

**ANTITRUST LAW, ENTREPRENEURSHIP, AND THE
“PATENT BULLY”: THE “SHAM” EXCEPTION TO NOERR-
PENNINGTON PETITIONING IMMUNITY IN PATENT
INFRINGEMENT LITIGATION AFTER THE PROFESSIONAL
REAL ESTATE DECISION**

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I. INTRODUCTION

A. It's Not Whether You Win or Lose, . . .

John Smith, CEO of BigCorp, is discussing an important problem with his executive team. Even though BigCorp is a powerful, well-funded monopolist in its industry, a fledgling startup, SmallCorp, has developed a valuable new technology that threatens to disrupt the industry (and BigCorp's profits and market share). Worse, the grapevine is alive with rumors that SmallCorp may be in discussions with WhiteKnight Investors, an investment firm that could provide SmallCorp with the capital necessary to transform it into a substantial competitor.

John has asked his General Counsel, Prudence Jones, to report to the team today about the possibility of suing SmallCorp for patent infringement on the basis of one of BigCorp's many issued U.S. patents. However, the initial report isn't promising. Apparently, none of the BigCorp patents comes very close to covering SmallCorp's new technology.

“I don't care about the merits of the case,” said John. “I just want to pick the best patents we can and file suit, even if we have a 95% chance of losing the lawsuit. *Winning or losing the lawsuit doesn't matter.* By filing suit now, we'll do two things. First, it's entirely possible that we'll scare off WhiteKnight. I mean, after all, who wants to invest in a lawsuit? Second, without WhiteKnight's funding, we'll be able to bury SmallCorp in legal bills. The cost of the lawsuit alone, to say nothing of the effect it will have on SmallCorp's customers, will likely drive it into the grave. What do you think?”

The room is very quiet. Finally, Prudence speaks up. “It's a creative idea, John. But I'm going to want to check in with both our antitrust counsel

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and our patent counsel before we proceed. I'm just not sure about how advisable it is for us to file a lawsuit that we believe has no objective chance of winning for the sole purpose of driving out a competitor. America was built on hardball competition, but even hardball has rules. I'll get back to you later this week."

B. *It's How You Play the Game*

This paper evaluates the contours of the "sham" exception to petitioning immunity in the context of antitrust counterclaims in patent infringement litigation. It traces the evolution of the *Noerr-Pennington* doctrine in the litigation context, paying particular attention to the progeny of the *Professional Real Estate* ("PRE") decision in the context of claims of patent infringement. Finally, it proposes a clarification to *PRE* for U.S. Supreme Court consideration.

Part II of the paper outlines the development of *Noerr-Pennington* petitioning immunity in general. It canvasses the leading Supreme Court decisions on point, explaining how the doctrine has been applied substantively¹ in the litigation context. Certain definitions and frameworks are introduced to clarify how the pieces of this rather labyrinthine area of antitrust fit together.

Part III of the paper takes a closer look at the immunity and its "sham" exception and how they have been applied in the context of patent infringement. Policy considerations are examined in detail. Critical weaknesses in the existing legal framework are identified and compared to alternatives.

Finally, Part IV of the paper proposes an alternative framework for defining and managing the scope of the "sham" exception. Furthermore, language that can be employed immediately by future courts endeavoring to clarify and improve the current governing legal tests is presented.

¹ For interesting treatments of this topic which focus primarily upon procedural matters and litigation tactics, see S.W. O'Donnell, *A Unified Theory of Antitrust Counterclaims in Patent Infringement Litigation*, 9 VA. J.L. & TECH. 8 (2004); David R. Steinman & Danielle S. Fitzpatrick, *Antitrust Counterclaims in Patent Infringement Cases: A Guide to Walker Process and Sham-Litigation Claims*, 10 TEX. INTELL. PROP. L.J. 95 (2001); Peter M. Boyle et al., *Antitrust Law at the Federal Circuit: Red Light or Green Light at the IP-Antitrust Intersection?*, 69 ANTITRUST L.J. 739 (2002).

II. PETITIONING IMMUNITY AND THE “SHAM” LITIGATION EXCEPTION

A. *The Foundation of Petitioning Immunity: The Noerr-Pennington Doctrine*

In *Eastern Railroad Presidents Conference v. Noerr Motor Freight*,² the U.S. Supreme Court confronted the question as to whether the Sherman Act applied to the activities of private parties when they try to secure legislation they deem desirable.³ The case was borne out of a commercial battle between the truckers and the railroads, a conflict which produced a federal court complaint filed on behalf of forty-one Pennsylvania truck operators and their trade association.⁴ They alleged that twenty-four Eastern railroads, an association of the presidents of those railroads, and a public relations firm had conspired to restrain trade in and to monopolize the long-distance freight business in violation of §1 and §2 of the Sherman Act.⁵

The gist of the conspiracy alleged was that the railroads had, inter alia, engaged the PR firm to conduct a publicity campaign against the truckers *designed to foster the adoption of laws* and law enforcement practices for the sole purpose of injuring the truckers commercially and eventually destroying them entirely as competitors.⁶

Ultimately, the Court ruled against the truckers. It held:

We accept . . . that *no violation of the [Sherman] Act can be predicated upon mere attempts to influence the passage or enforcement of laws.* . . .

We think it equally clear that the Sherman Act does not prohibit two or more persons from associating together in an attempt to persuade the legislature or the executive to take particular action with respect to a law that would produce a restraint or a monopoly. . .

*The right of petition is one of the freedoms protected by the Bill of Rights, and we cannot, of course, lightly impute to Congress an intent to invade these freedoms.*⁷

² E. R.R. Presidents Conf. v. Noerr Motor Freight, 365 U.S. 127 (1961).

³ *Id.* at 135.

⁴ *Id.* at 129.

⁵ *Id.*

⁶ *Id.*

⁷ *Id.* at 135-38 (emphasis and bracketed material added).

The Court further held that this petitioning immunity principle applied regardless of whether the petitioner's ultimate hope, in seeking to influence the passage or enforcement of laws, was to destroy its competition.⁸ "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."⁹

However, the Court articulated an exception to petitioning immunity. It held that, because the defendants' actions in petitioning the legislature were "genuine", they were exempt from the application of the antitrust laws. If, instead, the defendants' actions were a "sham", an exception to the immunity would be triggered:

*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 [then] be justified. But this certainly is not the case here. No one denies that the railroads were making a genuine effort to influence legislation and law enforcement practices.*¹⁰

Thus, with the two short passages referenced above, the Court established both an extremely broad form of "petitioning" immunity to antitrust liability and a "sham" exception to it. Actions taken to persuade the legislature to pass laws with the specific anticompetitive intent of destroying a competitor are excused (are legally immune) from antitrust liability provided that the lobbying activities are genuine and not "shams."

Subsequent court decisions have extended this doctrine. For example, in *United Mine Workers v. Pennington*,¹¹ the Court extended its holding under *Noerr* to petitioning that is directed to *executive officials* (in that case, the Secretary of Labor)¹² as opposed to the legislature. And, once again, the Court reinforced the fact that the presence of an anticompetitive intent was irrelevant if the activity was a genuine effort to petition / lobby the government. "Joint efforts to influence public officials do not violate the antitrust laws even though intended to eliminate competition."¹³ After the

⁸ *Id.* at 138-39.

⁹ *Id.* at 139.

¹⁰ *Id.* at 144 (emphasis and bracketed material added).

¹¹ *United Mine Workers v. Pennington*, 381 U.S. 657 (1965).

¹² *Id.* at 669-71.

¹³ *Id.* at 670.

issuance of these decisions, this form of petitioning-based immunity from antitrust liability became generally known as the *Noerr-Pennington* doctrine.

B. *California Motor: Antitrust Immunity in the Litigation Context*

In *California Motor Transport v. Trucking Unlimited*,¹⁴ the Court extended the application of *Noerr-Pennington* immunity to adjudicatory processes and litigation.¹⁵ Critically, in *California Motor*, the Court not only reaffirmed the presence of the “sham” exception to *Noerr-Pennington* immunity, it actually *applied* the exception to the facts of the case, finding the respondent’s complaint (that the petitioner’s use of administrative and judicial proceedings constituted a “sham”) well-pled and remanding the case for trial.¹⁶

The reasoning of *California Motor* is worthy of close study. In the case, the petitioner had instituted numerous adjudicatory proceedings in an effort to stymie its competitors.¹⁷ Although there was absolutely no evidence of record that any single proceeding was tainted by fraud or corruption, it was alleged that many of the proceedings were filed without regard to the merits.¹⁸

The petitioners argued that, under *Noerr*, their *subjective* intentions in filing the numerous proceedings at issue were irrelevant.¹⁹ Thus, the Court was squarely confronted with the role that both subjective and objective evidence played in the determination of genuine v. sham litigation. First, the Court agreed that evidence of subjective intent alone wouldn’t lead to the conclusion that their various litigation activities were a sham. Rather, it was the *combination* of both subjective and objective data that compelled the

¹⁴ Cal. Motor Transp. v. Trucking Unlimited, 404 U.S. 508 (1972) [hereinafter *California Motor*].

¹⁵ *Id.* at 509-11 (“The present case is akin to *Noerr*, . . . We held [in *Noerr*] that no cause of action was alleged insofar as it was predicated upon mere attempts to influence the Legislative Branch for the passage of laws or the Executive Branch for their enforcement. . . . We followed that view in *Pennington*. The same philosophy governs the approach of citizens or groups of them to *administrative agencies* (which are both creatures of the legislature, and arms of the executive) and to *courts*, the third branch of Government. Certainly the right to petition extends to all departments of the Government. The right of access to the courts is indeed but one aspect of the right of petition. We conclude that it would be destructive of rights of association and of petition to hold that groups with common interests may not, without violating the antitrust laws, use *the channels and procedures of state and federal agencies and courts* to advocate their causes and points of view respecting resolution of their business and economic interests vis-à-vis their competitors.”) (emphasis and bracketed material added) (citations omitted).

¹⁶ *Id.* at 515-16.

¹⁷ *Id.* at 512.

¹⁸ *Id.*

¹⁹ *Id.* at 511.

conclusion.²⁰ Thus, under *California Motor*, it is now possible to construct a matrix-type taxonomy of the kinds of claims commonly encountered in litigation when performing a *Noerr-Pennington* “sham” exception analysis. See Exhibit 1.

Exhibit 1: A TAXONOMY OF LITIGATION CLAIMS AND THEIR ANTITRUST IMMUNITY STATUS (BASED ON OBJECTIVE AND SUBJECTIVE EVIDENCE)

Subjective Motivation	Pursuing Redress	Category II: IMPROVIDENT CLAIMS (Immune)	Category I: GENUINE CLAIMS (Immune)
	Competitor Interference	Category IV: SHAM CLAIMS (NOT Immune)	Category III: EXCUSED CLAIMS (Immune)
		Inadequate Basis	Adequate Basis
		Objective Basis	

As shown in Exhibit 1, depending on the state of the objective and subjective evidence, four kinds of claims can potentially be presented for *Noerr-Pennington* petitioning immunity / “sham” exception analysis.

The upper-tier claims, presented by the claimant subjectively as a means *for pursuing justice / reasonable redress for wrongs*, are the Category I genuine claims and Category II improvident claims. They differ only in that the genuine claims are supported by an adequate objective evidentiary basis, whereas the improvident claims are not. Thus, an ordinary course, good-faith patent infringement action will frequently reside within either Category I or Category II. If the claimant wins the lawsuit (via a well-founded final judgment that includes any and all appellate dispositions), then, clearly, it had a genuine claim. If, instead, it justly loses its suit, then the claim is viewed as one that was improvidently (or, erroneously, unwisely) filed.

²⁰ *Id.* at 511-12 (“Petitioners rely on our statement in *Pennington* that ‘*Noerr* shields from the Sherman Act a concerted effort to influence public officials regardless of intent or purpose.’ *In the present case, however, the allegations are not that the conspirators sought ‘to influence public officials,’* but that they sought to bar their competitors from meaningful access to adjudicatory tribunals and so to usurp that decision-making process. *It is alleged that petitioners ‘instituted the proceedings and actions . . . with or without probable case, and regardless of the merits of the cases.’ . . . As stated in the opinion concurring in the judgment, such a purpose or intent, if shown, would be ‘to discourage and ultimately to prevent the respondents from invoking’ the processes of the administrative agencies and courts and thus fall within the exception to Noerr.*”) (emphasis added).

