conflict with federal regulations"); *cf. id.* at 900 n.16 (Stevens, J., dissenting) (finding textual basis in the statutory language that the "saving clause unquestionably limits, and possibly forecloses entirely, the pre-emptive effect that [federally promulgated] safety standards . . . have on common-law remedies"); *Oneok, Inc. v. Learjet, Inc.*, 135 S. Ct. 1591, 1596, 1601 (pointing to §§ 1 and 5 of the Natural Gas Act to delineate the limited scope of FERC's rate-setting authority); *cf. id.* at 1604 (Scalia, J., dissenting) (finding that § 717(d) of the Natural Gas Act "empowers the Commission to regulate 'practices affecting wholesale rates'" and that "[n]othing in the Act suggests that States share power to regulate these practices"); *Bruesewitz v. Wyeth LLC*, 562 U.S. 223, 232–33 (2011) (noting that given the "well known triumvirate of ground for [products] liability," there is no implied preemption for defective design where the statute expressly preserves the other two); *cf. id.* at 266 (finding that the majority's

And, of course, if field preemption were the proper test, states would be completely preempted from acting in the realm. Even state laws related to fraud and bad faith would be beyond the scope of appropriate regulation. For these reasons, the more likely analysis is of the type evidenced in *Aronson*, in which the Court found that “state law is not displaced merely because the contract relates to intellectual property which may or may not be patentable.”¹⁶²

Once in the realm of concurrent powers, rather than total field preemption, there is much that would concern the states in the legitimate exercise of their authority. To begin with, the granting of patents in the Patent Act relies upon and presupposes a functioning state system of commerce and contract law. Without this, inventors would be unable to form the commercial relationships necessary to bring their ideas to fruition. A patent is not a prize or an award; it is an opportunity to try to garner a return by creating products from the ideas embodied in the patent and bringing those products to market for the benefit of society. Patent holders however, are not required to create the product themselves, and society may be better served if patent holders choose to license their patents to others, who can create products from the ideas and bring value for society. Forcing vertical integration—with one party required to engage in all aspects from idea to product design to production—is hardly the preferred approach for a well-functioning economy. Thus, the federal Patent Act is predicated on local legal systems for contracts and commerce.¹⁶³ It is a classic case in which the federal and the state systems must work hand in hand, as opposed to a federal scheme that would be capable of regulating with sufficient particularity and would reign supreme.

Certainly, parties should not be able to utilize state law to contract around the patent system.¹⁶⁴ Nevertheless, when the federal scheme relies upon the functioning of an underlying state system, preemption of that state function should require at least a clear expression of federal intent. In those circumstances, in

textual analysis ignores the Vaccine Act’s default rule to preserve state law under § 22(a), thereby preserving state-law design defect claims).

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

163. Cf. *Gonzales v. Oregon*, 546 U.S. 243, 270 (2006) (“The structure and operation of the [Controlled Substances Act] presume and rely upon a functioning medical profession regulated under the States’ police powers.”).

164. See Brief for Professor Robin Feldman, et al. as Amici Curiae at 9, *Kimble v. Marvel Entm’t, Inc.* 135 S. Ct. 2401 (2015) (No. 13-720); Feldman, *supra* note 21, at 136–78.

particular, courts should be wary of arguments that rest with light levels of support on the fringes of a broad interpretation of supposed congressional purposes.

Beyond the background commerce and contract systems necessary for patent licensing, states traditionally have played a role in disciplining abusive or improper assertion of legal rights.¹⁶⁵ Thus, while a federal rights system such as the Patent Act may serve the purpose of promoting innovation, states in this posture serve different purposes,¹⁶⁶ ones that are of local importance in their jurisdictions, such as the maintenance of appropriate societal behaviors. These commercial, contractual, and legal assertion issues also may touch on other concerns that are distinctly local and may vary across localities, from wage impacts, to effects on hiring of local skilled and unskilled workers, to the creation of industry clusters.¹⁶⁷ Regardless of whether one believes that experimentation in innovation policies may be useful across jurisdictions,¹⁶⁸ commercial, contractual, and consumer laws are traditionally viewed as appropriate for experimentation across state jurisdictions, and appropriate forums for reflecting and promoting local values. To paraphrase one constitutional law scholar, states must be left with something to do.¹⁶⁹ Most important, none of these expressions of a state's proper role suggests that a state should be restricted to the realm of fraud and bad faith.

