

**IN THE UNITED STATES DISTRICT COURT
FOR THE MIDDLE DISTRICT OF NORTH CAROLINA**

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| NAPCO, INC., |) | |
| |) | |
| Plaintiff, |) | |
| |) | |
| vs. |) | Civil Action No. 1:21-CV-00025 |
| |) | |
| LANDMARK TECHNOLOGY A, LLC, |) | |
| |) | |
| Defendant. |) | |
| |) | |
| |) | |

**DEFENDANT’S MEMORANDUM OF LAW IN SUPPORT OF ITS
PARTIAL MOTION TO DISMISS PLAINTIFF’S COUNT II**

NATURE OF THIS MATTER

Pursuant to Fed. R. Civ. P. 12(b)(6), Defendant Landmark Technology A, LLC (“Landmark A”) moves to dismiss Plaintiff Napco, Inc.’s (“Napco”) purported “Count II” under N.C. Gen. Stat. § 75-140 *et seq.* (“The Abusive Patent Assertions Act” or “the Act”) for failure to state a claim.

Napco has failed to plead the essential elements of its claim under Count II, including “actual injury” and “reliance.” Further, Napco’s Count II is preempted by federal patent law because Napco has failed to allege facts sufficient to plausibly plead “objective baselessness” and “subjective bad faith,” which are additional elements required by governing Federal Circuit precedent.

In addition, the North Carolina statute under which Napco purports to bring Count II—the Abusive Patent Assertions Act—conflicts with federal patent law, and suffers from a host of other constitutional infirmities. In particular, the Act: (1) conflicts with the standard of proof governing federal patent law; (2) conflicts with Landmark A’s right to provide notice of infringement under federal patent law; (3) conflicts with federal patent law by allowing courts to find “bad faith”

without determining whether an assertion of patent infringement is “objectively baseless”; (4) violates the First Amendment by imposing content-based restrictions on speech and by compelling speech; and (5) violates the Equal Protection Clause by subjecting different categories of patent owners to disparate treatment, exempting favored classes such as “operating entities” from liability under the Act—even for the “bad faith” conduct the Act otherwise proscribes.

As such, Landmark A moves to dismiss Napco’s Count II with prejudice.

STATEMENT OF FACTS

I. The Abusive Patent Assertions Act

In 2014, the North Carolina legislature passed N.C. Gen. Stat. § 75-140 *et seq.*, The Abusive Patent Assertions Act (“the Act”), joining the growing number of “states [that] had passed laws modeled on Vermont’s regulation of bad-faith patent assertions.”¹ The Act amended the North Carolina Unfair and Deceptive Trade Practices Act, N.C. Gen. Stat. § 75.1-1 *et seq.* (“the UDTPA”) in order to “make bad faith assertions of patent infringement an unfair and deceptive trade practice.”² The Act permits a “target or person aggrieved under this Article” to bring an action under the UDTPA against the party who allegedly “made a bad-faith assertion of patent infringement.” N.C. Gen. Stat. § 75-145. In doing so, the Act facially purports to regulate speech by patent owners, assigning liability to a “demand” made in “bad faith,” and defining a “demand” as a “letter, e-mail, or other communication asserting or claiming that a target has engaged in patent infringement or should obtain a license to a patent.” *Id.* § 75-142(2).

The Act does not apply equally to all parties asserting their patent rights, however. Rather, it specifically exempts from liability any assertion of patent infringement—even those made in bad faith—by an “operating entity or its affiliate,” “an institution of higher education,” “a technology transfer organization,” or “nonprofit research organization,” or involving specific

¹ David Lee Johnson, *Facing Down the Trolls: States Stumble on the Bridge to Patent-Assertion Regulation*, 71 Wash. & Lee L. Rev. 2023, 2026 (2014).

² Joint Legislative Economic Development and Global Engagement Oversight Committee, Report to the 2013-2014 General Assembly of North Carolina (2014), at 36, *available at* <https://www.ncleg.gov/Files/Library/studies/2014/st12102.pdf>.

classes of patents. *Id.* § 75-143(c). In doing so, the Act essentially targets “bad-faith” conduct by companies principally engaged in licensing patents, while shielding most other businesses, universities and nonprofits from liability altogether for the very “bad faith” conduct the Act otherwise proscribes. Moreover, the Act gives little guidance and broad discretion about what constitutes “bad faith.” It lists a dozen non-exclusive factors a court “may consider” as “evidence that a person has made a bad-faith assertion of patent infringement,” including an extremely broad catchall: “[a]ny other factor the court finds relevant.” *Id.* § 75-143(a).

