

# Federal Circuit protects infringement demand letters as free speech

Frank West  
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The US Court of Appeals for the Federal Circuit recently issued an opinion in *Lite-Netics v Nu Tsai Capital* that affirmed the right of patent owners to make good faith allegations of patent infringement under the US First Amendment without incurring liability for state law business tort claims.

Lite-Netics sells holiday string lights with magnets in the base of each light socket that attach to the metal along a roof's edge. Lite-Netics owns two patents that claim magnetic decorative lights: US patents 7,549,779 and 8,128,264.

The defendant, which does business as Holiday Bright Lights (HBL), was a former customer of Lite-Netics and also sold magnetic decorative lights. HBL's lights differed from Lite-Netics' lights by use of two half-disk magnets rather than a full disk magnet.

Lite-Netics sent HBL letters demanding it cease infringing its patent rights. The pair disputed about infringement – debating the number of magnets, their pull strength, and location to the light socket.

Unable to reach agreement, Lite-Netics sued HBL for patent infringement in 2022 in the US District Court for the District of Nebraska. Lite-Netics informed its customers, some of which were also HBL's customers, of the suit against HBL and that Lite-Netics was considering suing any company using or reselling HBL's products.

In response, HBL filed a motion to dismiss. It also asserted multiple state law business tort counterclaims against Lite-Netics based, at least in part, on the customer communications. HBL filed a motion for a temporary restraining order and preliminary injunction to stop Lite-Netics from asserting that HBL copied Lite-Netics' products or asserting that HBL's customers could be the subject of an infringement suit.

The district court granted a temporary restraining order and preliminary injunction, finding that the infringement allegations were so meritless as to be in bad faith. Specifically, the district court found that HBL's use of two magnets, each with a pull strength of less than five pounds, precluded any credible infringement claim.

Lite-Netics appealed.

## Infringement letters and free speech

Noting that federal patent law preempts state law tort liability for good faith communications asserting patent infringement, the Federal Circuit stated that the ruling could only stand if the communications were in bad faith. Injunctions against the First Amendment right to freedom of speech should be granted only in exceptional circumstances.

The Federal Circuit held on 17 February that a showing of bad faith required a showing that no reasonable litigant could realistically expect to succeed on the merits of the case – meaning the claim was objectively baseless. The Federal Circuit, however, found that Lite-Netics' patent claims were open-ended permitting the presence of additional elements, including additional magnets. Accordingly, the Federal Circuit rejected HBL's argument that Lite-Netics patents were limited to embodiments with a single magnet. Further, the Federal Circuit held that even if HBL prevailed on claim construction or even on the merits, Lite-Netic's position was reasoned and not objectively baseless.

Notably, HBL did not argue that portions of the injunction should be upheld even if other portions were found to be improvidently granted. In the absence of such an argument, the Federal Circuit vacated the entire injunction. The Federal Circuit further noted that it was not addressing the Lite-Netics' communications threatening suit against HBL's customers and related injunctive relief in light of earlier precedent prioritising suits against manufacturers over customer suits.

## Lessons learned

A patent holder should be assured that good faith assertions of patent infringement in a licensing campaign will not be enjoined. It is only when a patent owner strays outside of the realm of good faith and makes unsupported allegations of infringement that their communications may be enjoined.

From the defensive posture, a defendant will rarely successfully obtain and maintain an injunction enjoining patentee communications asserting infringement in the absence of a showing that the communications asserting infringement were objectively baseless. If an injunction is obtained, it is advisable to ask an appellate court to consider separately each aspect of an injunction. In some instances, this may preserve some injunctive relief that can be used as leverage to seek a business resolution.

A defendant may have greater success pursuing a state law cause of action under an abusive patent assertion act which makes bad faith assertions of patent infringement unlawful (for example, the North Carolina Abusive Patent Assertions Act of 2014). While state laws often only preclude bad faith assertions by non-practicing entities, the state laws may have a broader definition of what constitutes a bad faith assertion of patent infringement. The state laws may further detail information to be included in communications asserting infringement to avoid a finding that the assertion was made in bad faith. A finding that an infringement assertion was made in bad faith may result in an award of damages, costs and fees and equitable relief against a patentee.

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## Frank West

Author | Shareholder

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