In examining modern Supreme Court jurisprudence, an additional theme bubbles up through a number of the cases. It is a theme that can provide a useful tool for understanding preemption cases, in general, and patent preemption, in particular. It is not clearly articulated as such, and it certainly does not play out consistently in all cases. Nevertheless, it is a useful lens for making sense out of some of the more difficult questions. One can call the concept "heart and periphery." Specifically, a state law that goes to the heart of federal legislation is more likely to be problematic; a state law that affects the periphery is more likely to be accepted. A heart and periphery approach can be vital for analyzing whether express preemption language is intended to apply to the particular

165. See Gugliuzza, *supra* note 2, at 24.

166. See *id.*; see also Fromer, *supra* note 112, at 279.

167. See Camilla A. Hrdy, *Commercialization Awards*, 2015 WIS. L. REV. 13 (2015) (discussing state interests in the context of creating commercialization incentives that do not require creating new forms of exclusive rights).

168. For an interesting exploration of when such experimentation might be appropriate, see Lisa Larrimore Ouellette, *Patent Experimentalism*, 101 VIRGINIA L. REV. 65 (2015).

169. See Young, *supra* note 4, at 1387.

variation of state law and what preemption implications may exist in the absence of express language.

Unsurprisingly, difficulties frequently occur when courts are trying to interpret those things that fall within the interstices, that is, what Congress did not describe directly—even when there is some form of preemption language—but arguably relate to or fall within the ambit of what is covered.¹⁷⁰ In the challenging interstitial spaces, the analysis should consider the focus of the particular statute or provision at issue. To use a somewhat simplistic copyright example, if a federal statute creates protection for music, a state provision that also creates protection for music goes to the heart of the statute and, thus, is more likely to falter on the shoals of preemption. A state statute about professional licensing for musicians is less likely to be preempted. Similarly, if a federal statute creates intellectual property protection for medical procedures, a state provision that also creates protection for medical procedures goes to the heart of the statute while a state statute about professional licensing for doctors sits at the periphery and is less likely to be preempted.

The Court has come close to articulating the concept of heart and periphery. For example, in the case of *English v. General Electric*, the Court found the state regulation of how management handles employee complaints about safety to be too tangential to federal regulations on what is required for nuclear plant safety.¹⁷¹ In a number of other cases, the lens of heart and periphery brings clarity to the decisions, even if the Court does not articulate the concept. Consider *AT&T v. Concepcion*. The case involved cell phone contracts providing for arbitration of all disputes and requiring that claims must be brought individually, and not as part of a class.¹⁷² A cell phone user challenged the class action waiver as unconscionable under California contract doctrine. The Federal Arbitration Act contains both a preemption clause and a savings clause: “[A] contract evidencing a transaction involving commerce

170. Cf. Feldman, *supra* note 102, at 79–90 (arguing that, in the context of law in general rather than preemption, human nature and the nature of the legal system relentlessly create evolution by driving the system towards issues within the interstices of what has come before).

171. See *English v. Gen. Elec. Co.*, 496 U.S. 72, 85–86 (1990) (“[E]ven though [certain state] laws could be said to affect tangentially some of the resource allocation decisions that might have a bearing on radiological safety, [the state tort law claim for IIED] is neither direct nor substantial enough to place petitioner’s claim in the pre-empted field.”).

172. *AT&T Mobility LLC. v. Vincent Concepcion*, 131 S. Ct. 1740, 1744 (2011).

to settle by arbitration a controversy thereafter arising out of such contract or transaction . . . shall be valid, irrevocable, and enforceable, save upon such grounds as exist at law or in equity for the revocation of any contract.”¹⁷³ The majority upheld the class action waiver, reading the Arbitration Act as reflecting a liberal policy favoring arbitration and an intent to enforce arbitration contracts according to their terms.¹⁷⁴ Over the objection of four dissenting Justices, along with an opinion concurring in the result, the majority read the language to provide that state law may invalidate arbitration clauses in the case of generally applicable contract provisions, but not provisions that derive their meaning from the fact that an agreement to arbitrate is at issue.¹⁷⁵ Thus, the Court held the California Supreme Court’s line of decisions finding many arbitration class action waivers to be unconscionable was preempted by federal law.