Like the Vermont statute on which it was modeled, the Act poses serious conflicts with federal patent law, and is likely preempted altogether.³ Indeed, in a report to the North Carolina General Assembly on a draft of the Act, committee counsel specifically found that “the legislation could be attacked on the grounds that it allows for application in instances that would result in federal preemption.”⁴

II. Napco’s Declaratory Judgment Action Against Landmark A

On or about October 16, 2020, Landmark A’s counsel mailed a letter to Napco offering it a license to the ‘508 Patent. *See* Doc. #1-1. On January 11, 2021, without first having contacted Landmark A or its counsel, Napco filed the present action seeking a declaratory judgment of non-infringement as to the ‘508 Patent (“Count I”) and asserting a purported cause of action under N.C. Gen. Stat. §§ 75-140, *et seq.* (“Count II”). Among other things, Napco accuses Landmark A in conclusory fashion of making an “objectively meritless” assertion of patent infringement, and faults Landmark A for not providing “an element by element claim analysis” in its letter. Doc. #1, ¶¶ 32-104.

³ *See* Johnson, *supra* note 1, at 2028 (concluding that “much of [Vermont’s] law is likely dead letter because it is preempted by federal patent law”); Paul R. Gugliuzza, *Patent Trolls and Preemption*, 101 Va. L. Rev. 1579, 1631-35 (2015) (concluding that Federal Circuit precedent on preemption “gives courts a clear path to find some of the new state statutes invalid and to limit the application of others”).

⁴ *See supra* note 2, at 36.

Notably, the ‘508 Patent has survived a motion attacking its eligibility under 35 U.S.C. § 101, as has a related patent.⁵ Further, no court has ever held Landmark A’s infringement contentions involving the ‘508 Patent to be insufficient. At no time prior to the filing of this action did Napco or its counsel contact Landmark A to ask for further information regarding the ‘508 Patent or any of the statements in Landmark A’s letter.

Landmark A now brings this motion to dismiss Napco’s Count II.

QUESTIONS PRESENTED

1. Has Napco failed to plead the essential elements of its claim under Count II, including “actual injury” and “reliance”?
2. Has Napco failed to allege facts sufficient to plausibly plead “objective baselessness” and “subjective bad faith,” as required for Count II survive preemption by federal patent law and/or the *Noerr-Pennington* doctrine?
3. Is N.C. Gen. Stat. §§ 75-140, *et seq.* (“the Abusive Patent Assertions Act”) preempted by federal patent law?
4. Is N.C. Gen. Stat. §§ 75-140, *et seq.* (“the Abusive Patent Assertions Act”) unconstitutional under the First Amendment and the Equal Protection Clause, both facially and as-applied?

ARGUMENT

I. Legal Standards

Under Federal Rule of Civil Procedure 12(b)(6), a party may challenge the sufficiency of the statement of the claim for relief. *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 555 (2007). To survive a motion to dismiss, a claim must contain “sufficient factual matter, accepted as true, to ‘state a claim to relief that is plausible on its face.’” *Ashcroft v. Iqbal*, 556 U.S. 662, 678 (2009)

⁵ See *V. Sattui Winery v. Landmark Technology A, LLC*, No. 19-CV-05207-JD, Dkt. No. 28 (N.D. Cal. Sep. 30, 2020) (deferring § 101 motion against the ‘508 patent “until after claim construction”); *Tatcha, LLC v. Landmark Technology LLC*, 2017 WL 951019, at *6 (N.D. Cal. 2017) (denying § 101 motion against related U.S. Pat. No. 6,289,319, which shares the same specification as the ‘508 Patent, and stating that the § 101 determination “would benefit from claim construction and a fuller factual record.”).

(quoting *Twombly*, 550 U.S. at 570). Bare assertions, however, that amount to nothing more than a “formulaic recitation of the elements” of a claim “are conclusory and not entitled to be assumed true.” *Id.* at 681.

Where a motion to dismiss challenges the sufficiency of less than all the claims in the complaint (as here), Fed. R. Civ. P. Rule 12(a)(4) provides that the time to file a responsive pleading is extended until the Court has resolved the Rule 12 motion. *See, e.g., Johnson v. Pope*, 2013 WL 6500752, at *3 (E.D.N.C. Dec. 11, 2013); *Justice v. Dimon*, 2011 WL 2183146, at *2 (W.D.N.C. June 6, 2011).