The lower-tier claims, presented by the claimant subjectively as a means *for interfering with its competitors*, are the Category III excused claims and Category IV sham claims. Once again, they differ only with regard to the objective evidentiary basis underlying the claims. Excused claims are supported by an adequate objective evidentiary basis, whereas the sham claims are not. Thus, although it is indeed tempting to treat all litigation claims that have been filed with an anticompetitive intent as being “sham” claims, *Noerr, California Motor*, and their progeny²¹ firmly establish that this is *not* the case. If the claim has an adequate objective evidentiary basis, then, even if it has been filed subjectively for the purpose of interfering with a competitor, it is excused as a form of immunized petitioning activity protected under the Bill of Rights. However, if the claim does *not* have an adequate objective evidentiary basis, and it has been filed subjectively for the purpose of interfering with a competitor, it is viewed as a sham. There is no *Noerr-Pennington* antitrust immunity, and the claimant is potentially liable if confronted with an antitrust counterclaim.

Thus, for example, if a patent infringement action has been filed, not for the purpose of securing redress, but, rather, for the purpose of interfering with or destroying a competitor, then, if the claim is supported by an adequate objective evidentiary basis, it will be viewed as a Category III excused claim. However, if no such basis exists, then it will be viewed as a Category IV sham claim and, as such, the basis for an antitrust counterclaim.

Finally, in addition to firmly establishing that *Noerr-Pennington* petitioning immunity potentially applies to claims made in litigation, and demonstrating how the objective and subjective components of the determination intersect, *California Motor* also spoke to the question of the kinds of objective evidence that might well support a finding of sham litigation. In so doing, the Court highlighted two examples of “sham” claims.

First, litigation is critically reliant upon a process free of *fraud and corruption*, and so antitrust immunity for litigation-related activity is lost if that process is affirmatively undertaken with knowledge of those kinds of infirmities.²² Thus, fraudulent or corrupt litigation, undertaken with an

²¹ The later-decided *Professional Real Estate Investors, Inc. v. Columbia Pictures Industries, Inc.*, 508 U.S. 49 (1993) [hereinafter *PRE*] decision powerfully reinforces the proposed taxonomy in that it expressly calls out the objective and subjective components of the “sham” exception determination. *Id.* at 60-61. That decision is discussed at length hereinbelow. However, the nature of the objective and subjective elements of the determination, and the role they play in ascertaining the presence of a sham, were established in *Noerr* and *California Motor*. Thus, the taxonomy is presented here.

²² *California Motor*, *supra* note 14, at 512-13 (“Congress has traditionally exercised extreme caution in legislating with respect to problems relating to the conduct of *political* activities, . . . Yet unethical conduct in the setting of the *adjudicatory process* often results in sanctions. Perjury of witnesses is one example. Use of a patent obtained by fraud to exclude a competitor from the market may involve a violation of the antitrust laws, as we held in *Walker Process*

anticompetitive intent, is not a genuine petition for a redress from injury; rather, it is a sham, and it is not immune from antitrust liability. In this paper, shams of this sort are referred to as Category IV-A “fraudulent-claim shams.”

Second, the court recognized that litigation is extremely costly. Profit-oriented businessmen generally do not file *baseless claims*. When they do, it’s difficult to resist the conclusion that the litigation is being used, not as a mechanism for petitioning redress, but, rather, as a mechanism for abusing a competitor.²³ Thus, litigation that is entirely baseless, undertaken with the anticompetitive intent of interfering with a competitor, is not a genuine petition for a redress from injury; rather, it is a sham, and it is not immune from antitrust liability. In this paper, shams of this sort are referred to as Category IV-B “baseless-claim shams.”

Finally, it’s very important to note that, while the Court in *California Motor* did indeed reference two types of shams in its decision, it was quite clear that *it was not stating that these were the only two kinds of shams*.²⁴ Rather, it established the constructs and framework necessary to effect its decision, and it applied them accordingly, leaving to future courts the question as to whether there are other types of shams that require delineation.

This is a paper about “sham” claims. In particular, the question of greatest interest in this paper is *what an adequate objective evidentiary basis actually is*. It is a question of great import. If such a basis exists, then, even if a claimant files a claim with the absolute darkest of anticompetitive intentions, the claim will be excused from antitrust liability, whereas, if such a basis is lacking, it will not.

As will be seen hereinbelow, the Court and the lower appellate courts have had little difficulty establishing relatively clear definitions for what constitutes a Category IV-A fraudulent-claim sham. The harder questions have arisen regarding the Category IV-B baseless-claim shams and related constructs. For example, first, how does one clearly and sensibly define baseless-claim shams? Second, assuming that fraudulent-claim shams and baseless-claim shams aren’t the *only* types of shams that exist, what *other*

Equipment v. Food Machinery & Chemical, 382 U.S. 172 (1965). . . . *Misrepresentations, condoned in the political arena, are not immunized when used in the adjudicatory process.*”) (emphasis added).

²³ *Id.* at 513 (“Opponents before agencies or courts often think poorly of the other’s tactics, motions, or defenses and may readily call them *baseless*. One claim, which a court or agency may think baseless, may go unnoticed; but a pattern of baseless, repetitive claims may emerge which leads the factfinder to conclude that the administrative and judicial processes have been abused. . . . *Insofar as the administrative or judicial processes are involved, actions of that kind cannot acquire immunity* by seeking refuge under the umbrella of ‘political expression.’”) (emphasis added).

²⁴ *Id.* (“There are many other forms of illegal and reprehensible practice which may corrupt the administrative or judicial processes and which may result in antitrust violations.”).

kinds of shams should be recognized? For example, should a Category IV-C “unreasonable-claim sham” be recognized? It is to these questions that we now turn.

C. Walker Process: Fraudulent-Claim Shams (in the Patent Infringement Context)

In *Walker Process Equipment v. Food Machinery and Chemical*,²⁵ the Court addressed the “sham” litigation exception *in a patent infringement context*. The respondent, Food Machinery, sued alleging infringement of its patent; the petitioner, Walker Process, denied infringement and counterclaimed that the patent was invalid. After discovery, Food Machinery moved to dismiss its complaint because the patent had expired. Walker Process then amended its counterclaim, charging Food Machinery with monopolization due to its obtaining, maintaining, and enforcing a patent knowing full well that the patent was invalid.²⁶

Walker Process alleged that a clear fraud had occurred: Food Machinery had sworn before the U.S. Patent and Trademark Office (hereinafter the “Patent Office” or “PTO”) that it neither knew nor believed that its invention had been in public use in the U.S. for more than one year prior to the filing date of its application (a requirement for validity) when, in fact, Food Machinery was a party to such prior use during that time.²⁷

The Court opened its analysis by making important observations about the relationship (and the apparent tension) between the patent law and the antitrust law in promoting consumer welfare. Although the emphasis in the passage quoted below is on issues relating to fraudulent procurement of patents (and its effects), notice as well the statement that, to balance the objectives of the patent and antitrust laws, patent assertions must be based upon foundations free of fraud and other forms of inequitable conduct. The Court stated:

Under the decisions of this Court, a person sued for infringement may challenge the validity of the patent on various grounds, including fraudulent procurement. ... At the same time, we have recognized that an injured party may attack the misuse of patent rights. *To permit recovery of treble damages for the fraudulent procurement of the patent coupled with violations of § 2 accords with these long-recognized procedures.* It would also promote the

²⁵ *Walker Process Equip. v. Food Mach. and Chem.*, 382 U.S. 172 (1965) [hereinafter *Walker Process*].

²⁶ *Id.* at 173-74.

²⁷ *Id.*

purposes so well expressed in *Precision Instrument*, 324 U.S. 806, 816 (1945):

“A patent by its very nature is affected with a public interest. . . . It is an exception to the general rule against monopolies and to the right to access to a free and open market. The far-reaching social and economic consequences of a patent, therefore, give the public a paramount interest in seeing that patent monopolies spring from backgrounds free from fraud or other inequitable conduct and that such monopolies are kept within their legitimate scope.”²⁸

Thus, the Court noted that, generally speaking, patent infringement claims are “an exception to the general rule against monopolies.”²⁹ However, the Court emphasized repeatedly in the decision that *fraudulent* activity would “strip” the claimant of its antitrust immunity,³⁰ allowing the alleged infringer to counterclaim for an antitrust violation provided that it is able to independently establish all of the necessary elements of that claim.³¹

²⁸ *Id.* at 176-77.

²⁹ It is probably worth noting that the modern view is that the relationship between antitrust law and patent law is more nuanced. The Sherman Act doesn’t outlaw “monopolies” per se; rather, it outlaws the act of “monopolizing,” 15 U.S.C. § 2, an activity that has been defined over time by case law as various forms of anticompetitive conduct effected by market participants having monopoly power. But the mere pursuit of monopoly power, or mere status as a monopolist, is not unlawful. *Cf. Olympia Equip. Leasing v. W. Union Tel.*, 797 F.2d 370 (7th Cir. 1986) (“Most businessmen don’t like their competitors, or for that matter competition. They want to make as much money as possible and getting a monopoly is one way of making a lot of money. That is fine, however, so long as they do not use methods calculated to make consumers worse off in the long run.”). Despite the distinction between “monopolies” and “monopolizing”, the very valid point the Court was making in *Walker Process* (that patents must be fraud-free to avoid an antitrust counterclaim) remains the same.

³⁰ See *Walker Process*, *supra* note 25, at 177 (“*Walker’s counterclaim alleged that Food Machinery obtained the patent by knowingly and willfully misrepresenting facts to the Patent Office. Proof of this assertion would be sufficient to strip Food Machinery of its exemption from the antitrust laws. This conclusion applies with equal force to an assignee who maintains and enforces the patent with knowledge of the patent’s infirmity. By the same token, Food Machinery’s good faith would furnish a complete defense. This includes an honest mistake as to the effect of prior installation upon patentability – so-called ‘technical fraud.’*”) (emphasis added). The Court reemphasized the point, citing *Walker Process*, in its later *California Motor* decision. See *California Motor*, *supra* note 22.

³¹ *Id.* at 179 (concurring opinion: emphasizing the elements of this species of § 2 claim, including “knowing and willful fraud” by the defendant and “all the elements otherwise necessary to establish a § 2 monopolization charge”); 177-78 (majority opinion: “To establish monopolization... it would then be necessary to appraise the exclusionary power of the illegal patent claim in terms of the relevant market for the product involved.”).

The *Walker Process* decision certainly makes jurisprudential sense as regards the “sham” claims taxonomy described in *California Motor* and depicted in Exhibit 1. As the Court noted in *Walker Process*, assertion of *fraudulently-obtained patent* claims has nothing to do with the good-faith pursuit of redress for civil wrongs in the courts; rather, it is about abuse of the litigation process to burden competitors. This subjective component makes the claim a Category III excused claim or a Category IV sham claim. Furthermore, it is hard to imagine treating a *fraudulent* claim as having an adequate *objective* evidentiary basis. Like any Category IV “sham,” a fraudulent patent infringement claim is not what it appears to be. By definition, it lacks objective evidentiary substance, because the claim and the evidence supporting it are not authentic / probative. Rather, they are misleading and misrepresentative, the antithesis of probity.

D. *PRE: Baseless-Claim Shams*

In *Professional Real Estate Investors v. Columbia Pictures Industries* (hereinafter *PRE*),³² the Court once again addressed the subject of Category IV sham claims in litigation. In many ways, the Court’s *PRE* decision is a natural successor to *California Motor*. It again articulated the objective and subjective components that determine the presence of a “sham” claim (arguably even more clearly this time), and the decision went to some lengths to confirm that, for litigation to constitute a “sham,” both subjective and objective showings are required. A claim that is borne of subjective anticompetitive intent, but which is objectively reasonable, is excused.

In *PRE*, Columbia Pictures Industries Inc. (“Columbia”) sued Professional Real Estate Investors Inc. (“PRE”) alleging copyright infringement, and PRE counter-claimed alleging violations of antitrust. PRE operated a resort hotel that installed videodisc players in its rooms, so that guests could rent and watch motion pictures drawn from a library of over 200 titles maintained at the resort.³³ Columbia maintained that this practice violated its exclusive right, under the Copyright Act, to “perform the copyrighted works *publicly*”; PRE maintained that no violation had occurred because the practice was not a “public” performance as the videos were viewed in individually-rented private hotel rooms.³⁴

The District Court entered summary judgment in favor of Defendant PRE, ruling that the rental did not constitute a public performance, and the Court of Appeals affirmed on the ground that a hotel room was not a public

³² *PRE*, *supra* note 21.