Concepcion may best be understood from the perspective that promoting arbitration contracts goes to the heart of the Federal Arbitration Act. Thus, in a close case on the meaning of the preemption language, the actions of the state court were more likely to be rejected because the state’s activity went to the heart of the federal scheme.

While *Concepcion* parses through the meaning of particular wording in express preemption language, the concept of heart and periphery also can be seen in cases involving broader inquiries. For example, consider *Watters v. Wachovia*,¹⁷⁶ which concerned whether the National Bank Act preempted state regulation of a local mortgage entity that was a subsidiary of a national bank. The federal law contains general language that “[n]o national bank shall be subject to any visitorial powers except as authorized by Federal law.”¹⁷⁷ The state had asserted the subsidiary should be subject to state licensing and auditing regulations, which would not be the case for a federal bank.¹⁷⁸

In describing the interplay of state and federal powers, the Court in *Wachovia* took pains to describe the extent to which state laws may apply to banks operating in their jurisdiction, even when those banks are federally chartered. The Court noted that state usury laws may govern the maximum rate of interest charged by a

173. 9 U.S.C. § 2 (2015).

174. *AT&T v. Concepcion*, 131 S. Ct. at 1745.

175. *Id.* at 1745–46.

176. *Watters v. Wachovia Bank, N.A.*, 550 U.S. 1 (2007).

177. *See id.* at 11 (citing National Bank Act, 12 U.S.C. § 484(a) (2006)).

178. *See id.* at 6.

federal bank, contracts made by federal banks are governed and construed by state law, and their acquisition of property is governed by state law.¹⁷⁹ Nevertheless, the Court found the state actions preempted as being in conflict with federal banking laws, even as to a state chartered subsidiary, noting in particular that “[s]ecurity against significant interference by state regulators is a characteristic condition of the ‘business of banking’ conducted by national banks, and mortgage lending is one aspect of that business.”¹⁸⁰ In this case, the state’s activities simply encroached on the heart of federal banking legislation—that is, the uniform federal regulation of the day-to-day business of banking.

The notion of looking at the heart of the federal regulation as opposed to peripheral concerns also may have animated Justice Scalia’s spirited dissent in this year’s decision of *Oneok v. Learjet*, which was joined by Justice Roberts.¹⁸¹ The claim related to state antitrust law and federal authority over natural gas pricing as provided in the Natural Gas Act. Justice Scalia objected to the majority’s argument that the state claims must go forward in order to avoid trampling state autonomy in many areas.

One need not launch this unbounded inquiry into the features of state law in order to preserve the States’ authority to apply tax laws, disclosure laws, and blue sky laws to natural-gas companies. . . . The [Federal Energy Regulatory Commission’s] authority to regulate gas pipelines . . . is a power to address matters that are traditionally the concern of utility regulators, not a broad license to promote the general welfare.¹⁸²

In other words, from the dissent’s perspective, application of state law in this case reached into the heart of federal energy legislation; one should find preemption without in any way threatening state autonomy in peripheral areas.

At its best, the current concept of looking at the purposes of federal legislation to understand the preemption boundaries could carry the ball for understanding what is central and what is peripheral. Unfortunately, purposes analysis all too often has become a wide-ranging and open-ended inquiry in which courts have reached well beyond what Congress actually articulated in

179. *Id.* at 11.

180. *Id.* at 18.

181. *See Oneok v. Learjet*, 135 S. Ct. at 1604

182. *See id.* at 1607 (internal citation marks omitted).

the legislation. It can allow the type of unmoored analysis that can be troubling, bordering on imagining what Congress would have decided if it had thought about this point. It can also lead opinions down the garden path of unsupported economic and policy analysis, for example, exploring what the supposed economic effects of state IP-like protections might be and whether those protections are good or bad for national innovation.¹⁸³ Such economic and policy analyses generally belong in the legislative domain, rather than that of the courts. As the Supreme Court noted in a 2015 patent opinion not related to preemption, claims related to the consequences of a particular policy for innovation are more appropriately addressed to Congress, “[t]ruth be told, if forced to decide that issue, we would not know where or how to start. Which is one good reason why that is not our job.”¹⁸⁴ Moreover, in the context of preemption, this type of broad analysis risks straying considerably from anything that Congress actually decided. With its tendency to stray into that territory, the legislative purposes analysis, as currently configured, falls short.