II. Napco Has Failed to Plead the Essential Elements of Count II

The Abusive Patent Assertions Act amended the UDTPA to allow a “target or person aggrieved under this Article” to bring an action under the UDTPA against the party who allegedly “made a bad-faith assertion of patent infringement.” N.C. Gen. Stat. § 75-145. Thus, to state a claim under the UDTPA, Napco must allege “(1) an unfair or deceptive act or practice; (2) in or affecting commerce; (3) which proximately caused actual injury to plaintiffs.” *Coley v. Champion Home Builders Co.*, 162 N.C.App. 163, 166 (2004). Where an “unfair or deceptive practice claim is based on an alleged misrepresentation,” the UDTPA plaintiff must also show “actual reliance on the alleged misrepresentation “to establish that it “proximately caused the injury of which plaintiff complains.” *Bumpers v. Community Bank of Northern Virginia*, 367 N.C. 81, 89 (2013).

Napco has failed to plead a cognizable “actual injury” and to allege “reliance,” and its Count II must therefore be dismissed with prejudice.

A. Napco Has Failed to Plead “Actual Injury”

Napco alleges in conclusory fashion only that it has “suffered damages and incurred costs, fees (including attorneys’ fees), and expenses in investigating and defending against the bad faith claim of infringement, and other harm.” Doc. #1, ¶ 107. However, attorneys’ fees and litigation-

related expenses have long been **rejected** as the basis for “actual injury” or “damages” in a UDTPA claim—particularly where, as here, the attorneys’ fees Napco has allegedly incurred were not incurred in defending any action brought by Landmark A, but were incurred by Napco in electing to file this lawsuit.

In *Walker v. Branch Banking & Tr. Co.*, 133 N.C. App. 580, 585-86 (1999), the recipient of “a letter demanding payment” on a promissory note sued the sender of the letter under the UDTPA, alleging his signature on the note was a forgery and the sender’s effort to collect on the debt was an unfair trade practice. There, the plaintiff argued that “his attorney fees are actual damages caused by the conduct of the defendants” who sent the letter demanding payment. *Id.* at 586. But the court rejected that argument, holding that the plaintiff had “not incurred attorney fees in defending an unjust action brought by defendants, however, but in initiating this action himself.” *Id.* Indeed, North Carolina courts have carefully distinguished between damages sufficient to demonstrate an “actual injury,” and attorneys’ fees. *See Poor v. Hill*, 138 N.C. App. 19, 36 (2000) (noting that “[a]bsent an award of damages, plaintiffs have not yet established the amount of actual injury” on a UDTPA claim, and that “an award of counsel fees” would be “premature at this stage, because plaintiffs’ damages, if any” were yet to be determined).

Under *Walker*, Napco has failed to allege “actual injury” or any cognizable damages.⁶ Napco states that its “attorneys’ fees and expenses investigating and defending against” an alleged “bad faith claim of infringement” are “recoverable” under the Act, but this allegation confuses a

⁶ Other states to consider the issue in the context of their own unfair trade practices statutes have reached a similar conclusion as the *Walker* court. *See, e.g., Fleshman v. Wells Fargo Bank, N.A.*, 27 F.Supp.3d 1127, 1141 (D. Or. 2014) (dismissing UTPA claim and holding that “[s]uch fees and litigation costs are incurred only as a result of this litigation and are not the type that flow directly from unfair trade practices.”).

remedy with a claim. Doc. #1, ¶ 107. Napco’s attorneys’ fees may be available as a remedy under the Act, but they cannot substitute for proof of an actual injury for purposes of stating a claim.

Accordingly, Napco’s Count II must be dismissed with prejudice, since any attempt to amend to plead “actual injury” would be futile.

B. *Napco Has Failed to Plead “Reliance”*

Napco’s Count II is premised on allegedly deceptive statements in Landmark A’s letter, namely that the letter “is deceptive in that it fails to disclose the true nature and history of the ‘508 Patent, describes the patent as a ‘pioneer patent,’ and intentionally employs a nonsensical and unnecessarily dense and vague and ambiguous description of the alleged infringement.” Doc. #1, ¶ 105.

Since Napco bases its Count II on alleged deceptiveness, Napco is required to plead “reliance.” *See Bumpers*, 367 N.C. at 89. The “reliance” element requires both “actual reliance” and “reasonable reliance.” *Id.* In the context of the UDTPA, “actual reliance requires that the plaintiff have affirmatively incorporated the alleged misrepresentation into his or her decision-making process.” *Id.* at 90. As to reasonableness, “[r]eliance is not reasonable where the plaintiff could have discovered the truth of the matter through reasonable diligence, but failed to investigate.” *Id.*

Here, Napco fails to allege any sort of reliance. Moreover, its other allegations completely contravene the notion of reliance. For example, Napco admits that “**investigat[ed]**” the allegations in Landmark A’s letter. Doc. #1, ¶ 107 (emphasis added). In doing so, Napco has conceded the absence of reliance and pleaded itself out of court on Count II.

