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Federal Circuit To Decide Constitutionality Of 'Bad Faith' Patent Litigation Statutes

By Catherine Nyarady and Crystal Parker
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On May 3, 2023, Judge David C. Nye of the U.S. District Court for the District of Idaho issued an order in *Katana Silicon Technologies v. Micron Technology*, 671 F.Supp.3d 1138 (D. Idaho 2023) and *Micron Technology v. Longhorn IP*, No. 1:22-cv-00273-DCN (D. Idaho July 5, 2022) (collectively, the litigations), imposing the first-ever bond order under Idaho's Bad Faith Assertions of Patent Infringement Act (the act).

In that order, the court required patent owner Katana Silicon Technologies (Katana) or its parent company, Longhorn IP LLC (Longhorn), to post an $8 million bond before allowing Katana to proceed with its patent infringement suit against Micron Technology Inc. (Micron), further denying both Katana and Longhorn's motions to dismiss. Katana and Longhorn have since appealed to the U.S. Court of Appeals for the Federal Circuit, where the appellate panel will consider Katana and Longhorn's preemption challenge to the act and its bond provision. Oral argument in the appeal has not yet been scheduled.

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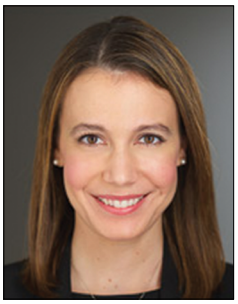

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Currently, more than 30 states have statutes targeting bad faith patent litigation, the constitutionality of which has gone largely unchallenged. Brief of Respondent-Appellee Micron at 1, *Micron Technology v. Longhorn IP,* No. 23-2007 (Fed. Cir. May 28, 2024), 2024 WL 2859226; Brief of Petitioner-Appellant at 1, *Micron Technology v. Longhorn IP,* No. 23-2007 (Fed. Cir. Feb. 22, 2024). As a result, the litigations have drawn extensive interest from state attorneys general across the country.

The Attorney General of Idaho intervened in the district court litigation, and the attorneys general of 29 states and Washington, D.C., have now filed a combined amicus brief in the appellate proceedings seeking to defend the act, as well as bad faith assertion of patent infringement statutes more broadly.

Statutory Background

The act is intended to guard against what is commonly referred to as "patent trolling" by making it "unlawful for a person to make a bad faith assertion of patent infringement in a demand letter, a complaint, or any other communication." Idaho Code §48-1703(1). It seeks to "facilitate the efficient and prompt resolution of patent infringement claims" while also "protect[ing] Idaho businesses from abusive and bad faith assertions of patent infringement." Idaho Code §48-1701(2). In doing so, the act creates a private cause of action for those targeted by bad faith infringement assertions and contemplates two types of relief: remedies and a bond requirement. Idaho Code §§48-1706(1), 48-1707.

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A bond order requires the party alleged to have asserted patent infringement in bad faith to post a bond "equal to a good faith estimate of the target's cost to litigate the [underlying infringement] claim and amounts reasonably likely to be recovered." Idaho Code §48-1707. For a bond to be imposed, the target must demonstrate that it has a reasonable likelihood of prevailing on the bad faith claim.

The act then provides a series of factors that a court may consider as indicative of bad or good faith. *See* Idaho Code §§48-1703(2)(a)-(3)(d). These include, among others, (1) the specificity of demand letters sent by the party asserting infringement, (2) the reasonableness of payment demands and timelines by the party asserting infringement, (3) the history of previous lawsuits with similar claims filed by the party asserting infringement, (4) evidence of subjective bad faith or deception and a catch-all in (5) "any other factor the court finds relevant."

Case Background

In the events giving rise to the litigations, Katana sued Micron, a large semiconductor manufacturing company, for patent infringement in the U.S. District Court for the Western District of Texas. *Katana*, 671 F.Supp.3d at 1146-47. According to the district court's order, Longhorn and Katana, instead of "creat[ing] products or offer[ing] services, make[] money by asserting a portfolio of patents against companies that do."

Micron, having already been sued by another Longhorn affiliate, alleged that Katana was operating in bad faith and responded with a counterclaim alleging a violation of the act. Micron separately sued Longhorn in Idaho state court, alleging that the Texas litigation violated the act, and sought a $15 million bond.

The federal Texas suit ultimately ended up in the District of Idaho, where Longhorn also removed Micron's state court action. Katana and Longhorn moved to dismiss Micron's counterclaim and its separate suit, respectively, with the court jointly considering and deciding those motions.

The District Court Order

In its order denying Katana and Longhorn's motions to dismiss, the district court addressed whether federal law preempts the Idaho Act. It also considered Micron's motion to impose a bond under the act.

Denying the motions to dismiss, the district court rejected Longhorn and Katana's argument that under the Supremacy Clause of the United States Constitution, federal patent law preempts the act. Although the court refused to apply the presumption against implied preemption set forth by the Supreme Court in *Wyeth v. Levine*, 555 U.S. 555, 565 (2009),

the court nevertheless concluded that the act neither intruded on Congress' exclusive right to regulate patents, nor "alter[ed] any policy line that Congress has expressly drawn."

As part of that analysis, the court considered whether the act encroached into an exclusively federal legal field, explaining that the act does not establish "quasi-patent protections," but simply "allows damages against those who abuse the federal patent system." Furthermore, because Congress created a "policy vacuum" on the issue of bad faith patent assertions, over thirty states had "stepped in[]" by adopting statutes protecting local businesses from "shakedowns at the hands of patent trolls." Congress's "continued silence" on the issue signals that it has acquiesced to the states legislating on the issue.