³³ *Id.* at 51-52.

³⁴ *Id.* at 52-53.

place.³⁵ On remand, the antitrust claims took center stage. Columbia sought summary judgment denial of PRE's antitrust counterclaims. Specifically, Columbia argued that its original copyright infringement action was no "sham", and that it was therefore entitled to immunity under *Noerr*. The district court granted the motion stating that "Although I decided against [Columbia], the case was far from easy to resolve, and it was evident from the opinion affirming my order that the Court of Appeals had trouble with it as well. I find that there was probable cause for bringing the action, regardless of whether the issue was considered a question of fact or of law."³⁶

The Court of Appeals for the Ninth Circuit affirmed. It found that PRE had alleged neither a fraudulent-claim – type sham nor a baseless-claim – type sham; rather, PRE had opposed summary judgment solely by alleging that Columbia itself *did not honestly believe* that the infringement claim was meritorious. The Ninth Circuit concluded that, because there was "probable cause" for the suit (i.e., there was an adequate objective evidentiary basis for the suit), the sham exception did not apply as a matter of law.³⁷

Thus, at the Supreme Court, in *PRE*, a precise question was presented: If the plaintiff has filed a lawsuit that is not baseless, can the lawsuit nonetheless be found to constitute a "sham" based on the subjective anticompetitive intent of the petitioner alone? The Court held that it could not. The following is the "heart" of the Court's holding, quoted verbatim in nearly every *Noerr-Pennington* decision issuing since *PRE*:

We now outline a two-part definition of "sham" litigation. First, the lawsuit must be *objectively baseless* in the sense that *no reasonable*

³⁵ *Id.* at 53.

³⁶ *Id.* (bracketed material added).

³⁷ *Id.* at 54 ("PRE neither alleged that the lawsuit involved misrepresentations nor challenged the district court's finding that the infringement action was brought with probable cause, i.e., that the suit was not baseless. Rather, PRE opposed summary judgment solely by arguing that the copyright infringement lawsuit was a sham because Columbia *did not honestly believe* that the infringement claim was meritorious. . . . [T]he court [of appeals] reasoned that the existence of probable cause 'precluded the application of the sham exception as a matter of law' because 'a suit brought with probable cause does not fall within the sham exception to the *Noerr-Pennington* doctrine.' Finally, the court [of appeals] observed that PRE's failure to show that 'the copyright infringement action was baseless' rendered irrelevant any 'evidence of Columbia's subjective intent.'") (emphasis and bracketed material added) (citations omitted); *see also* *Columbia Pictures Indus., Inc. v. Prof'l Real Estate Inv'rs, Inc.*, 944 F.2d 1525, 1531 (9th Cir. 1991) ("Because the sham exception to the *Noerr-Pennington* rule may have a chilling effect on those who seek redress in the courts, we have held that the exception should be applied with caution. We see no basis for holding that a suit brought with probable cause in fact and law may be a sham. Such a holding would erode the first amendment right to petition that is the basis for the *Noerr-Pennington* doctrine by imposing the risk of treble damages for initiating a suit based on a well-founded, but untested, legal theory.") (citations omitted).

litigant could realistically expect success on the merits. If an objective litigant could conclude that the suit is reasonably calculated to elicit a favorable outcome, the suit is immunized under *Noerr*, and an antitrust claim premised on the sham exception must fail. Only if challenged litigation is objectively meritless may a court examine the litigant's subjective motivation. Under this second part of our definition of sham, the court should focus on *whether the baseless lawsuit conceals "an attempt to interfere directly with the business relationships of a competitor through the use of the governmental process – as opposed to the outcome of that process – as an anticompetitive weapon."*³⁸

Under this test, on the record before it, the Court was able to dispose of the matter on the merits with ease:

When the District Court entered summary judgment for PRE on Columbia's copyright claim in 1986, it was by no means clear whether PRE's videodisc rental activities intruded on Columbia's copyrights. At that time, the Third Circuit and a District Court within the Third Circuit had held that the rental of video cassettes for viewing in on-site, private screening rooms infringed on the copyright owner's right of *public* performance. Although the District Court and the Ninth Circuit distinguished these decisions by reasoning that hotel rooms offered a degree of *privacy* more akin to the home than to a video rental store, copyright scholars criticized both the reasoning and the outcome of the Ninth Circuit's decision. The Seventh Circuit expressly "declined to follow" the Ninth Circuit and adopted instead the Third Circuit's definition of a "public place." In light of the unsettled condition of the law, Columbia plainly had probable cause to sue.

Any reasonable copyright owner in Columbia's position could have believed that it had *some chance of winning* an infringement suit against PRE. Even though it did not survive PRE's motion for summary judgment, Columbia's copyright action was arguably "warranted by existing law" or at the very least was based on an objectively "good faith argument for the extension, modification, or reversal of existing law." Fed. R. Civ. P. 11. By the time the Ninth Circuit had reviewed all claims in this litigation, it became apparent that Columbia *might have won* its copyright suit in either the Third or the Seventh Circuit. Even in the absence of supporting authority,

³⁸ PRE, *supra* note 21, at 60-61 (emphasis added) (citations omitted).

Columbia would have been entitled to press a novel copyright claim as long as a similarly situated reasonable litigant could have perceived *some likelihood of success*. A court could reasonably conclude that Columbia's infringement action was *an objectively plausible effort to enforce rights*. Accordingly, we conclude that PRE failed to establish the objective prong of *Noerr's* sham exception."³⁹

The passages above have been reproduced at length for two reasons. First, notice that, in the Court's two-part definition, it called out the "objectively baseless" appellation for the objective determination of the presence of a "sham." Second, and as discussed further below, the Court explained at some length what "objectively baseless" means. The question is: did the Court's explanation *clearly define* the phrase?

A closer look at the "sham" exception, and the problems presented by *PRE* (as evidenced by the court decisions that have endeavored to follow it), is in order.

III. THE "SHAM" EXCEPTION IN THE PATENT LITIGATION CONTEXT AND *PRE*: A CLOSER LOOK

A. *Policy Considerations Affecting the Proper Scope of a "Sham" Exception*

1. The Use of Both Objective and Subjective Components

There are a few easy (or perhaps easier) aspects of the legal definition of the "sham" exception that merit discussion but which need not long detain us.

First, the use of the objective and subjective components to guide the application of the exception not only respects the original *Noerr* precedent, but, in addition, it nicely ensures that the tensions inherent in defining the circumstances for the grant of immunity are well-balanced. There can be little doubt that we want our citizens to be able to freely avail themselves of their government, its branches, agencies, and officials, regardless of the commercial motives that might be triggering their decision to act. However, we also do not want to enable claimants to *abuse* those governmental institutions.

Specifically, we want the courts to be used to redress legal harm. We do not want them to be used as a mere tool for driving competitors out of

³⁹ *Id.* at 64-65 (emphasis added) (citations omitted).

business when no legitimate correction of harm is being sought. The use of the objective and subjective components of the “sham” exception definition manage this balancing of interests.

2. The Subjective Component

Second, the presence of a subjective component is doubtless appropriate to ensure that claimants who mistakenly assert Category II improvident claims aren’t punished with exceptional damages, such as Sherman Act treble damages. There should probably be more jurisprudential development here, as the precise culpable mental state (e.g., purposeful? knowing? reckless?) is still not precisely defined. However, that lag in development has occurred because of the central role the objective test has taken in “sham” exception litigation.

3. The Objective Component

Which brings us to the hard part in our *Noerr-Pennington* “sham” litigation jurisprudence – the definition of the adequate objective evidentiary basis that should be required in order for a claim to be viewed as either genuine or excused.

As a matter of policy, there are three general thresholds that can be considered as definitional candidates for the objective test. These objective test “archetypes” feature different advantages and disadvantages, and, as such, they can be profitably considered when evaluating policy prescriptions.

The three major objective test archetypes are described below, and, because these objective tests are used to differentiate “genuine” from “sham” claims, they are each *described* from the vantage point of both types of claims. The *names* of the objective test archetypes, however, are based on their ordinary use in describing the objective test content of a “sham” claim.

- **Objective Test Archetype #1: The “Fraudulent” Archetype:** A “sham” claim is a claim based upon substantive *fraud*. The only objective requirement of a “genuine” claim is that it be merely non-fraudulent; it avoids *purposefully* committing, or *knowingly* relying upon, substantive fraud.
- **Objective Test Archetype #2: The “Objectively Baseless” Archetype:** A “sham” claim is a claim that has *no chance* of succeeding on the technical issue of liability – it is “objectively *baseless*.” A “genuine” claim has *some chance* of succeeding on the technical issue of liability, regardless of the size or scope of any damages that might be awarded.

- **Objective Test Archetype #3: The “Objectively Unreasonable” Archetype:** A “sham” claim is an “objectively unreasonable” claim; it *lacks any reasonable chance of success in producing a reasonably favorable outcome*, based on the nature of the claim, from the vantage point of the reasonable prudent claimant. A “genuine” claim not only has some chance of succeeding on the technical issue of liability, it also has *a reasonable chance* of succeeding in producing a reasonably favorable outcome, based on the nature of the claim, from the vantage point of the reasonable prudent claimant.

The first objective test archetype, the “fraudulent” archetype, defines the “sham” exception in the narrowest terms. It is also very likely the clearest (i.e., least ambiguous) of the three archetypes. It proscribes a precisely defined type of purposeful / knowing behavior, and its contours are reasonably well-understood. If the “sham” exception objective component were defined with reference to this test, there would be little doubt about its applicability from case to case. That’s efficient from a legal procedure / issue disposition standpoint.

The problem, of course, is that use of such a test for the “sham” exception objective component is extremely under-inclusive. It would deter *Walker Process* claims, which is commendable, but the “baseless” claims of *California Motor* would be left entirely untouched. Corporate actors with monopoly power could essentially “tax” start-ups that threaten their competitive position with the cost of defending numerous baseless lawsuits even if the prospects for success were entirely nonexistent.

The second objective test archetype, the “objectively baseless” archetype, defines the “sham” exception in broader terms. Here, a claim is deemed objectively adequate (and will be treated as a Category I genuine or Category III excused claim) so long as it has “some chance” of succeeding on the technical issue of liability, regardless of the size or scope of any damages or redress that might be awarded. Similarly, a claim is deemed “objectively inadequate” (and will be treated as a Category II improvident or Category IV sham claim) if it is “objectively baseless” (that is, so long as it has “no chance” of succeeding on the technical issue of liability). Thus, on the one side of the coin, the claim is “genuine” if it has “some chance” of succeeding; on the flip side of the same coin (test), it is a “sham” if it is “objectively baseless.” Throughout this paper, this variety of objective test archetype will be referred to as the “objectively baseless” or “some chance” archetype.

This archetype regarding “shams” is viewed as broader than (and inclusive of the kinds of claims covered by) the fraudulent archetype, because the objectively baseless test is construed as *also* prohibiting the

employment of fraudulent claims. (As stated, a fraudulent claim is not what it is purported to be and thus lacks objective probity.) If the need arose, the test could be expressly denominated as the “objectively baseless or fraudulent” (or “some non-fraudulent chance”) archetype to eliminate doubt on this point, but the more-concise designations are employed here.

Taken in this light, the test does proscribe a broader array of offensive claims. Not only are *Walker Process* claims proscribed, but, in addition, the baseless claims of *California Motor* are proscribed as well. In this respect, the test is a clear improvement.

But it is also a more ambiguous test. Defining whether a claim has “some chance” (however small) of succeeding is arguably more difficult, in most cases, than evaluating whether it is fraudulently framed or reliant upon a fraudulent foundation. There are important checks on that ambiguity, however, and one example is Federal Rule of Civil Procedure Rule 11 (“Signing Pleadings, Motions, and Other Papers; Representations to the Court; Sanctions”). It can be argued that Rule 11(b) itself is an “objectively baseless” – type standard, as it proscribes attorneys from presenting to the court pleadings, motions, or papers that are “frivolous”; only claims that are “warranted” by “some” existing law or an objectively reasonable extension or reversal of existing law may be presented.⁴⁰ Thus, while the “objectively baseless” formulation of the “sham” exception objective test is more ambiguous, it is not a type of ambiguity with which the judiciary is unfamiliar. Recall, as well, that the Court in *PRE* drew analogy to Rule 11.⁴¹

The third objective test archetype, the “objectively unreasonable” archetype, defines the “sham” exception in the broadest terms. Here, a claim is deemed a sham if it *lacks any reasonable chance of success in producing a reasonably favorable outcome*, based on the nature of the claim, from the vantage point of the reasonable prudent claimant.