Any attempt by Napco to amend in order plead “reliance” would be futile here, as reliance on a “misrepresentation” made by a party asserting a claim of patent infringement would be quite

implausible under *Twombly/Iqbal*. See *In Re Innovatio IP Ventures, LLC Patent Litigation*, 921 F.Supp.2d 903, 919 (N.D. Ill. 2013) (“The recipient of a demand letter typically approaches any representations therein with a dose of skepticism, knowing that demand letters by definition assert a litigation position that the recipient is able to contest.”) (citing *Sosa v. DIRECTV, Inc.*, 437 F.3d 923, 941 (9th Cir. 2006) (“[L]egal representations made by potential litigation adversaries are exceedingly unlikely to be believed without investigation.”)). As the *Innovatio* court noted, the recipient of a demand letter has “no reason to rely on the [sender’s] assertion of infringement, or to assume that [it has] disclosed all...possible legal defenses.” *Id.* Further, Napco’s conclusory allegations of “deceptiveness” fail to satisfy the test of Fed. R. Civ. P. 9(b) “because they do not include the specific ‘who, what, when, where, and how of the material misrepresentation or omission.’” *Innovatio*, 921 F.Supp.2d at 920 (citation omitted).

As such, Napco cannot plausibly allege “reliance” and its Count II should be dismissed with prejudice since any attempt to amend would be futile.

III. Napco’s Count II is Preempted by Federal Patent Law and Barred by the *Noerr-Pennington* Doctrine Because Napco Has Failed to Allege Facts Sufficient to Plausibly Plead “Objective Baselessness” and “Subjective Bad Faith”

A. Preemption

Napco’s Count II is preempted by federal patent law unless can it allege facts sufficient to plausibly plead “objective baselessness” and “subjective bad faith.”

Under the Supremacy Clause of the U.S. Constitution, art. VI, § 2, “state law that conflicts with federal law is without effect.” *Cipollone v. Liggett Group, Inc.*, 505 U.S. 504, 516 (1992) (quotation omitted). Thus, state law is preempted where Congress has legislated to “occupy an entire field,” or where “the challenged state law stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress,” so-called “conflict preemption.” *Hughes v. Talen Energy Marketing, LLC*, 136 S. Ct. 1288, 1297 (2016) (quotation omitted). Here,

Federal Circuit law applies “in deciding whether the patent laws preempt a state-law tort claim.” *Globetrotter Software, Inc. v. Elan Computer Grp., Inc.*, 362 F.3d 1367, 1374 (Fed. Cir. 2004).

Conflict preemption applies in this case because Napco’s Count II conflicts with federal patent law, unless Napco can plead and prove both the elements of “objective baselessness” and “subjective bad faith.” In particular, federal patent law provides a statutory right to patent holders to “give notice to the public that the [patented article] is patented” and makes “notice of the patent to the accused infringer a prerequisite to the recovery of damages.” *Hunter Douglas, Inc. v. Harmonic Design, Inc.*, 153 F.3d 1318, 1336 (Fed. Cir. 1998), *overruled in part on other grounds*, *Midwest Indus., Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356, 1359 (Fed. Cir. 1999). *See* 35 U.S.C. § 287 (providing patent holders a right to provide notice of infringement). “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.” *Virginia Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 869 (Fed. Cir. 1997); *see also Concrete Unlimited, Inc. v. Cementcraft, Inc.*, 776 F.2d 1537, 1539 (Fed. Cir. 1985). “Patents would be of little value if infringers of them could not be notified of the consequences of infringement or proceeded against in the courts.” *Mikohn Gaming Corp. v. Acres Gaming, Inc.*, 165 F.3d 891, 897 (Fed. Cir. 1998) (quotation omitted).

Under Federal Circuit precedent, state law imposing liability “for publicizing a patent in the marketplace” (like the Act here) is preempted by federal patent law “unless the plaintiff can show that the patentholder acted in bad faith.” *Hunter Douglas*, 153 F.3d at 1336. “Bad faith includes separate **objective and subjective** components.” *Zenith Electronics Corp. v. Exzec, Inc.*, 182 F.3d 1340, 1354 (Fed. Cir. 1999) (emphasis added).