Moving from the overly broad to the overly narrow, heart and periphery can be useful concepts for avoiding the type of hyper-technical parsing of words that has tangled up the Court at times. Consider the case of *Altria Group v. Good*.¹⁸⁵ *Altria* concerned the Public Health Cigarette Smoking Act, which establishes “a comprehensive Federal program to deal with cigarette labelling and advertising with respect to any relationship between smoking and health.”¹⁸⁶ The Act contains express preemption language providing that “[n]o requirement or prohibition based on smoking and health shall be imposed under State law with respect to advertising or promotion of any cigarettes the packages of which are labeled in conformity with the provisions of this chapter.”¹⁸⁷

Petitioners had sued under a state unfair trade practices act alleging that Philip Morris’s cigarette advertising had fraudulently suggested that its light cigarettes delivered less tar and nicotine to consumers despite the company’s knowledge that the claim was not true.¹⁸⁸ In concluding that the state act was not preempted, the Court focused on the words “based on” in the federal act’s phrase,

183. See *supra* text accompanying notes 134, 145 (describing the Court’s policy rationale in *Sears* and *Bonito Boats*).

184. See *Kimble v. Marvel Entm’t, LLC*, 135 S. Ct. 2401, 2414 (2015).

185. *Altria Group, Inc. v. Good*, 555 U.S. 70 (2008).

186. See 15 U.S.C. § 1331 (1984).

187. See 15 U.S.C. § 1334(b) (2009).

188. See *Altria Group v. Good*, 555 U.S. at 72–73.

“[n]o requirement or prohibition based on smoking and health shall be imposed under State law with respect to advertising or promotion of any cigarettes.”¹⁸⁹ The majority concluded that the notion of advertising and promotion “based on smoking and health” had a much narrower preemptive reach than created by the words “relating to,” which had been found to have much broader reach in preemption clauses of the Americans with Disabilities Act and ERISA legislation.¹⁹⁰ The 5-4 decision included a strong dissent, calling the decision “unwise and unnecessary” and noting that the majority had chosen to follow a prior plurality opinion, which the plurality itself had noted “lacked theoretical elegance.”¹⁹¹

Once again, focusing on what was central to the preemption provision as opposed to what was peripheral could have highlighted problems with the majority analysis. The heart of the federal preemption clause concerned cigarette advertising, which should have made preemption a more likely finding.

This is not to suggest that the concept of heart and periphery can solve all of the difficult issues related preemption. Nevertheless, for the locksmith trying various keys until one unlocks the door, this adds one more to the ring. Moreover, some concept similar to heart and periphery must exist for any rational analysis of preemption in a system of concurrent powers, when responsibility for governance is shared by state and federal authorities in so many areas, from disaster response to dispensing medication, to consumer disclosure laws. Without it, anything the federal government touches could expand to completely occupy a field, and the concept of federalism, with its respect for local autonomy and its reverence for the wellsprings of popular support, could wither on the vine.¹⁹²

Looking through the lens of centrality and periphery provides additional support for concluding that state laws related to patent demands should be able to reach beyond the realm of fraud. In the statutory language and history of the federal Patent Act, certain key issues emerge at the heart of the federal scheme.¹⁹³ These

189. *Id.* at 78–79.

190. *See id.* at 85–86.

191. *See id.* at 92, 94 (Thomas, J., dissenting) (citing the plurality opinion in *Cipollone v. Liggett Group, Inc.*, 505 U.S. 504, 530 (1992)).

192. *See Young, supra* note 1, at 263–64 (referencing discussions of federalism in the context of the wellsprings of popular support).

193. *See, e.g.*, 35 U.S.C.A. §§ 111–22 (2015) for patent application procedures; *id.* at §§ 131–35 for PTO examination procedures; *id.* at §§ 271, 281–96 for provisions on infringement and damages.

include the requirements necessary to obtain a patent and the Patent & Trademark Office procedures for so doing, the definition of infringement and the measure of damages for infringement, and the procedures for filing a claim of infringement or challenging the validity of a patent before the Patent & Trademark Office or in federal court. These issues—validity, infringement, and federal litigation—form the heart, and state laws directed at these issues are more likely to conflict with the federal scheme. Within the periphery, however, lie a variety of issues that may touch on patents without going to the heart of the federal scheme. These include the types of issues described at the start of the Article, such as, notice requirements, transparency, protection against pressure sales tactics, basic contract laws, and others. Fraud remediation would certainly fall within the periphery. Nevertheless, fraud remediation does not define the entirety of what falls within the periphery. The lower courts' attempt to do so represents a fundamental misunderstanding of the importance of state power and autonomy in the federal system.