This test is broader than the “objectively baseless” test and that is by design. The principal evil of the “objectively baseless” test is that it allows the claimant to pursue claims that have some non-zero chance of securing a technical win on the subject of liability, *even though no reasonable prudent claimant would file such a claim if he / she were genuinely seeking redress and evaluating the decision to sue on an objective cost-benefit basis*. For example, under the “objectively baseless” formulation, even if the claimant is a patent holder, bearing monopoly power, who has been advised by counsel that his patent is ninety percent (90%) likely to be found invalid, *and also* ninety percent (90%) likely to be found not infringed by the Defendant’s product, so that the overall likelihood of success on the subject of liability is

⁴⁰ For the salient text of Rule 11, *see infra* note 74.

⁴¹ *See supra* the text accompanying note 39.

a mere one percent (1%),⁴² the claimant may file suit, *fully expecting to lose*, knowing that the costs of the litigation will serve as a significant “street tax” on the profits of its less-financially-capable startup competitor.

This test is also, arguably, the most ambiguous of the objective test archetypes. However, there are numerous similarly framed tests currently in operation throughout our jurisprudence. Consider, for example, many fee-shifting statutes. These laws typically provide for the imposition of attorney fees upon the non – prevailing party.⁴³ Note that, in such provisions, the fee-shifting is usually *not* occurring because the non – prevailing party asserted a *baseless* or *frivolous* claim. Rather, many of these statutes (and / or the case law interpreting them) impose fee-shifting because the non – prevailing party asserted a position that was viewed as merely *unreasonable* or *exceptional* (sometimes construed as merely “standing out”) in some respect.⁴⁴

Bottom line: While the third objective test archetype is arguably more ambiguous, it is no more ambiguous than the fee-shifting statutes in

⁴² To secure a judgment of patent infringement, a claim must be found both valid *and* infringed. In the example provided, the probability of success on validity is ten percent (10%), and the likelihood of success on infringement is ten percent (10%), so the likelihood that *both* will occur (assuming that each is independent of the other) is the multiplicative product of the probabilities. $10\% \times 10\% = 0.10 \times 0.10 = 0.01 = 1\%$.

⁴³ See, e.g., 17 U.S.C. § 505 (2012) (Copyright Act: “Except as otherwise provided by this title, the court may also award a reasonable attorney’s fee to the prevailing party as a part of its costs.”); 35 U.S.C. § 285 (2012) (Patent Act: “The court in exceptional cases may award reasonable attorney fees to the prevailing party.”).

⁴⁴ See, e.g., *Fogerty v. Fantasy Inc.*, 510 U.S. 517, 534 (1994) (Copyright Act: “*There is no precise rule or formula for making these determinations. . . .* The Third Circuit has listed several nonexclusive factors that courts should consider in making awards of attorney’s fees to any prevailing party. These factors include frivolousness, motivation, *objective unreasonableness* (both in the factual and in the legal components of the case) and the need in particular circumstances to advance considerations of compensation and deterrence.”) (emphasis added); *McRoberts Software v. Media 100*, 329 F.3d 557, 571 (7th Cir. 2003) (Copyright Act: “A showing of *bad faith or frivolousness is no longer required* to receive attorney’s fees.”) (emphasis added); *Octane Fitness v. ICON Health & Fitness*, 134 S. Ct. 1749, 1756-57 (2014) (Patent Act: “The Patent Act does not define ‘exceptional,’ so we construe it in accordance with its ordinary meaning. We hold, then, that an *exceptional case is simply one that stands out* from the others with respect to *the substantive strength of a party’s litigating position* (considering both the governing law and the facts of the case) or *the unreasonable manner* in which the case was litigated. . . . But *sanctionable* conduct is *not* the appropriate benchmark. Under the standard announced today, a district court may award fees in the rare case in which a party’s *unreasonable conduct* – while not necessarily independently sanctionable – is nonetheless so exceptional as to justify an award of fees. . . . [Another current] category of cases in which the Federal Circuit allows fee awards is also too [restrictively defined]. In order for a case to fall within this second category, a district court must [currently] determine *both* that the litigation is objectively baseless *and* that the plaintiff brought it in subjective bad faith. But [we hold today that] a case presenting *either* subjective bad faith or *exceptionally meritless claims may sufficiently set itself apart* from mine-run cases to warrant a fee award.”) (emphasis and bracketed material added).

widespread use today. In those contexts, claimants were required to pay attorney fees even though their claims had “some chance” of winning (i.e., their claims were not “objectively baseless”). The reason: their position was unreasonable. Had a fee-shifting paradigm similar to the “objectively baseless” archetype been in place, no fee-shifting would have occurred. Because a test more similar to the “objectively unreasonable” archetype was in place, claimants adopting unreasonable positions were sanctioned, discouraging such activity in the future. Thus, it is now possible to construct a tabular summary of some of the comparative advantages and disadvantages of the various objective test archetypes. See Exhibit 2.

Exhibit 2: OBJECTIVE TEST ARCHETYPES for Identifying “Sham” Claims: Comparison of Advantages and Disadvantages.

OBJECTIVE TEST ARCHETYPES	Advantages Compared to the other archetypes, the test features:	Disadvantages Compared to the other archetypes, the test features:
Archetype #1: “Fraudulent” Archetype	<ul style="list-style-type: none"> • The least amount of ambiguity • The greatest support for litigation efficiency • The greatest incremental incentive for the acquisition of patents (which incentivizes innovation in society) 	<ul style="list-style-type: none"> • The narrowest “sham” scope • The greatest practical incentive for the assertion of marginal patent claims • The greatest enabler for the imposition by one competitor of a patent litigation expense “street tax” upon another • The greatest potential for the stifling of product competition, innovation in the marketplace due to the incidents described herein.
Archetype #2: “Objectively Baseless” Archetype	<ul style="list-style-type: none"> • Broader “sham” scope • A moderate incremental incentive for the acquisition of patents (which incentivizes innovation in society) 	<ul style="list-style-type: none"> • Moderate ambiguity • A moderate practical incentive for the assertion of marginal patent claims • A moderate enabler for the imposition by one competitor of a patent litigation expense “street tax” upon another • A moderate potential for the stifling of product competition, innovation in the marketplace due to the incidents described herein.

OBJECTIVE TEST ARCHETYPES	Advantages Compared to the other archetypes, the test features:	Disadvantages Compared to the other archetypes, the test features:
Archetype #3: “Objectively Unreasonable” Archetype	<ul style="list-style-type: none"> • Broadest “sham” scope A disincentive for the assertion of marginal patent claims • An impediment to the imposition by one competitor of a patent litigation expense “street tax” upon another • Increased innovation / product competition on the merits in the marketplace 	<ul style="list-style-type: none"> • Moderate ambiguity • A moderate incremental disincentive for the acquisition of patents (due to increased costs of enforcement) • A moderate practical disincentive to the assertion of marginal (but valid) patent claims

Why discuss and compare these three objective test archetypes? Because a superficial reading of *PRE* would suggest that the Court in that case did indeed adopt an “objectively baseless” – type formulation as the objective test for the “sham” exception. And this presents two problems (as discussed in the balance of this paper).

The first problem is that the *PRE* “Objectively Baseless” test is ambiguously framed. And the ambiguity is substantial. For example, it appears highly likely that the Court intended to adopt the “objectively baseless” archetype. (Note that the Court even denominated its test as the “objectively baseless” test.) However, the test is so ambiguously framed that it must be acknowledged that it is possible (however unlikely) that the actual intended substantive meaning of that test is closer to the “objectively unreasonable” test. And ambiguity in legal tests is always problematic.

The second problem is that, if indeed the *PRE* objective test is a variant of the “objectively baseless” archetype (as seems likely), the unfortunate fact is that from a policy standpoint that test is too narrow. The Court should embrace the next opportunity to either clarify or correct the *PRE* objective test for the identification of “sham” claims, so that it clearly comports with the more satisfactory “objectively unreasonable” formulation for policy reasons.

B. *The PRE “Objectively Baseless” Objective Test – An Ambiguous Test*

1. Evidence of Ambiguity from the *PRE* Decision Itself

As stated, the first problem with the objective test established by the Court in *PRE* is that it is ambiguously framed. The court’s opinion features

multiple, and materially inconsistent, formulations for its test for “objective baselessness.”

The reader is directed to the express language of the objective test as stated in *PRE* (the location of that exact text, in this paper, being indicated in the margin).⁴⁵ Even in these short passages, one can begin to recognize linguistic formulations that might not entirely overlap. However, the trouble doesn’t stop there. There are actually several different, substantially varying, formulations of the objective baselessness test that appear in the Court’s decision. Consider the following formulations, all taken from the majority opinion:

- The lawsuit must be *objectively baseless* in the sense that *no reasonable litigant could realistically expect success on the merits*.⁴⁶
- *The existence of probable cause* to institute legal proceedings precludes a finding that an antitrust defendant has engaged in sham litigation. The notion of probable cause, *as understood and applied in the common law tort of wrongful civil proceedings*, requires the plaintiff to prove that the defendant lacked probable cause to institute an unsuccessful civil lawsuit and that the defendant pressed the action for an improper, malicious purpose.⁴⁷
- Probable cause to institute civil proceedings requires no more than *a reasonable belief that there is a chance that a claim may be held valid upon adjudication*.⁴⁸
- *When a court has found that an antitrust defendant claiming Noerr immunity had probable cause to sue, that finding compels the conclusion that a reasonable litigant in the defendant’s position could realistically expect success on the merits of the challenged lawsuit*.⁴⁹
- Even though it did not survive *PRE*’s motion for summary judgment, Columbia’s copyright action was arguably “*warranted by existing law*” or at the very least was based on an objectively “*good faith argument for the extension, modification, or reversal of existing law*.” Fed. R. Civ. P. 11.⁵⁰

⁴⁵ See *supra* the text accompanying notes 38 and 39.

⁴⁶ *PRE*, *supra* note 21, at 60 (emphasis added).

⁴⁷ *Id.* at 62 (emphasis added) (citations omitted).

⁴⁸ *Id.* at 62-63 (emphasis added) (citations omitted).

⁴⁹ *Id.* at 63 (emphasis added).

⁵⁰ *Id.* at 65 (emphasis added).

- As we have held, PRE could not pierce Columbia's Noerr immunity without proof that Columbia's infringement action was objectively baseless or *frivolous*.⁵¹
- We hold that *an objectively reasonable effort to litigate* cannot be sham regardless of subjective intent.⁵²
- If an *objective litigant* could conclude that the suit is *reasonably calculated to elicit a favorable outcome*, the suit is immunized under *Noerr*, and an antitrust claim premised on the sham exception must fail.⁵³
- A court could reasonably conclude that Columbia's infringement action was *an objectively plausible effort to enforce rights*.⁵⁴

Thus, one sees no less than nine (9) separate linguistic formulations purporting to distinguish "genuine" versus "sham" litigations for the purpose of *Noerr-Pennington* immunity.

If the formulations were all closely correlated, they could be viewed as mere restatements. However, it is difficult to see how one can equilibrate "a reasonable belief that there is a *chance* that a claim may be held valid" with a "*realistic expectation of success on the merits*" with "*an objectively plausible effort to enforce rights*" with a suit "*reasonably calculated to elicit a favorable outcome*."

How does one decide upon the appropriate legal test in such a case? The author posits that the *PRE* objective test is likely either: (a) an "objectively baseless" type of test; or (b) an "objectively unreasonable" type of test. Arguably, when read in context, the first six of the nine bulleted *PRE* formulations listed above are of the "objectively baseless" variety.⁵⁵ However, the three "objectively unreasonable" formulations appearing in the

⁵¹ *Id.* (emphasis added).

⁵² *Id.* at 57 (emphasis added).

⁵³ *Id.* at 60 (emphasis added).

⁵⁴ *Id.* at 65 (emphasis added).