In *Globetrotter Software, Inc. v. Elan Computer Grp., Inc.*, 362 F.3d 1367, 1375-77, the Federal Circuit specifically held that “bad faith” cannot be satisfied “in the absence of a showing that the claims asserted were objectively baseless.” *Id.* at 1375. Specifically, the claim of patent infringement asserted must be shown to be objectively baseless “in the sense that no reasonable litigant could realistically expect success on the merits,” “either because [the patents asserted] were obviously invalid or plainly not infringed.” *Id.* at 1375-76 (quoting *Prof'l Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49, 60-61 (1993) (“PRE”)). Moreover, the Federal Circuit has held that it must be shown by “**clear and convincing evidence** that the infringement allegations are objectively false, and that the patentee made them in bad faith” before the “statements” asserting patent infringement “are actionable” under state law. *Golan v. Pingel Enterprise, Inc.*, 310 F.3d 1360, 1371 (Fed. Cir. 2002) (emphasis added).

Here, Napco has failed to allege sufficient facts to plausibly plead either “objective baselessness” or “subjective bad faith,” as required to escape preemption. The closest Napco comes to pleading “objective baselessness” is Napco’s conclusory allegation that the “claim and assertion of patent infringement as set forth in the Demand Letter is objectively meritless and Land [sic] knew or should have known that the assertion was meritless.” Doc. #1, ¶ 104. But this is a mere legal conclusion this Court should not accept as true. *Iqbal*, 556 U.S. at 678-79. Whether a claim of patent infringement is objectively baseless is a question of law with underlying factual inquiries. See *Filmtec Corp. v. Hydranautics*, 67 F.3d 931, 938 (Fed. Cir. 1996). Apart from its conclusory legal assertion, Napco pleads no facts that could support a finding of objective baselessness.

Much as in *Puritan Medical Products Company LLC v. Copan Italia S.p.A.*, 188 A.3d 853, 861 (2018), Napco’s complaint may have “challenged [Landmark A’s] belief” that Napco infringes

Landmark A's '508 Patent, but Napco has "failed to pinpoint any incorrect statement or falsity in the demand letter." Indeed, Napco's allegation at Doc. #1, ¶ 104 is just as conclusory as that dismissed in *Weiland Sliding Doors and Windows, Inc. v. Panda Windows and Doors, LLC*, 2012 WL 202757, at *2-4 (S.D. Cal. 2012); see also *Matthews Intern. Corp. v. Biosafe Engineering, LLC*, 695 F.3d 1322, 1322 (Fed. Cir. 2012) ("Because Matthews points to nothing to indicate that Biosafe's alleged infringement allegations were so unreasonable as to be objectively baseless, the trial court correctly concluded that Matthews failed to sufficiently plead the bad faith element necessary to support its state-law claims."). Similarly, in *Boydstun Equipment Manufacturing, LLC v. Cottrell, Inc.*, 2017 WL 4803938, at *7 & *18 (D. Or. 2017), the court held a claim brought under an Oregon statute resembling North Carolina's was preempted because the complaint only alleged "a legal conclusion that the Court need not accept as true" and failed to allege "a sufficient factual basis from which the Court can reasonably infer that [defendant's] patent enforcement actions were objectively baseless."

Further, Napco has also failed to plausibly plead "subjective bad faith." Controlling Federal Circuit precedent holds that "bad faith is not supported when the information is objectively accurate," and "a threshold showing of incorrectness or falsity, or disregard for either, is required to find bad faith in the communication of information about the existence or pendency of patent rights." *Mikohn Gaming*, 165 F.3d at 897. Napco has failed to allege any facts supporting "a threshold showing of incorrectness or falsity," as "required to find bad faith" under federal patent law. To the extent that Napco's allegations would support an allegation of "bad faith" solely under the factors the Act states that courts "may consider," N.C. Gen. Stat. § 75-143(a)(1)-(12), they are inconsistent with federal patent law and preempted as applied in this case.

Accordingly, Napco has failed to allege facts sufficient to plausibly plead both “objective baselessness” and “subjective bad faith.” Napco’s Count II should be dismissed with prejudice since any attempt to amend to plead these elements would be futile.