IV. THE FRAUD FALLACY AND CORPORATE SPEECH

The discussion above has examined the fraud fallacy in the context of the federal doctrine of preemption, but there is an additional area in which the fraud fallacy threatens to emerge. One could argue that the final arena is even more troubling, because it threatens to circumscribe not just state power, but federal power as well. The topic relates to the power to regulate corporate speech.¹⁹⁴

194. For discussions of modern case law related to corporate speech, see generally, Victor Brudney, *The First Amendment and Commercial Speech*, 53 B.C. L. REV. 1153 (2012) (explaining the ways in which commercial speech differs from other kinds of speech protected by the First Amendment and positing that not all commercial speech warrants such protection); Charles Fischette, *A New Architecture Of Commercial Speech Law*, 31 HARV. J.L. & PUB. POL'Y 663 (2008) (contending that the application of the First Amendment to commercial speech can be justified by several independent, though perhaps interrelated, theories, depending on the context in which it arises); Robert Post, *The Constitutional Status of Commercial Speech*, 48 UCLA L. REV. 1 (2000) (arguing that the Supreme Court should recognize that the doctrine of commercial speech should be reformulated to recognize that it is different from fully protected speech, that commercial speech is constitutionally valued for the information it disseminates rather than for being itself a valuable way of participating in democratic self-determination); Daniel Halberstam, *Commercial Speech, Professional Speech, and The Constitutional Status Of Social*

In particular, some scholars and commentators¹⁹⁵ have tried to take the notion of First Amendment protections for petitioning the sovereign unless there is fraud and extend it even further to a more general First Amendment protection for speech about patents. If that were true, neither the states nor the federal government could regulate corporate speech about patents unless the speech falls within a few narrow categories, which once again, include fraud.¹⁹⁶

In addition to the First Amendment clause protecting the right to petition government, the First Amendment also protects “freedom of speech.” All speech is not created equal, however, and the Supreme Court determined long ago that core political speech receives greater deference than commercial speech.¹⁹⁷ Specifically, the Court defines commercial speech as expression related solely to the economic interests of the speaker and its audience.¹⁹⁸ Although courts have struck down regulations related

Institutions, 147 U. PA. L. REV. 771 (1999) (presenting a critical review of the development of the Court's governing commercial speech framework).

195. Adam Mossoff, *Demand Letters and Mandatory Disclosures: First Amendment Concerns*, GEORGE MASON U. CENTER FOR THE PROTECTION OF INTELLECTUAL PROPERTY BLOG, (Apr. 29, 2014) available at <http://cpip.gmu.edu/2014/04/29/demand-letters-and-mandatory-disclosures-first-amendment-concerns/> (“As property rights, patents can be freely conveyed or licensed in the marketplace.”); *H.R. __, A Bill to Enhance Federal and State Enforcement of Fraudulent Patent Demand Letters: Hearing Before the Subcomm. on Commerce, Manufacturing, and Trade of the H. Comm. on Energy and Commerce*, 113th Cong. 2d Sess. (2014) (statement of Prof. Adam Mossoff), available at <http://docs.house.gov/meetings/IF/IF17/20140522/102255/HHRG-113-IF17-Wstate-MossoffA-20140522.pdf>; see also Statement of Alex Rogers, Qualcomm, Inc., at same session for further First Amendment arguments, available at <http://docs.house.gov/meetings/IF/IF17/20140522/102255/HHRG-113-IF17-Wstate-RogersA-20140522.PDF> (“[T]he First Amendment affords broad protection for activities relating to the enforcement and communication of patent rights”).

196. See sources cited at note 195, *supra*; see also cases cited at note 28, *supra*.

197. See *Zauderer v. Office of Disc. Counsel of Sup. Ct. of Ohio*, 471 U.S. 626, 651 (1985) (applying a rational review test and holding that a state can require commercial speech to include “purely factual and uncontroversial information” without violating the First Amendment as long as the disclosure requirements are “reasonably related” to the state’s interest in protecting consumers from deception); *Cent’l Hudson Gas & Elec. v. Pub. Serv. Comm’n of N.Y.*, 447 U.S. 557, 563–70 (1980) (holding that heightened but not strict scrutiny applies to regulation of commercial speech). The lower federal courts have varied on the level of scrutiny applied in commercial speech cases.