⁵⁵ Additional variations of the "some chance" formulation are repeated throughout the opinion. See *PRE*, *supra* note 21, at 62-63 ("Probable cause to institute civil proceedings requires no more than a reasonable belief that there is a *chance* that a claim may be held valid upon adjudication.") (emphasis added) (citations omitted); at 65 ("Any reasonable copyright owner in Columbia's position could have believed that it had *some chance* of winning an infringement suit against PRE."); "By the time the Ninth Circuit had reviewed all claims in this litigation, it became apparent that Columbia *might have won* its copyright suit in either the Third or the Seventh Circuit."; "Even in the absence of supporting authority, Columbia would have been entitled to press a novel claim as long as a similarly situated reasonable litigant could have perceived *some likelihood* of success." (emphasis added).

opinion use language that is compelling.⁵⁶ The experienced practitioner will appreciate that case law interpretation is infrequently resolved by resort to arithmetic tallies, so it makes sense to evaluate major appellate decisions penned after *PRE* to see how the lower courts themselves have interpreted the decision and whether they too report or evidence ambiguity.

2. Evidence of Ambiguity from Post-*PRE* Appellate Case Law

Which appellate opinions to canvass? This paper is focused on the “sham” litigation exception to *Noerr-Pennington* immunity in the context of patent infringement litigation. The U.S. Court of Appeals for the Federal Circuit has *exclusive* appellate jurisdiction regarding cases arising under the patent law.⁵⁷ In addition, the Federal Circuit has held that “... whether conduct in procuring or enforcing a patent is sufficient to strip a patentee of its immunity from the antitrust laws is to be decided as a question of Federal Circuit law.”⁵⁸ Thus, the decisions of this particular appellate court have peculiar importance to the scope of the “sham” exception to *Noerr-Pennington* immunity in patent infringement cases.⁵⁹

In *FilmTec v. Hydranautics*,⁶⁰ the Federal Circuit re-affirmed the point made in *PRE* footnote 5 (namely, that just because the patent holder lost the underlying patent infringement claim doesn’t mean that that claim was “objectively baseless.”), but recall that footnote 5 can also be construed as

⁵⁶ In addition to the final three bulleted “objectively unreasonable” formulations presented in the body of the paper, see the *PRE* footnote 5, dropped squarely within the “heart” of the objective test holding, in which the Court refers to a possible role for a “reasonableness” standard rather than sole reliance upon the “objectively baseless” standard appearing in the *PRE* body. *PRE*, *supra* note 21, at 61 n.5 (“A ‘winning’ lawsuit is by definition a reasonable effort at petitioning for redress and therefore not a sham. On the other hand, when the antitrust defendant has lost the underlying litigation, a court must ‘resist the understandable temptation to engage in post hoc reasoning by concluding’ that an ultimately unsuccessful ‘action must have been unreasonable or without foundation.’”) (citations omitted).

⁵⁷ 28 U.S.C. § 1295(a) (2012) (“*The United States Court of Appeals for the Federal Circuit shall have exclusive jurisdiction: (1) of an appeal from a final decision of a district court of the United States, the District Court of Guam, the District Court of the Virgin Islands, or the District Court of the Northern Mariana Islands, in any civil action arising under, or in any civil action in which a party has asserted a compulsory counterclaim arising under, any Act of Congress relating to patents or plant variety protection; ...*”) (emphasis added).

⁵⁸ *Nobelpharma v. Implant Innovations*, 141 F.3d 1059, 1068 (Fed. Cir. 1998) (emphasis added).

⁵⁹ The Federal Circuit noted that its authority here was circumscribed. *See Nobelpharma*, *supra* note 58 at 1068 (“This conclusion applies equally to all antitrust claims premised on the bringing of a patent infringement suit. ... However, we will continue to apply the law of the appropriate regional circuit to issues involving other elements of antitrust law such as relevant market, market power, damages, etc., as those issues are not unique to patent law, which is subject to our exclusive jurisdiction.”).

⁶⁰ *FilmTec v. Hydranautics*, 67 F.3d 931 (Fed. Cir. 1995) [hereinafter *FilmTec*].

supporting the “objectively unreasonable” interpretation for the objective test.⁶¹ Then, the *FilmTec* court held that, because the issues in its case were actually “close” enough that the trial court and appellate court disagreed, it made sense to view the litigation as “genuine” and not a “sham.”⁶²

Query: If the *FilmTec* court was convinced that the “objectively baseless” test of *PRE* was in fact an “objectively baseless” archetype – type test, then why bother publishing an opinion in a “close” case that, *clearly*, is not “baseless”? *It is axiomatic that “close” cases are not “baseless.”*

However, if, instead, the *FilmTec* court was convinced that the “objectively baseless” test of *PRE* was, in fact, an “objectively unreasonable” archetype – type test, then there is arguably at least *some* potential value in writing about where “close” cases sit on the objective evidentiary spectrum for identifying “shams.” Notice the cautionary language in the *FilmTec* court’s ultimate determination: “*Although the question is not without some doubt, we conclude that, taking all of the facts and circumstances into account, it cannot be said that FilmTec’s suit against Hydranautics was objectively baseless.*”⁶³

The language of *FilmTec* isn’t entirely clear, but, from the above, it is obvious that the *FilmTec* court may well have interpreted the *PRE* “objectively baseless” test as an “objectively unreasonable” archetype – type test. If so, that is powerful additional evidence supporting the notion that the description of the objective test in *PRE* is indeed ambiguous.

A case that is similar to *FilmTec* in its ultimate conclusion and reasoning is *C.R. Bard, Inc. v. M3 Systems*.⁶⁴ In *C.R. Bard*, the alleged infringer’s counterclaim for an antitrust violation was supported, but only thinly so. The court used the opportunity to emphasize that proving up sham litigation requires more than the fact that the patent holder failed in his attempt to prove infringement of a valid patent; a mere “failed legal theory” is not enough.⁶⁵ Once again, if the *PRE* objective test aligns with the

⁶¹ See *supra* note 56.

⁶² *FilmTec*, *supra* note 60, at 938-39 (“*The issues on which this litigation hinged, precisely what [inventor] Cadotte invented, and when, were genuine.* On the basis of its understanding of those issues, *FilmTec*, not without reason, staked a claim to owning the ‘344 patent as Cadotte’s assignee. *The trial judge, after full consideration, ruled for FilmTec on this issue. Although that is not controlling, and indeed we found it to be erroneous, it does support the conclusion that FilmTec’s theory was more than a sham.* In this light, and in view of all that has transpired in the case, allowing Hydranautics to amend its answer by adding an antitrust counterclaim would be a futile act...”)(emphasis and bracketed material added).

⁶³ *Id.* at 938 (emphasis added).

⁶⁴ *C.R. Bard, Inc. v. M3 Sys.*, 157 F.3d 1340 (Fed. Cir. 1998).

⁶⁵ *Id.* at 1369 (“*Neither the bringing of an unsuccessful suit to enforce patent rights, nor the effort to enforce a patent that falls to invalidity, subjects the suitor to antitrust liability.* Since a principal purpose of the patent system is to provide innovators with a property right upon which investment and other commercial commitments can be made, absent the *PRE* criteria

“objectively baseless” archetype – type test, one wonders why the deciding judge determined that the *C.R. Bard* decision merits publication; however, if the *PRE* objective test is an “objectively unreasonable” – type test, then publication makes more sense.

In *Nobelpharma v. Implant Innovations*,⁶⁶ the court addressed an important fact pattern relevant to *Walker Process* “fraud on the U.S. Patent and Trademark Office” – type allegations.⁶⁷ Generally speaking, for many years, patent applicants have been required to affirmatively disclose to the PTO material technical references (such as journal articles or previously issued patents), of which they are aware, that bear a publication date that precedes the date of their application for patent. Technical references pre-dating the application are commonly referred to as the “prior art.”

It’s important to note that there is no duty to perform a search for prior art references. But, if the applicant performs a search, or otherwise becomes aware of such references, he must turn them over. The duty exists during the entire time the application is pending before the PTO (i.e., from the first date of application until issuance of the patent). The duty only extends to “material” references.

the patentee must have the right of enforcement of a duly granted patent, unencumbered by punitive consequences should the patent’s validity or infringement not survive litigation. The law recognizes a presumption that the assertion of a duly granted patent is made in good faith; this presumption is overcome only by affirmative evidence of bad faith. M3 Systems states that Bard knew its patents were not infringed when it brought suit, citing *the testimony of a Bard engineer* that he did not think the original M3 needle infringed the ‘056 patent and that other Bard employees had told him that M3 changed its needle design to one that did not infringe. The engineer also testified that he did not know whether those who told him M3’s needles did not infringe *had ever read* the ‘056 patent, or whether they were familiar with the concept of infringement under the doctrine of equivalents. *This was the totality of the evidence of sham litigation* concerning the ‘056 patent; there was no evidence at all with respect to the ‘308 patent. This does not constitute substantial evidence that this litigation was objectively meritless and brought in bad faith. The judgment of antitrust violation cannot be upheld on sham litigation grounds.” (emphasis added) (citations omitted).

⁶⁶ *Nobelpharma v. Implant Innovations*, 141 F.3d 1059 (Fed. Cir. 1998) [hereinafter *Nobelpharma*].

⁶⁷ The *Nobelpharma* court noted that there is a fascinating definitional question as to whether the Supreme Court has expressly recognized “fraud on the PTO” as a type of *Noerr-Pennington* “sham” litigation or not. See *Nobelpharma*, *supra* note 66, at 1071. Arguably, *Walker Process* fraud is a fraudulent-claim sham that features slightly different requirements than a baseless-claim sham, and both types of shams are Category IV shams under *Noerr*. The argument favoring this treatment is simple – the *Walker Process* decision expressly references how fraudulent activity can “strip” the patent holder of its “antitrust exemption” (although the Court didn’t call out the *Noerr* decision by name). See *Walker Process*, *supra* note 30; see also *California Motor*, *supra* note 22. The Court in *PRE* side-stepped the issue. See *PRE*, *supra* note 21, at 61 n.6. The Federal Circuit in *Nobelpharma* chose to treat *Walker Process* and *Noerr* as separate but closely related. See *Nobelpharma*, *supra* note 66, at 1071. As a practical matter, it makes little difference.

Failure on the part of the applicant to satisfy the duty to disclose can invalidate a patent. And it will surprise few readers to learn that this potential ground for invalidating a patent is frequently litigated. The easiest (and rarest) cases involve direct evidence of *both* the inventor's awareness of a prior art reference at the time he applied for the patent *and* his purposeful concealment of the reference from the PTO. The harder cases involve circumstantial evidence. That is, for example, a reference appears to have been in the files or correspondence of the inventor or others connected with the application, but, somehow, it has not been included in the listing of references provided to the PTO, although there is no direct evidence of any intent to conceal it.

Traditionally, the courts evaluating these kinds of invalidity attacks consider both evidence of the *materiality* of the reference and of the *knowledge / intentions* of the inventor. Furthermore, they occasionally avail themselves of an inverse scale regarding these comparative showings – to invalidate the patent on a relatively minor reference, a persuasive showing of intent is required, while, for a highly material reference, a smaller showing of intent is required.