Alternatively, the court should at least dismiss Count II as “premature,” since there are as yet no facts on which Napco can premise allegations of “objective baselessness” and “subjective bad faith.” *See Elantech Devices Corp. v. Synaptics, Inc.*, 2006 WL 1883255, at *1 (N.D. Cal. 2006) (dismissing state tort claims against patent owner as “premature” because party could not show patent infringement claims were “objectively baseless” until underlying infringement case was resolved)

B. *Noerr-Pennington*

Napco’s Count II is also barred by the *Noerr-Pennington* doctrine “[b]ecause the demand letters at issue here sought settlement of claims against” Napco and “no sham is claimed” in Napco’s complaint. *See Sosa*, 437 F.3d at 942 (noting that “[p]relitigation communications demanding settlement of legal claims must be afforded Noerr-Pennington protection” where there is no allegation of “sham”). Under the *Noerr-Pennington* doctrine, prelitigation communications “to settle legal claims” are immunized from liability, so long as they “do not amount to a sham.” *Id.* To establish “sham,” the plaintiff must establish both “objective baselessness” and “subjective bad faith.” *See PRE*, 508 U.S. at 60-61.

For the reasons given *supra*, Napco has failed to plausibly plead both these elements, and Count II is therefore barred by *Noerr-Pennington* doctrine and must be dismissed with prejudice.

IV. Napco’s Count II is Preempted Because the Abusive Patent Assertions Act is Preempted As a Whole

Even if Napco’s Count II were properly pleaded, it must still be dismissed because the statute itself conflicts with federal patent law.

First, since a UDTPA claim for “bad faith” assertion of patent infringement brought under the Act may be proven under a “preponderance of the evidence,” the statute conflicts with the

standard of proof required by federal patent law, namely “clear and convincing evidence.” *Compare Golan*, 310 F.3d at 1371 (requiring “clear and convincing evidence” that a patent owner’s infringement allegations are “objectively false” before they are “actionable”), *with Georgia Pacific Consumer Products, LP v. Drehle Corp.*, 618 F.3d 441, 457 (4th Cir. 2010) (recognizing that a North Carolina UDTPA claim may be proven “by a preponderance of the evidence”). Insofar as the Act exposes patent holders to state law claims that require a lesser burden of proof than required by Federal Circuit precedent, those claims and the statute that creates them are preempted by federal patent law.

Second, the Act expands the definition of “bad faith” in ways that have nothing to do “objective baselessness,” contrary to *Globetrotter* and other Federal Circuit precedent.⁷ Indeed, the Act would allow courts to impose liability for conduct that has no bearing whatsoever on the merits of a patent infringement claim, such as omitting the “name and address of the patent owner” from a letter, N.C. Gen. Stat. § 75-143(a)(1)), or indeed for anything at all. *See* § 75-143(a)(12) (stating that a court may find “bad-faith” based on “[a]ny other factor the court finds relevant”).⁸

Third, “bad-faith” factors §§ 75-143 (a)(1) and 75-143(a)(3)-(5) present more specific conflicts with federal patent law as well. As mentioned above, allowing courts to find “bad-faith” under factors (a)(1) and (a)(3) for failing to provide “factual allegations” relating to infringement, or explaining how a patentee has standing, conflicts with 35 U.S.C. § 287, which authorizes patent holders to provide “notice” of infringement. All that is required to provide “actual notice” under the federal statute § 287 is to “specifically identify a product and offer a license for that product”—*not* to spell out, in detail, a patent holder’s entire infringement case against that product, or to reveal to the accused infringer exactly how its product is covered by the claims of the patent. *See*

⁷ *See Johnson, supra* note 1, at 2071 (“Permitting states to define bad faith without respect to federal precedent would permit states to establish divergent bad-faith standards.”).

⁸ Paul R. Gugliuzza, *Patent Trolls and Preemption*, 101 Va. L. Rev. 1579, 1594 (2015) (recognizing that “[s]ome [state] statutes, in tension with the Federal Circuit’s requirement that a litigant challenging patent enforcement conduct must show both objective baselessness and the patent holder’s improper subjective intent, grant courts leeway to find bad faith based solely on subjective considerations” and observing that “[c]urrent Federal Circuit doctrine plainly prohibits a state from imposing liability based solely on the patent holder’s subjective intent”).