> Longhorn and Katana argue on appeal that the district court abused its discretion in imposing the bond

Ruling in favor of Micron on its bond motion, the district court calculated and approved an $8 million bond judgment against Longhorn and Katana. Having found that the relevant factors supported denying both motions to dismiss, it determined that Micron had demonstrated a "reasonable possibility" that Longhorn and Katana asserted patent infringement in bad faith, therefore requiring Longhorn or Katana to post a bond.

Calling the bond "punitive" and "chilling in effect on speech and enforcement of rights," Longhorn and Katana appealed. Brief of Petitioner-Appellant at 6-7, *Micron Technology v. Longhorn IP,* No. 23-2007 (Fed. Cir. Feb. 22, 2024).

Arguments on Appeal and Amicus Briefs

On appeal, Longhorn and Katana argue that the district court erred in failing to find the Idaho act preempted by federal patent law. As part of their preemption challenge, Longhorn and Katana claim that the Idaho act "displace[s] Congress's chosen calculus of patent litigation incentives," which naturally favors a finding of preemption. Brief of Petitioner-Appellant at 39, *Micron Technology v. Longhorn IP,* No. 23-2007 (Fed. Cir. Feb. 22, 2024).

Longhorn and Katana underscore this argument by distinguishing the act from other bad faith patent infringement assertion statutes, claiming it is "unique in its clear intent to regulate" litigation in federal court, given that it is one of the few such statutes (1) allowing courts to order a bond and (2) contemplating uncapped damages. They claim that the $8 million bond, the first of its kind, is evidence of a "one sided state-law scheme that 'conflicts with the Federal Rules by setting up an additional hurdle a plaintiff must jump over to get to trial'" (citing *Abbas v. Foreign Policy Group*, 783 F.3d 1328, 1334 (D.C. Cir. 2015)). As such, they argue that "[b]ecause the act impedes the vindication of a federal right, it is impliedly preempted."

Micron, in its briefing, argues that "the contours of preemption due to federal patent law are 'well-established,'" Brief of Respondent-Appellee at *35, *Micron Technology v. Longhorn IP*, No. 23-2007 (Fed. Cir. May 28, 2024), 2024 WL 2859226 (quoting *800 Adept v. Murex Securities*, 539 F.3d 1354, 1369 (Fed. Cir. 2008)), but those contours have never included state laws governing bad faith conduct by a patent holder (citing *Energy Heating v. Heat On-The-Fly*, 889 F.3d 1291, 1304 (Fed. Cir. 2018)).

Micron asserts that preemption pertains only to the objectives of federal patent law, which are (1) maintaining incentives to invent, (2) promoting full disclosure of inventions and (3) ensuring that inventions in the public domain remain available for public use (citing *Dow Chemical v. Exxon*, 139 F.3d 1470, 1473-1474 (Fed. Cir. 1998)). Though

those objectives protect parties asserting patent rights in good faith from state interference, Micron argues that "patent law has no interest in upholding wrongful, bad faith conduct" (citing *Dow Chemical*, 139 F.3d at 1475; *Globetrotter Software v. Elan Computer*, 362 F.3d 1367, 1377 (Fed. Cir. 2004)).

The state of Idaho also filed a brief opposing Longhorn and Katana's preemption challenge. Having intervened at the district court level to defend the act, Idaho claims that "the law of unfair competition has coexisted harmoniously with federal patent protection for almost 200 years," and according to the state of Idaho, that is what the act regulates. Brief of Respondent-Appellee State of Idaho at 12, *Micron Technology v. Longhorn IP*, No. 23-2007 (Fed. Cir. May 28, 2024) (citing *Bonito Boats v. Thunder Craft Boats*, 489 U.S. 141, 166 (1989)).

Idaho is not alone in its view. The other attorneys general that jointly filed an amicus brief advance the position that the law of unfair competition and patent law are distinct, independent bodies of law. Brief of North Carolina et al. as Amici Curiae supporting Respondents at *14, *Micron Technology v. Longhorn IP,* No. 23-2007 (Fed. Cir. May 30, 2024), 2024 WL 2890397 (citing *Mars Inc. v. Kabushiki-Kaisha Nippon Conlux,* 24 F.3d 1368, 1373 (Fed. Cir. 1994)). Additionally, industry and trade associations have written in support of the act due to concern about the impacts invalidating the act would have on small businesses. Brief of Comput. & Commc'ns Indus. Ass'n as Amici Curiae supporting Respondents, *Micron Technology v. Longhorn IP*, No. 23-2007 (Fed. Cir. May 24, 2024); Brief of ACT | The App Ass'n as Amici Curiae supporting Respondents, *Micron Technology v. Longhorn IP*, No. 23-2007 (Fed. Cir. June 11, 2024), 2024 WL 3070093.

Separately, Longhorn and Katana argue on appeal that the district court abused its discretion in imposing the bond. Brief of Petitioner-Appellant at 44-46, *Micron Technology v. Longhorn IP*, No. 23-2007 (Fed. Cir. Feb. 22, 2024). First, Longhorn points to the court's application of a "reasonable possibility" standard instead of a "reasonable likelihood" standard to impose the bond, which was "based solely on the accused infringer's pleadings." Longhorn argues that as-applied, the bond provision has imposed "punitive consequences" on its affiliate, Katana, before Katana even had a chance to enforce its patent.

Conclusion

Oral argument in Longhorn and Katana's appeal has not yet been scheduled. Depending on the scope of the eventual decision—particularly whether the panel distinguishes the Idaho Act from similar laws in other states—the decision may have a substantial impact throughout the country on other, similar state laws governing bad-faith assertion of patent infringement claims.