Nobelpharma involved a *Walker Process* – type antitrust counterclaim, and the “fraud” alleged was based on the failure of the inventor to disclose a highly material reference. The Federal Circuit went to some pains to emphasize that, although more modest showings of inequitable conduct (for example, the apparently inadvertent failure to disclose a highly material reference) might suffice to invalidate a patent, a *Walker Process* antitrust claim required a showing more akin to fraud.⁶⁸ In sum, the court concluded

⁶⁸ *Nobelpharma*, *supra* note 66, at 1070-71 (“We agree that, if the evidence showed that the asserted patent was acquired by means of either a fraudulent misrepresentation or a fraudulent omission and that the party asserting the patent was aware of the fraud when bringing suit, such conduct can expose a patentee to liability under the antitrust laws. We arrive at this conclusion because a fraudulent omission can be just as reprehensible as a fraudulent misrepresentation. . . . Such a misrepresentation or omission must evidence a clear intent to deceive the examiner and thereby cause the PTO to grant an invalid patent. In contrast, a conclusion of inequitable conduct may be based on evidence of a lesser misrepresentation or an omission, such as omission of a reference that would merely have been considered important to the patentability of a claim by a reasonable examiner. A finding of *Walker Process* fraud requires higher threshold showings of both intent and materiality than does a finding of inequitable conduct. Moreover, unlike a finding of inequitable conduct, a finding of *Walker Process* fraud may not be based upon an equitable balancing of lesser degrees of materiality and intent. Rather, it must be based on independent and clear evidence of deceptive intent together with a clear showing of reliance, i.e., that the patent would not have issued but for the misrepresentation or omission. Therefore, for an omission such as a failure to cite a piece of prior art to support a finding of *Walker Process* fraud, the withholding of the reference must show evidence of fraudulent intent. *A mere failure to cite a reference to the PTO will not suffice.*”) (emphasis added). It is noteworthy that the Federal Circuit panel’s original decision on this subtle, and highly contentious, point was different; however, upon a

that “... for an omission such as a failure to cite a piece of prior art to support a finding of *Walker Process* fraud, the withholding of the reference *must show* [affirmative] evidence of fraudulent intent. A mere failure to cite a reference to the PTO [with no affirmative evidence of fraudulent intent] will not suffice.”⁶⁹

The *Nobelpharma* decision is discussed, because the Federal Circuit was confronted with two options for defining precisely what the term “fraudulent” means in the *Walker Process* context of potentially losing one’s antitrust immunity in a patent infringement suit. The first option was to find that *Walker Process* fraud requires a clear showing of intent – the mere inadvertent failure to disclose a reference (no matter how material) is not enough to establish *Walker Process* fraud. The species of fraud that is germane in the failure-to-disclose context is not constructive; rather, it is a purposeful concealment of references to the PTO in violation of the express statutory duty to disclose. This narrower definition of the kind of “fraud” that would lead to a “sham” litigation finding is arguably closer to the “fraudulent” and “objectively baseless” objective test archetypes.

The second option was to find that *Walker Process* fraud does not require a clear showing of intent – rather, a showing of inequitable conduct (based, as it sometimes is, on sliding inverse evidentiary requirements for showings of materiality and intent) will suffice to establish *Walker Process* fraud. This broader definition of the kind of “fraud” that would lead to a “sham” litigation finding is arguably closer to the “objectively unreasonable” objective test archetype.

Because the *Nobelpharma* court chose the first option, and the Federal Circuit is presumed to closely adhere to the guidance of the Court in *PRE*, an argument can be made that *Nobelpharma* supports the view that the *PRE* “objectively baseless” objective test is actually a variant of the “objectively baseless” archetype. However, the author urges caution before reaching this conclusion. Unlike *Walker Process* which involved an affirmative act (an affirmative misrepresentation to the PTO), *Nobelpharma* involved an omission (a failure to act) and the *Nobelpharma* court’s decision may have been driven more by the jurisprudential and practical challenges associated with dealing with omissions than by an affirmative election amongst competing objective test archetypes.

In *Q-Pharma v. Andrew Jergens Co.*,⁷⁰ the patent holder Q-Pharma filed suit against Jergens, alleging that a Jergens product, “Curel® Age-Defying Therapeutic Moisturizing Lotion with Coenzyme Q₁₀” (the “Curel CoQ₁₀

petition for rehearing, it withdrew its original opinion, 67 F.3d 931, superseding it with the instant decision.

⁶⁹ *Nobelpharma*, *supra* note 66, at 1070-71 (emphasis and bracketed material added).

⁷⁰ *Q-Pharma v. Andrew Jergens Co.*, 360 F.3d 1295 (Fed. Cir. 2004) [hereinafter *Q-Pharma*].

lotion”), infringed its patent, a patent claiming a method of treating impaired tissue in humans comprising “topically administering to such tissue a composition comprising as the principal active ingredient a therapeutically effective amount of” CoQ₁₀.⁷¹

Jergens counterclaimed for a declaratory judgment of invalidity, unenforceability, and non-infringement, as well as asserting various antitrust counterclaims. Jergens also initially resisted Q-Pharma’s discovery requests regarding the composition of the Curel CoQ₁₀ lotion. However, that issue evaporated when Jergens filed a motion for summary judgment of non-infringement on the basis that its accused product contained no more than 0.00005% CoQ₁₀ by weight.⁷² Upon learning this information, Q-Pharma filed a voluntary dismissal of its suit with prejudice, and the court dismissed the claims and counterclaims relevant to validity, enforceability, and infringement. That left only the Jergens antitrust counterclaims remaining for disposition.⁷³

Jergens aggressively pursued its antitrust counterclaims, as well as Rule 11⁷⁴ sanctions and attorney fees under the patent statute,⁷⁵ based on Q-Pharma’s pursuit of “objectively baseless” claims. In particular, Jergens alleged that Q-Pharma’s infringement claim was objectively baseless because a reasonable litigant would not have: (a) filed suit without first preparing a claim chart to support its patent claim; (b) filed suit without performing chemical analyses; (c) filed suit based solely upon a competitor’s advertising; and (d) filed suit in the face of letters suggesting the patent in suit was invalid.⁷⁶

⁷¹ *Id.* at 1297.

⁷² *Id.* at 1298.

⁷³ *Id.*

⁷⁴ Fed. R. Civ. P. 11 (“(b) Representations to the Court. By presenting to the court a pleading, written motion, or other paper—whether by signing, filing, submitting, or later advocating it—an attorney or unrepresented party certifies that to the best of the person's knowledge, information, and belief, formed after an inquiry reasonable under the circumstances: (1) it is not being presented for any improper purpose, such as to harass, cause unnecessary delay, or needlessly increase the cost of litigation; (2) the claims, defenses, and other legal contentions are warranted by existing law or by a non-frivolous argument for extending, modifying, or reversing existing law or for establishing new law; (3) the factual contentions have evidentiary support or, if specifically so identified, will likely have evidentiary support after a reasonable opportunity for further investigation or discovery; and (4) the denials of factual contentions are warranted on the evidence or, if specifically so identified, are reasonably based on belief or a lack of information. (c) Sanctions. (1) In General. If, after notice and a reasonable opportunity to respond, the court determines that Rule 11(b) has been violated, the court may impose an appropriate sanction on any attorney, law firm, or party that violated the rule or is responsible for the violation.”).

⁷⁵ 35 U.S.C. § 285 (2012) (“The court in exceptional cases may award reasonable attorney fees to the prevailing party.”).

⁷⁶ Q-Pharma, *supra* note 70, at 1304.

The court addressed each of Jergens' contentions in detail in the context of the Rule 11 motion, and it then held that, for many of the reasons identified in that Rule 11 analysis (discussed hereinbelow), it also believed that the lawsuit was not objectively baseless as regards the antitrust claims.⁷⁷ The court's analogy to Rule 11 calls to mind the reference to the rule in *PRE* itself.⁷⁸ The Federal Circuit's treatment of each of Jergens' contentions is instructive.⁷⁹

The court began its analysis by noting that, in the context of a patent infringement case, Rule 11 does require that, prior to filing suit, an attorney interpret the asserted patent claims and compare them to the device accused of infringement.⁸⁰ The interested reader will note that there is an extensive body of case law regarding the canons of practice for analyzing, interpreting, and applying patent claims.⁸¹ In the instant case, the court concluded that one of Q-Pharma's attorneys had in fact reviewed the patent's claims, the written description, and the patent prosecution history (obtained from the PTO) in the process of interpreting and applying the claims.⁸² It thus viewed the analysis as substantially satisfying the strictures of Rule 11 (e.g., "warranted"; "non-frivolous") and *PRE* (not "objectively baseless").⁸³ As far as encapsulating that analysis in the format of a claim chart (a common practice amongst patent specialists), the court held that "a [formal] claim chart is not a requirement."⁸⁴

Jergens emphasized the fact that Q-Pharma failed to conduct chemical analyses on the Jergens product prior to filing suit and that it had inappropriately relied, at least in part, on mere advertising materials in its infringement analysis. The court was not persuaded, because Q-Pharma's position regarding its claims was that even a minimal amount of CoQ₁₀ would place the product within the reach of its patent claims, and the Jergens sample obtained by Q-Pharma listed CoQ₁₀ on the ingredient list as well as repeatedly touting the therapeutic benefits of CoQ₁₀.⁸⁵

⁷⁷ *Id.* at 1305.

⁷⁸ *See supra* the text accompanying note 39.

⁷⁹ The court also found that an attorney fee award was unwarranted, because "we fail to see how a changed legal theory that leads to a voluntary dismissal of a lawsuit can amount to bad-faith litigation." Q-Pharma, *supra* note 70, at 1304.

⁸⁰ Q-Pharma, *supra* note 70, at 1301.

⁸¹ *See generally* 6 DONALD S. CHISUM, CHISUM ON PATENTS, § 18.01 et seq. (2015) (Chapter 18 entitled: "The Interpretation and Application of Claims – Doctrine of Equivalents – Prosecution History Estoppel").

⁸² Q-Pharma, *supra* note 70, at 1301.

⁸³ *Id.* at 1301, 1305.

⁸⁴ *Id.* at 1301 (bracketed material added).

⁸⁵ *Id.* at 1302 ("While it is true that Q-Pharma could have conducted a more thorough investigation before filing suit, we conclude that its pre-filing infringement analysis was supported by a sufficient evidentiary basis. Q-Pharma acquired a sample of the Curel CoQ₁₀

Finally, regarding Jergens' suggestion that Q-Pharma *should have known* that its patent was invalid, based on approximately four letters Q-Pharma received from accused infringers questioning the validity of the patent, the court found that Q-Pharma reasonably believed in the validity of its patent in light of the statutory presumption of validity,⁸⁶ as well as the fact that several companies (who also had a financial interest in viewing the patent as invalid) had taken licenses under the patent.⁸⁷

Thus, even though the patent holder was unable to conclusively establish each of the elements of its claim in an infringement analysis prior to filing, and, indeed, reversed course and voluntarily dismissed its suit as a result of the fruits of the pre-trial discovery and motions process, its legal diligence, reasonable inferences based on the facts, and reliance upon data provided by the defendant led the court to conclude that “*a reasonable litigant could* – based on the patent, its prosecution history, and Jergens’ advertising and labeling statements touting the therapeutic effects of the Curel CoQ₁₀ lotion – *expect to prevail* on a claim alleging infringement. After all, Jergens itself advertised its product as containing CoQ₁₀.”⁸⁸

The *Q-Pharma* decision likely supports a view that the objective test in *PRE* is of the “objectively baseless” archetype. The extensive analogizing to Rule 11 strongly suggests that the court viewed the *PRE* “objectively baseless” inquiry as being largely coextensive with the “warranted” / “non-frivolous” / “some chance” – oriented inquiry of Rule 11.⁸⁹ Recall, as well, that the *PRE* decision expressly referenced Rule 11 in its holding.⁹⁰

lotion and reviewed its advertising and labeling, which listed the product’s ingredients and repeatedly touted the therapeutic effects of CoQ₁₀. Q-Pharma concluded, however, that chemical analyses identifying the actual percentage of CoQ₁₀ in the accused product would not likely have changed its infringement analysis. Given Q-Pharma’s non-frivolous interpretation of claim 1 as requiring no specified minimum amount of CoQ₁₀ and Jergens’ forthright assertions regarding the therapeutic effects of CoQ₁₀ in the accused product, we conclude that it was reasonable for Q-Pharma to believe that the accused product contained a ‘therapeutically effective amount’ of CoQ₁₀ as the ‘principal active ingredient.’”) (emphasis added).

⁸⁶ 35 U.S.C. § 282 (2012) (“A patent shall be presumed valid. . . . The burden of establishing invalidity of a patent or any claim thereof shall rest on the party asserting such invalidity.”).

⁸⁷ *Q-Pharma*, *supra* note 70, at 1303.

⁸⁸ *Id.* at 1305 (emphasis added).

⁸⁹ The matter is not entirely free from doubt, however. Recall that the *Q-Pharma* court concluded that a reasonable litigant could have expected to prevail on a claim alleging infringement. *Q-Pharma*, *supra* note 70, at 1305. Thus, even if the *Q-Pharma* court had viewed the *PRE* objective test as being of the “objectively unreasonable” variety, its decision would likely have been the same.

⁹⁰ See *supra* the text accompanying note 39.

In *Globetrotter Software v. Elan Computer Group*,⁹¹ we see that the PRE “objectively baseless” standard has also been adopted and utilized in related contexts outside the four corners of a traditional patent infringement lawsuit. Of particular import here is its use in the preemption of various state law claims, because these cases also inform the meaning of what is and is not “objectively baseless” in the context of patent infringement assertions.