Minks v. Polaris Industries, Inc., 546 F.3d 1364, 1376 (Fed. Cir. 2008); *see also Gart v. Logitech, Inc.*, 254 F.3d 1334 1345-46 (Fed. Cir. 2001). Further, allowing courts to find “bad-faith” for extending a patent licensing offer for an “unreasonably short” period or making an offer that is not “reasonable” interferes with well-established negotiating practices among patent holders and potential licensees, conflicting with the objectives of 35 U.S.C. § 287, which authorizes patent holders to provide “notice” of infringement. Virtually any recipient of a licensing offer would have an incentive to claim that the offer was “not reasonable” and assert a claim under the Act to gain leverage in the licensing negotiation. The Act thus interferes in an area of patent law that Congress has declined to regulate, and invites collateral litigation over the supposed “reasonableness” of licensing offers—which is likely to have the effect of reducing pre-suit resolution of patent infringement claims. Ironically, the Act is likely to discourage settlement communications and encourage more patent litigation.

Since the foregoing provisions are preempted, and the Act contains no severability clause, the statute **as a whole** should be held invalid. *See Appeal of Springmoor, Inc.*, 348 N.C. 1, 14 (1998) (holding that while the absence of a severability clause is not necessarily conclusive, it does provide evidence of legislative intent” and holding that when the “General Assembly did not include a severability clause,” the “entire subsection must fail”). With so many of its provisions preempted, the Act cannot stand on its own, nor would the legislature have intended it to do so, since the Act clearly attempts to impose liability on conduct that has nothing to do with whether an assertion of patent infringement is “objectively baseless.”

As such, the Act in its entirety must fall and Napco’s Count II must be dismissed with prejudice.⁹

⁹ A similar Oregon statute was found “as a whole [to be] in conflict with federal patent law” because of its conflicting standard of proof, though the judge ultimately declined to adopt the magistrate’s recommendation in this regard and decided the issue on a narrower ground, holding the claim preempted as pleaded for failure “to allege facts demonstrating the objective baselessness of Plaintiff’s claim, ascertainable loss, and reliance.” *See Landmark Technology, LLC v. Azure Farms, Inc.*, 2019 WL 3763762, at *7 (D. Or. 2019) (finding, *inter alia*, the Oregon statute preempted as a whole due to its conflicting standard of proof), *report and recommendation adopted*

V. The Act Violates the First Amendment, Both Facially and As Applied, by Imposing Content-Based Restrictions on Speech and by Compelling Speech.

A. *The Act Imposes an Unconstitutional Content-Based Restriction on Speech*

Under the First Amendment, “state authority” may not be used “to restrict expression because of its message, its ideas, its subject matter, or its content.” *Reed v. Town of Gilbert, Ariz.*, 576 U.S. 155, 163 (2015) (quotation omitted). “Content-based laws—those that target speech based on its communicative content—are presumptively unconstitutional and may be justified only if the government proves that they are narrowly tailored to serve compelling state interests.” *Id.* “Government regulation of speech is content based if a law applies to particular speech because of the topic discussed or the idea or message expressed.” *Id.* “A law that is content based on its face is subject to strict scrutiny regardless of the government’s benign motive.” *Id.* at 165.

In *Reed*, a municipality’s law regulating “various categories of signs based on the type of information they convey, and subjecting each category to different restrictions” failed to survive the court’s strict scrutiny analysis because the law’s “distinctions fail[ed] as hopelessly underinclusive.” *Id.* at 171. The law allowed “unlimited proliferation of larger ideological signs while strictly limiting the number, size, and duration of smaller directional ones.” *Id.* at 172. As such, the municipality could not claim that its restrictions served a compelling governmental interest while “allowing unlimited numbers of other types of signs that create the same problem.” *Id.*

Here, the Abusive Patent Assertions Act is facially (and as applied) a content-based law whose stated objectives are undermined by its “hopelessly underinclusive” reach. *Id.* at 171.

in part, rejected in part by Landmark Technology, LLC v. Azure Farms, Inc., 2020 WL 1430088, at *5 (D. Or. 2020) (holding claim preempted as pleaded).

The Act states that “North Carolina has a strong interest in . . . protecting its citizens and businesses against abusive patent assertions and ensuring North Carolina companies are not subjected to abusive patent assertion by entities acting in bad faith.” § 75-141(a)(8). Yet, the Act explicitly exempts from liability any “operating entity,” “institution of higher education,” “technology transfer organization,” or “nonprofit research organization” from liability under the Act—even for the **same** “bad faith” conduct the Act purports to make unlawful. § 75-143(c). As such, the Act targets only a narrow category of patent owners, while leaving the majority free of liability for engaging in “bad faith” assertions of patent infringement. Indeed, virtually all U.S. patents are owned by so-called “operating” entities.

Like the law held unconstitutional in *Reed*, here the Act cannot claim to police “bad faith” conduct by *some* patent owners “while at the same time allowing unlimited numbers” of *other* patent owners to engage in the same conduct and perpetuate “the same problem.” *Reed*, 576 U.S. at 172.