198. See *Va. State Bd. of Pharm. v. Va. Citizens Consumer Counsel, Inc.*, 425 U.S. 748, 771 n.24 (1976) (defining commercial speech as “speech which does no more than propose a commercial transaction”) (citing *Pitt. Press Co. v. Pitt. Comm’n on Human Relations*, 413 U.S. 376, 385 (1973); see also *Cent’l*

to commercial speech from time to time, these have tended to fall into categories including the complete suppression of speech, such as forbidding advertising, or regulation of a political message outside the commercial activity of the corporation.¹⁹⁹ For example, courts have expressed particular sensitivity to regulation of commercial speech that compels a commercial actor to further a particular political message.²⁰⁰

Hudson v. Pub. Serv. Comm'n, 447 U.S. at 561 (defining commercial speech as “expression related solely to the economic interests of the speaker and its audience”).

199. See *United States v. United Foods, Inc.*, 533 U.S. 405 (2001) (finding that a mushroom producer’s First Amendment rights were violated when disclosure requirements required information that was not purely “factual and uncontroversial,” especially when the disclosure is normative speech pushing a governmental agenda); *Riley v. Nat’l Fed. of the Blind of N.C.*, 487 U.S. 781, 782 (1988) (invalidating a North Carolina law requiring fundraisers to disclose the portion of each donation retained as their fee and holding that, in light of concerns over the chilling effect, the commercial speech doctrine did not apply because the commercial elements of the speech were “inextricably intertwined with the otherwise fully protected speech involved in charitable solicitations”).

200. For Supreme Court cases evidencing this concern, see cases cited *supra* at note 199. Lower court cases on the topic include *Nat’l Ass’n of Mfrs. v. SEC*, 748 F.3d 359 (2014) (finding that labeling requirements specifying inclusion of origin of gems as from either conflict free zones or non-conflict free zones violate the First Amendment because the governmental interest at issue is not concerned with preventing consumer deception); *Am. Meat Inst. v. USDA*, 760 F.3d 18, 27 (D.C. Cir. 2014) (en banc) (finding that *Zauderer* applies to government interests other than those protecting against consumer deception; a rational basis review determines that required disclosure of country of origin of meat is purely factual commercial speech and thus permissible under principles of *Zauderer*); *R.J. Reynolds Tobacco Co. v. FDA*, 696 F.3d 1205 (D.C. Cir. 2012) (finding that *Zauderer* decision is limited to cases in which disclosure requirements are “reasonably related” to state’s interest in preventing the deception of consumers); *Beeman & Pharm Servs v. Anthem*, 652 F.3d 1085 (9th Cir. 2011) (holding that “not all fact-based disclosure requirements are subject to First Amendment scrutiny”; only disclosures that “affect the content of the message or speech by forcing the speaker to endorse a particular viewpoint or by chilling or burdening a message that the speaker would otherwise choose to make” trigger First Amendment scrutiny); *N.Y. Rest. Ass’n v. N.Y. City Bd. of Health*, 556 F.3d 114, 132 (2d Cir. 2009) (holding that *Central Hudson’s* “intermediate scrutiny” test is “expressly limited to cases in which a state disclosure requirement is supported by no interest other than the gratification of consumer curiosity”; applying rational review standard of *Zauderer* to uphold a requirement that restaurants include calorie content on menus, even though it’s not an issue of consumer deception); *Pharm. Care Mgmt. Ass’n v. Rowe*, 429 F.3d 294, 310, 316 (1st Cir. 2005) (rejecting argument that *Zauderer* holding is limited to curing deception in consumer advertising and using *Zauderer* rational review standards to find a statute valid that requires disclosure of financial and business information); *Envtl. Def. Ctr. Inc. v. EPA*, 344 F.3d 832, 850 (9th Cir.

One would expect patent demands to fall within the category of commercial speech. Recent patent commentary, however, has suggested that licensing demands should not be treated as pure commercial speech, but rather as some new form of hybrid speech.²⁰¹ According to this perspective, patent demands are not purely commercial because they relate to enforcement of legal rights, and speech pertaining to enforcement of legal rights ought to be elevated to a greater level of protection.