To clarify, it is not uncommon for a patentee to communicate to the defendant, the defendant’s customers, and even the broader marketplace, about its beliefs regarding the scope of its patent rights and regarding the potential exposure of *any* parties who “make, use, offer to sell, or sell”⁹² the patentee’s claimed invention. It will come as no surprise that, when a patent infringement defendant discovers that the plaintiff in the lawsuit has been communicating with defendant’s customers about the infringing / tainted nature of defendant’s products, state law counterclaims by the defendant, alleging a tortious interference with prospective economic advantage, and various other species of unfair competition, frequently (and quickly) arise.

The question that arises, therefore, is to what extent is a patent holder, as an incident of an assertion of its rights (including via a lawsuit), allowed to make such communications and, even more fundamentally, which standards (federal or state) apply? These questions, and the use of the PRE “objectively baseless” standard in answering them, were the subject at hand in *Globetrotter*.

In the case, Ken Greer asserted state-law counterclaims for tortious interference with prospective economic advantage and unfair competition arising out of Globetrotter Software’s allegations that Elan Computer Group and Ken Greer infringed various patents. In finding against Greer, the Federal Circuit first noted that a patentee that has a good faith belief that its U.S. patents are being infringed violates no protected right when it so notifies infringers. State-law counterclaims such as Greer’s can survive federal preemption only to the extent that those claims are based on a showing of “bad faith” action in asserting infringement.⁹³

⁹¹ *Globetrotter Software v. Elan Comput. Group*, 362 F.3d 1367 (Fed. Cir. 2004) [hereinafter *Globetrotter*].

⁹² 35 U.S.C. § 271(a) (2012) (“Except as otherwise provided in this title, whoever without authority *makes, uses, offers to sell, or sells* any patented invention, within the United States, or imports into the United States any patented invention, during the term of the patent therefor, infringes the patent.”) (emphasis added).

⁹³ *Globetrotter*, *supra* note 91, at 1374 (“*We have held that federal patent law preempts state-law tort liability for a patent holder’s good faith conduct in communications asserting infringement of its patent and warning about potential litigation. See, e.g., Zenith Elecs. v. Exzec, Inc.*, 182 F.3d 1340, 1355 (Fed. Cir. 1999). State-law claims such as Greer’s can survive federal preemption only to the extent that those claims are based on a showing of “bad faith” action in asserting infringement. Accordingly, to avoid preemption, bad faith must be alleged and ultimately proven, even if bad faith is not otherwise an element of the tort claim.

Against this backdrop, the Federal Circuit noted that Greer's *sole* basis for its allegation of "bad faith" was the *subjective* bad faith of Globetrotter (e.g., the alleged timing of Globetrotter's communications, so as to interfere with a financially lucrative acquisition of Elan by a third party). Thus, "the question before us is whether the bad faith standard . . . can be satisfied in the absence of a showing that the claims asserted were objectively baseless. We hold that it cannot."⁹⁴

The court reviewed *Noerr* and its progeny through and including *PRE*, and it noted that, although the Supreme Court had not specifically addressed the question as to whether the *PRE* standard applied to communications outside the context of actual litigation, it agreed with its sister circuits, such as the Fifth Circuit, that had concluded "... it would be absurd to hold that it does not protect those acts reasonably and normally attendant upon effective litigation. The litigator should not be protected only when he strikes without warning. If litigation is in good faith, a token of that sincerity is a warning that it will be commenced and a possible effort to compromise the dispute."⁹⁵

The court also noted that, in some of its own precedents, it had concluded that an allegation of "bad faith" is not supported when the information communicated is "objectively accurate." On that basis, it concluded that the *PRE* objective test also applies to state law claims based on communications alleging patent infringement. Specifically, the *Globetrotter* court held that a plaintiff claiming that a patent holder has engaged in wrongful conduct by asserting claims of patent infringement must establish that the claims of infringement were "objectively baseless."⁹⁶

Because Greer had not even attempted to make a showing of objective baselessness, the court affirmed the grant of summary judgment dismissing Greer's claims. Thus, although it had the potential to provide additional guidance, *Globetrotter* merely followed the *PRE* "objectively baseless" test without providing any new insight as to whether it believed the substantive contours of the *PRE* "objectively baseless" test most closely resembled the "objectively baseless" or "objectively unreasonable" objective test archetypes.

This preemption is based on the following concept: "A patentee that has a good faith belief that its patents are being infringed violates no protected right when it so notifies infringers." Accordingly, a patentee must be allowed to make its rights known to a potential infringer so that the latter can determine whether to cease its allegedly infringing activities, negotiate a license if one is offered, or decide to run the risk of liability and / or the imposition of an injunction." (emphasis added) (citations omitted).

⁹⁴ *Id.* at 1375.

⁹⁵ *Id.* at 1376 (quoting *Coastal States Mktg. v. Hunt*, 694 F.2d 1358, 1367 (5th Cir. 1983)).

⁹⁶ *Id.* at 1377.

In *GP Industries v. Eran Industries*,⁹⁷ the Federal Circuit applied the holding of *Globetrotter* to its review of a district court’s grant of a preliminary injunction. In *GP*, the lower court had enjoined an extremely aggressive patent holder from sending letters regarding its patent rights to the defendant’s customers, distributors, and contractors during the pendency of the litigation.

The appellate court expressly found that the “objectively baseless” standard applied and that the district court had erred in not only failing to articulate and use the standard, but, in addition, in failing to recognize that its own findings *demonstrated* the fact that Eran’s assertions were not objectively baseless.⁹⁸ According to the Federal Circuit, “By recognizing that the patent is not necessarily invalid and that the court could not conclude that there was no infringement, the court *established* that Eran’s assertions were not objectively baseless.”⁹⁹

Thus, in *GP*, unlike in *FilmTec* and *C.R. Bard*, the Federal Circuit clearly articulated the “objectively baseless” standard and quickly and forcefully applied the standard in rendering a judgment. The overall tone of the opinion suggests that the appellate court harbored no doubts.

In *Dominant Semiconductors v. OSRAM GMBH*,¹⁰⁰ the defendant Dominant argued that the objective baselessness of Plaintiff OSRAM’s lawsuit-related communications to the marketplace should be evaluated according to a standard analogous to that used in requests for sanctions under Federal Rule of Civil Procedure 11.¹⁰¹ The reader will recall that, generally speaking, behavior questioned under Rule 11 is usually evaluated under the “snapshot rule”; that is, the reasonableness of a position in a document presented to the court is evaluated in light of the situation existing, and the facts known, *at the time the pleading, motion, or other paper was signed or filed*.¹⁰²

Defendant Dominant believed that a close inspection of the factual basis upon which Plaintiff OSRAM’s patent attorney based its pre-filing opinions would confirm that its position, based on the facts known at the time of the issuance of the communications, was objectively baseless. This wouldn’t

⁹⁷ *GP Indus. v. Eran Indus.*, 500 F.3d 1369 (Fed. Cir. 2007).

⁹⁸ *Id.* at 1375 (“The [district] court did not cite the Professional Real Estate ‘objectively baseless’ standard in its discussion of the relevant law or analysis. In fact, the court made certain statements in its opinion that nonetheless *demonstrate* that Eran’s assertions were not objectively baseless. . . . By recognizing that the patent is not necessarily invalid and that the court could not conclude that there was no infringement, the court *established* that Eran’s assertions were not objectively baseless.”) (emphasis and bracketed material added).

⁹⁹ *Id.* (emphasis added).

¹⁰⁰ *Dominant Semiconductors v. OSRAM GMBH*, 524 F.3d 1254 (Fed. Cir. 2008).

¹⁰¹ For the salient text of Rule 11, see *supra* note 74.

¹⁰² See generally 2 JAMES W. MOORE, MOORE’S FEDERAL PRACTICE § 11.11[6] (2015) (entitled: “Conduct Measured at Time of Presentation”).

appear to be a specious argument in light of the Court's emphasis on the state of copyright law at the time the lawsuit was filed in *PRE*¹⁰³ and given the analogy drawn to Rule 11 in *Q-Pharma*.¹⁰⁴

However, the court saw two problems with the argument. First, "we have never stated that the Rule 11 standard is the same as the standard applied in the line of cases following *Professional Real Estate* and *Globetrotter*. Indeed, the purpose and impact of the *Globetrotter* standard, which applies to pre-litigation infringement allegations, is *entirely distinct* from that of Rule 11, which applies to pleadings filed in court."¹⁰⁵

Second, the court further held that "Dominant's focus on the contention that there was no indication that [patent attorney] Schachtner had performed a *sufficient* analysis, though arguably relevant on the issue of *subjective* intent, had nothing to do with the issue of whether Schachtner's contentions were *objectively* baseless. In other words, objective baselessness requires a determination *based on the record ultimately made* in the infringement proceedings and the record of the state tort action, and *not on the basis of information available to the patentee at the time the allegations were made*. Because Dominant failed to identify a genuine issue of fact regarding whether OSRAM's communications were objectively baseless, entry of summary judgment was appropriate."¹⁰⁶

It's somewhat difficult to reconcile the holding in Dominant (that objective baselessness, in the patent communications tortious interference context, is based on the ultimate record and not on the record at the time the allegations were made) with the Court's decision in *PRE* (which expressly considered the record at the time the copyright infringement claim was filed in the determination of objective baselessness). However, further analysis produces no insights regarding the issue at bar, as, given the fact that the current record was the record upon which "objective baselessness" would be decided, and Dominant could make no showing of objective baselessness on that record, the court was free to conclude that the objective baselessness test was not met (a conclusion that would have followed regardless of whether objective baselessness was based on an "objectively baseless" or "objectively unreasonable" objective test archetype).

Looking at the major Federal Circuit decisions that have discussed *PRE* at some length, *Q-Pharma* and *GP* likely support a view that the *PRE* objective test is analogous to the "objectively baseless" archetype, while *FilmTec* and *C.R. Bard* likely support a view that the "objectively

¹⁰³ See *supra* the text accompanying note 39.

¹⁰⁴ See *supra* the text accompanying note 77.

¹⁰⁵ *Dominant*, *supra* note 100, at 1262 (emphasis added).

¹⁰⁶ *Id.* at 1264 (emphasis added).

unreasonable” archetype is appropriate. *Nobelpharma* and *Globetrotter* are probably best viewed as draws.

In sum, the post-*PRE* decisions of the Federal Circuit in the patent infringement context provide no clear consistent interpretation of the *PRE* “objectively baseless” test, and they powerfully reinforce the notion that the test is, in fact, ambiguous.

C. The PRE “Objectively Baseless” Objective Test – An Overly Narrow Test

As stated,¹⁰⁷ the second problem with the objective test established by the Court in *PRE* is that, despite any ambiguity that may exist in the *PRE* decision, if the Court did indeed intend for the objective test to be a variant of the “objectively baseless” archetype, then a powerful argument can be made that it has chosen unwisely. The fact is that, in litigation generally, and in patent infringement lawsuits particularly, the *PRE* objective test, so construed, is too narrow.

1. *PRE* and Anticompetitive “Possible Technical Wins”

Recall that the scope of the “objectively unreasonable” archetype for “sham” claims is broader than the “objectively baseless” archetype and that that is by design. The principal evil of the “objectively baseless” archetype is that it allows the claimant to pursue claims that have some non-zero chance of securing victory on the technical subject of liability (a “possible technical win”), *even though no reasonable prudent claimant would file such a claim if he / she were genuinely seeking redress and evaluating the decision to sue on an objective cost-benefit basis.*

2. Anticompetitive “Possible Technical Wins” in Patent Infringement

Under the “objectively baseless” formulation, even if the claimant is a patent holder, bearing monopoly power, who has been advised by counsel that his patent is ninety percent (90%) likely to be found invalid, *and also* ninety percent (90%) likely to be found not infringed by the Defendant’s product, so that the likelihood of success on the subject of liability is a mere one percent (1%),¹⁰⁸ the claimant may file suit, *fully expecting to lose,*

¹⁰⁷ See *supra* discussion in Section III.A.3. (discussion following Exhibit 2).

¹⁰⁸ To secure a judgment of patent infringement, a claim must be found both valid *and* infringed. The probabilities stated establish that the likelihood of success on validity is ten percent (10%), and the likelihood of success on infringement is ten percent (10%), so that the

knowing that the costs of the litigation will serve as a significant “street tax” on the profits of its less-financially-capable startup competitor.