Accordingly, the Act is unconstitutional as a content-based restriction on speech that fails under strict scrutiny, facially and as-applied in this case, and Napco’s Count II must be dismissed with prejudice.

B. The Act Unconstitutionally Compels Speech

“The First Amendment not only protects against prohibitions of speech, but also against regulations that compel speech.” *Stuart v. Camnitz*, 774 F.3d 238, 245 (4th Cir. 2014). A “regulation compelling speech is by its very nature content-based, because it requires the speaker to change the content of his speech or even to say something where he would be otherwise be silent.” *Id.*

Here, by allowing courts to find “bad-faith” for failing to supply infringers with “[f]actual allegations” underpinning a patent owner’s assertion of patent infringement, or failing to provide an infringer with an “explanation of why the person making the assertion has standing,” the Act compels patent owners to engage in certain forms of speech to avoid liability under the Act. N.C. Gen. Stat. 75-143(a)(1)-(3). Essentially, the Act compels patent owners to provide infringers with substantial pre-litigation discovery—indeed, to provide them virtually their entire case regarding an assertion of patent infringement or their standing to bring suit, before a lawsuit has ever been filed. A patent owner could not provide notice of infringement, as permitted by 35 U.S.C. § 287 and required to accrue damages, without also being compelled by the Act to engage in additional speech. This is contrary to virtually the entire federal system of patent litigation, where detailed infringement contentions are typically provided to infringers during discovery, once a lawsuit has been filed. There is no comparable federal rule requiring patent owners to provide infringers with detailed pre-suit discovery about their infringement case, and compelling them to do so under the Act serves no valid government interest.

Accordingly, the Act is in violation of the First Amendment for compelling speech, and Napco’s Count II must be dismissed with prejudice.

VI. The Act Violates the Equal Protection Clause by Subjecting Different Classes of Patent Owners to Disparate Treatment

Finally, the Act is also in violation of the Equal Protection Clause of the Fourteenth Amendment. “The Equal Protection Clause of the Fourteenth Amendment provides that “[n]o State shall...deny to any person within its jurisdiction the equal protection of the laws.” *Grimm v. Gloucester County School Board*, 972 F.3d 586, 606 (4th Cir. 2020) (quoting U.S. Const. amend. XIV, § 1). “It is essentially a direction that all persons similarly situated should be treated alike.” *Id.* (quotation omitted). While strict scrutiny should apply to an equal protection challenge to

statute imposing a content-based restriction on speech, as here, the Act fails to survive even rational basis review, since the Act’s disparate treatment of patent owners is not “rationally related to a legitimate state interest.” *Id.* at 607.

The Act explicitly exempts from liability any “operating entity,” “institution of higher education,” “technology transfer organization,” or “nonprofit research organization” from liability under the Act—even for the **same** “bad faith” conduct the Act purports to make unlawful. § 75-143(c). As such, the Act targets only a narrow category of patent owners, while leaving the majority free of liability for engaging in “bad faith” assertions of patent infringement. Since the Act’s stated purpose is to protect North Carolina citizens from “bad faith” assertions of patent infringement, this disparate treatment of different categories of patent owners makes no rational sense, since virtually all U.S. patents are owned by so-called “operating” entities. The Act cannot claim to survive rational basis review by policing “bad faith” conduct by some patent owners “while at the same time allowing unlimited numbers” of other parties to engage in the same conduct and perpetuate “the same problem.” *Reed*, 576 U.S. at 172.

Accordingly, the Act violates the Equal Protection Clause and Napco’s Count II must be dismissed with prejudice.

VII. CONCLUSION

For the foregoing reasons, Landmark A asks the Court to dismiss Napco’s Count II with prejudice.

This the 5th day of March, 2021.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that on March 5, 2021, I electronically filed the foregoing document with the Clerk of Court using the CM/ECF system, which will send notification of such filing to all counsel of record.

I further certify that the foregoing document was served upon the Attorney General of North Carolina pursuant to FRCP 5.1(a) by mailing a copy thereof to the address indicated below with the proper postage attached and deposited in an official deposit under the exclusive care and custody of the United States Postal Service in Raleigh, North Carolina.

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WORD COUNT CERTIFICATION

I hereby certify that the foregoing document contains fewer than 6,250 words according to the word count feature in Microsoft Word and is therefore in compliance with the word limitation set forth in L.R. 7.3(d)(1).

This, the 5th day of March, 2021.

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