Despite this aspirational and creative framing, patent demands do fall squarely within the confines of commercial speech. It is difficult to understand how a letter demanding payment for the use of an invention relates to anything other than the “economic interests of the parties.” In addition, many communications about commerce carry the implication, and sometimes the direct mention, of the potential to resort to the courts to enforce one’s legal rights. This would be true of everything from contract negotiations, to employment agreements, to real estate sales, to anything that contains an arbitration clause. It cannot be that all of these communications should be elevated from the position of commercial speech to the high plane generally reserved for core political communication or even an intermediate plane in which the government tries to compel a commercial actor to carry a political message. Nor can it be that the government’s legitimate interests are limited to fraud remediation or preventing deceptive practices.²⁰² And, of course, if such limitations were to be true,

2003) (upholding EPA regulations requiring storm sewer providers to distribute educational materials; *Zauderer* analysis held not relevant because speech is purely factual and non-ideological and specific content was not specified); Nat’l Elec. Mfrs. Ass’n v. Sorrell, 272 F.3d 104, 113–16 (2d Cir. 2001) (holding that the rational review standards of *Zauderer* decision is not limited to cases involving consumer deception but applies to other state interests as well).

201. See Testimony of Adam Mossoff before the Committee on Energy & Commerce Subcommittee on Commerce, Manufacturing, and Trade (May 22, 2014) available at <http://democrats.energycommerce.house.gov/sites/default/files/documents/Testimony-Mossoff-CMT-Fraudulent-Patent-Demand-Letters-2014-5-22.pdf>; Mossoff, *supra* note 195.

202. The circuits disagree over whether the Supreme Court cases can be read to have such an implication as well. Compare *R.J. Reynolds Tobacco Co. v. FDA*, 696 F.3d 1205 (D.C. Cir. 2012) (*Zauderer* rational basis test is limited to cases in which disclosure requirements relate to preventing the deception of consumers), with *N.Y. Rest. Ass’n v. N.Y. City Bd. of Health*, 556 F.3d 114 (2d Cir. 2009) (applying rational basis review standard of *Zauderer* to uphold a requirement that restaurants include calorie content on menus, even though it is not an issue of consumer deception), and *Pharm. Care Mgmt. Ass’n v. Rowe*, 429 F.3d 294 (1st Cir. 2005) (rejecting argument that *Zauderer* holding is limited to curing deception in consumer advertising and using *Zauderer* rational basis

they would apply with equal force to Congressional legislation as well as state legislation, given that their origin is attributed to the First Amendment's protections.

Moreover, the argument threatens to blur the boundaries between the First Amendment's right to petition government for the redress of grievances, which under modern law includes petitioning the courts, and the First Amendment's right to free speech. It is the First Amendment's "right to petition government" clause that, through the *Noerr* line of cases, has been extended to include enforcing legal rights in court. Sliding that logic over to the First Amendment's protection for free speech would mean that we now have an even further extension of what began as an antitrust notion about the right to speak to the legislature. That last, rickety extension—of a doctrine already stretched beyond any semblance of its original meaning—is simply one bridge too far.

CONCLUSION

The concept of federalism, as applied by the circuit courts in relation to patents, has travelled far from its roots. Using weak foundational logic, the courts have taken concepts intended to protect citizens from the chilling effects of antitrust law and stretched them to conclude that states may not pass laws related to patent demands outside of litigation, unless those state laws relate to remediation of fraud. If allowed to flourish, this fraud fallacy would prevent state laws from affecting a wide range of behavior, from transparency, to disclosure, to protection against pressure sales. As the Court noted in *Aronson*, "state law is not displaced merely because the contract relates to intellectual property that may or may not be patentable."²⁰³

Most importantly, the theory applied to patent preemption questions threatens to bleed into a wide range of preemption issues, as well as to issues related to corporate speech. From this perspective, the fraud fallacy and its wide-ranging language threatens to have a lasting effect on the ability of state law to reflect and respond to local democratic demands, as well as even the federal government's ability to legislate effectively.

review standards to find a statute valid that requires disclosure of financial and business information); see also Jennifer M. Keighley, *Can You Handle the Truth? Compelled Commercial Speech and the First Amendment*, 15 U. PA. J. CONST. L. 539 (2012) (arguing that a rational basis test should apply to commercial disclosure laws that serve the state's interest in an informed public, even if the speaker has not engaged in deceptive or misleading speech).

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