Scenarios of this sort aren’t mere fantasy. One of the consistent policy questions that has confronted the public and the patent bar, almost since the latter’s inception but certainly as well since the veritable explosion in patent litigation that has occurred since the mid-1980’s after the U.S. Court of Appeals for the Federal Circuit was created, is the striking rise in the size of patent damages awards, the similarly striking rise in the costs of said litigation,¹⁰⁹ and, finally and equally importantly, the increasing use of patent litigation proceedings as a tactical mechanism for imposing a patent “street tax” on competitors and derailing mergers, acquisitions, and other competitor business plans.¹¹⁰

Would the employment of an “objectively unreasonable” archetype – type test ameliorate these problems? There is reason to believe that it would, at least in part. Note that the test requires that the claimant believe that it has a reasonable chance at securing a favorable outcome “based on the nature of the claim.” That is, the expectation against which the claimant will be judged must be the legal relief sought and expected, and not (for example) any “street tax” or other collateral burdens the litigation might impose upon the defendant.

Does empirical evidence support the suggestion that the current *PRE* test is insufficiently deterring “sham” litigations? Empirical estimation of the effects of legal tests is extremely difficult and complex, but at least one probative observation can be made. Rule 11 of the Federal Rules of Civil Procedure is a “some chance” / “objectively baseless” – type standard. What percentage of complaints, across all kinds of litigations, typically trigger Rule 11 proceedings? According to at least one study, the answer (albeit based on an estimate) is approximately one percent (1%).¹¹¹

likelihood that both will occur (assuming that each is independent of the other) is the multiplicative product of the probabilities. $10\% \times 10\% = 0.10 \times 0.10 = 0.01 = 1\%$.

¹⁰⁹ The average total cost of litigating a patent infringement suit featuring less than \$1,000,000.00 at risk was \$500,000.00 in 2003. See Wayne P. Sobon, *Report of the Economic Survey*, AM. INTELL. PROP. L. ASS’N 22 (2003).

¹¹⁰ See, e.g., Charles Duan, *Big Businesses are Filing Frivolous Patent Lawsuits to Stifle Innovative Small Competitors*, FORBES (May 6, 2015), <http://www.forbes.com/sites/realspin/2014/02/24/big-businesses-are-filing-frivolous-patent-lawsuits-to-stifle-innovative-small-competitors>; Jeremy Quittner, *How Lawsuits Can Sink Your IPO Ambitions*, INC (May 5, 2015), <http://www.inc.com/jeremy-quittner/lawsuits-can-sink-an-ipo.html>.

¹¹¹ See Gerald F. Hess, *Rule 11 Practice in Federal and State Court: An Empirical, Comparative Study*, 75(2) MARQUETTE L. REV. 313, 320 (1992) (stating that, in Spokane County, Washington, in the Eastern District of Washington, from August 1, 1983 through December 31, 1990, there were 6,841 civil cases filed in the Eastern District; 55 of the complaints filed ($55/6841 = 0.80\% \sim 1\%$) resulted in responsive Rule 11 sanctions motions).

This invites the question as to whether one believes that, of all of the patent infringement complaints that are filed, a similarly small percentage of them are “objectively baseless” despite the articles in the business and legal press about gamesmanship in patent infringement litigation. If one doubts that gamesmanship exists, remember: (a) eliminating competitors can be very profitable;¹¹² and (b) under the PRE “objectively baseless” test, it is highly unlikely that one’s patent infringement claim will ever be found to constitute a “sham.” Remember also that, although the burden of proving infringement rests with the patent holder,¹¹³ a patent is presumed to be valid,¹¹⁴ and the burden of proving invalidity rests on the party asserting invalidity.¹¹⁵

IV. THE WAY FORWARD: MOVING TOWARDS A CLARIFICATION OF *PRE*

In the hypothetical problem presented at the opening of this paper, John Smith, the CEO of BigCorp, has proposed filing a lawsuit against a startup competitor even though its objective prospects for success are extremely poor. “I don’t care about the merits of the case,” said John. “I just want to pick the best patents we can and file suit, even if we have a 95% chance of losing the lawsuit. *Winning or losing the lawsuit doesn’t matter.* By filing suit now, we’ll do two things. First, it’s entirely possible that we’ll scare off WhiteKnight. I mean, after all, who wants to invest in a lawsuit? Second, without WhiteKnight’s funding, we’ll be able to bury SmallCorp in legal bills. The cost of the lawsuit alone, to say nothing of the effect it will have on SmallCorp’s customers, will likely drive it into the grave.”

Unfortunately, when his general counsel performs her due diligence and consults with experienced antitrust and patent counsel, she is likely to be advised that, under the current state of the law, the strategy may very well succeed. This is contrary to the substantive goal of antitrust: to encourage competitors to compete on the basis of the quality and pricing of the goods and services that they offer, and, in the case of a monopolist, to ensure that it doesn’t engage in unreasonable anticompetitive exclusionary conduct. Here, CEO Smith is trying to arrange for his monopolist corporation to compete not on the basis of its superior products and services, but, rather, on the basis of filing a meritless lawsuit against a less-well-funded startup in the hope that the litigation costs and uncertainty can exclude / destroy this competitor. The

¹¹² “In business, I look for economic castles protected by unbreachable moats.” – Warren Buffett (attributed).

¹¹³ See *Centricut LLC v. Esab Group*, 390 F.3d 1361, 1367 (Fed. Cir. 2004).

¹¹⁴ 35 U.S.C. § 282 (2012).

¹¹⁵ *Id.*

question is: what can be done to discourage this kind of game-playing in the future?

A. *The Door to Improvement of the PRE Test – A Finding of Ambiguity*

As stated hereinabove, the *PRE* “objectively baseless” objective test suffers from two maladies: (a) it is ambiguously framed; and (b) to the extent that a single test is discernible from the express text of the decision, it is likely a sub-optimal test, a variant of the “objectively baseless” archetype. Although this undoubtedly causes great heartache to the clients and attorneys dealing with the *Noerr-Pennington* “sham” exception in the field (the courtroom), there is a silver lining.

Court decisions create ambiguous tests, and court decisions can eliminate them.¹¹⁶ So the practical path forward for curing the infirmities of *PRE* is a future U.S. Supreme Court decision that clarifies or corrects¹¹⁷ *PRE*. What is the preferred clarifying formulation? An objective test that constitutes a variant of the “objectively unreasonable” archetype seems best.

B. *The Holding and the Dicta in PRE*

Clarification of *PRE* would be simplest if there was a cogent argument that the “true” objective test of *PRE* is, in fact, one of the variants articulated in *PRE* that most closely resembles the “objectively unreasonable” archetype. Fortunately, there is just such an argument. The argument is this: the precise holding in *PRE* is narrow, and the other formulations and guidelines appearing in the decision are dicta.

Consider the time-honored approach to identifying the single holding in a decision when confronted with several alternatives. Which formulation is the holding? The formulation *essential* to the decision is the holding, and its siblings are the dicta.¹¹⁸

¹¹⁶ The problem could also be fixed by statute of course. However, given the *Noerr-Pennington* doctrine’s long pedigree as a creature of the courts, a corrective statutory codification seems unlikely.

¹¹⁷ Most courts prefer not to overrule their prior decisions. The U.S. Supreme Court is no exception.

¹¹⁸ See, e.g., *Kirtsaeng v. John Wiley & Sons*, 133 S. Ct. 1351, 1368, 1376 (2013) (Breyer Majority: “Is the Court having once written dicta calling a tomato a vegetable bound to deny that it is a fruit forever after? To the contrary, we have written that we are not necessarily bound by dicta should more complete argument demonstrate that the dicta is not correct. *Cent. Va. Cmty. Coll. v. Katz*, 546 U.S. 356, 363 (2006) (“[W]e are not bound to follow our dicta in a prior case in which the point now at issue was not fully debated”); *Humphrey’s Ex’r v. United States*, 295 U.S. 602, 627-28 (1935) (rejecting, under *stare decisis*, dicta, “which may

In the instant case, the core holding in *PRE* is simple: *an objectively reasonable effort to litigate cannot be a sham regardless of subjective intent.*¹¹⁹ That simple (but profound) statement is all that was needed to actually dispose of the case. All of the other formulations regarding the *PRE* objective test are interesting, and informative, but, under the Court’s own tests for distinguishing holdings from dicta, they would not be viewed as the definitive, binding legal test.

It should be noted that Justice Stevens’ concurring opinion in *PRE* supports this view:

While I agree with the Court’s disposition of this case and with its holding that “an objectively reasonable effort to litigate cannot be sham regardless of subjective intent,” I write separately to disassociate myself from some of the unnecessarily broad dicta in the Court’s opinion. Specifically, I disagree with the Court’s equation of “objectively baseless” with the answer to the question whether any “reasonable litigant could realistically expect success on the merits.” There might well be lawsuits that fit the latter definition but can be shown to be objectively unreasonable, and thus shams. It might not be objectively reasonable to bring a lawsuit just because some form of success on the merits – no matter how insignificant – could be expected.¹²⁰

C. A Proposed Clarification to the PRE Objective Test

Several guidelines can now be enumerated regarding the contours of a clarification to the *PRE* objective test. The overall two-part structure for identifying “sham” claims, utilizing both subjective and objective tests, and how those tests interrelate (as shown in the matrix in Exhibit 1), remains unchanged.

First, and foremost, the clarifying court should clarify that the *PRE* objective test is in fact a variant of the “objectively unreasonable” archetype. Language of the following sort could be profitably employed:

A “sham” claim is an objectively unreasonable claim; it lacks any reasonable chance of success in producing a reasonably favorable

be followed if sufficiently persuasive but which are not controlling”); Ginsberg Dissent: “I agree that the discussion was dictum in the sense that it was not essential to the Court’s judgment.”).

¹¹⁹ *PRE*, *supra* note 21, at 57 (emphasis added).

¹²⁰ *Id.* at 67-68 (emphasis added) (citations omitted).

outcome, based on the nature of the claim, from the vantage point of the reasonable prudent claimant.

A “genuine” claim has a reasonable chance of succeeding in producing a reasonably favorable outcome, based on the nature of the claim, from the vantage point of the reasonable prudent claimant.

Second, after clarifying the general nature of the *PRE* objective test, the court could seize the opportunity to re-affirm various subsidiary matters relating to that test (as described in relation to the court decisions referenced herein).¹²¹

Third, the clarifying court could re-affirm that, only if challenged litigation is objectively unreasonable may a court examine the litigant’s subjective motivation. Sham litigation is litigation motivated by something other than a genuine prayer for relief, and the litigant’s subjective motivation may be proven by direct or circumstantial evidence. The court should focus on whether the unreasonable lawsuit conceals an attempt to violate the Sherman Act through the use of the governmental process – as opposed to the outcome of that process – as an anticompetitive weapon.

Fourth, the clarifying court could harmonize and unify the *PRE* and *Walker Process* lines of authority through the use of language along the following lines: “Fraudulent and objectively baseless claims are claims presented in bad faith and are objectively unreasonable. Claims depending upon close questions of law, or claims warranted by a reasonable argument for the extension, modification, or reversal of existing law, are not.”

¹²¹ For example, the court could re-affirm that: (1) the objective reasonableness of asserting a claim is evaluated based upon the totality of the circumstances known to the claimant at the time of filing; (2) the duty to only pursue objectively reasonable claims is a continuing one (so that, if a litigant becomes aware of facts or law that converts what was once a genuine petition for redress into a sham, the citizen has an affirmative duty to timely correct the matter (including, potentially, discontinuing the proceeding)); and (3) the considerations bearing on objective reasonableness would include, but not be limited to, the following: (a) the evidentiary basis for any factual contentions upon which the suit is based; (b) the legal basis upon which the claim and prayer for relief are based; (c) the diligence of the claimant in ascertaining, prior to filing and throughout the prosecution of the matter, whether it has reasonable grounds to sue; (d) the presence or absence of effective legal advice from competent counsel; and (e) the likelihood, nature, and expected magnitude of success (considering both financial and non-financial measures of success), and the risk-adjusted cost, that a reasonable prudent person would perceive in relation to the litigation.

It is respectfully suggested that formulations along the lines described above, consistently applied in litigation everywhere and, in particular, in the patent field, would dramatically increase the utility and predictability of the *Noerr-Pennington* standard by capitalizing on all that has been learned since *PRE* was originally decided.