Settlement Demands and § 285: Why Bad Faith Must Be Found Before Demands Enter the Exceptionality Analysis

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In patent cases, § 285 fee motions now almost routinely feature a familiar defense playbook. After a non-infringement or invalidity win, the prevailing accused infringer points to the patentee's early correspondence: emails and letters that propose a license or settlement at figures "well below the cost of defense." Those offers are then recast as "extortionate," "coercive," or "nuisance-value shakedowns," and offered to the court as proof that the entire case was "exceptional."

That framing is legally flawed. It treats a basic and economically rational feature of settlement practice—that a plaintiff often proposes to resolve a dispute for less than what both sides would spend litigating it—as inherently suspect. And it collapses two distinct questions into one:

1. Did the patentee have an objectively reasonable infringement position when it made the demand?
2. Did the patentee know or should it have known that its infringement position was unreasonable or was the settlements demand for an improper purpose?

Defendants commonly ignore both, waving the "below-defense-cost" number as if it were self-proving abuse, without first addressing both objective and subjective baselessness. That shortcut is improper under Federal Circuit law—even under *Octane's* "totality of the circumstances" standard.

As *Globetrotter Software v. Elan*[1] and its companion cases make clear, patent-enforcement communications—including demands to license or settle at amounts below expected defense costs—are presumptively lawful and protected. They can be characterized as "wrongful," "abusive," or "bad-faith" conduct only if the underlying infringement assertions were themselves made in bad faith, which in this setting requires a showing that they were (1) objectively baseless—that no reasonable litigant could have expected to prevail and (2) subjectively baseless—pursued for an improper purpose.

Globetrotter is explicit: the "bad faith" standard cannot be satisfied in the absence of a showing that the claims asserted were objectively and subjectively baseless. Unless and until that predicate is met, ordinary infringement letters and their associated settlement proposals remain what the patent laws contemplate they should be: efforts to notify alleged infringers of rights and to resolve disputes without trial.

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[1] 362 F.3d 1367 (Fed. Cir. 2004).

The consequence for § 285 is straightforward and important. Courts applying § 285 and *Octane Fitness* should not treat a patentee's "below-cost-of-defense" settlement demands as evidence of exceptionality at all—not even as one more data point in the "totality of the circumstances"—unless and until they first make a finding of bad faith in the *Globetrotter* sense, i.e., both requirements. Without a prior determination that the patentee's infringement allegations were objectively and subjectively baseless when made, consideration of such settlement demands as a basis for fee-shifting is improper, even under *Octane's* flexible totality-of-circumstances framework.

What follows develops that point: it explains *Globetrotter's* bad-faith requirement, shows how Federal Circuit precedent makes objective/subjective baselessness a threshold—not just a factor—and then argues that this threshold must be satisfied before alleged "below-cost-of-defense" settlement demands can properly enter any § 285 exceptionality analysis.

I. Thesis

Under Federal Circuit precedent, patent enforcement communications—including infringement letters and settlement demands—are protected exercises of federal patent rights and petitioning activity. They become legally relevant as "wrongful" only when made in bad faith, which in this context means that the underlying infringement assertions are objectively and subjectively baseless in that the claims are pursued for an improper purpose.

That same threshold must apply in the § 285 context. A court should not treat settlement demands as evidence of an "exceptional case" under § 285 unless it first finds that the infringement allegations underlying those demands were made with *Globetrotter* bad faith—i.e., were objectively and subjectively baseless. Only after that gatekeeping determination is satisfied should the content, tone, or pattern of settlement demands enter the *Octane* / § 285 totality-of-the-circumstances analysis. Without this prerequisite finding of bad faith, reliance on settlement demands as "exceptional" would conflict with preemption/bad-faith jurisprudence and with the First Amendment values embedded in *Noerr-Pennington* and *Professional Real Estate*.

II. *Globetrotter's* Framework: Objective/Subjective Baselessness as a Predicate to Any "Bad Faith" Finding

A. The key holding

In *Globetrotter Software, Inc. v. Elan Computer Group, Inc*, the accused infringer's principal (Greer) asserted California tort claims for tortious interference and unfair competition based on Globetrotter's pre-acquisition communications to Rainbow and Greer. Those communications:

1. Alleged infringement of Globetrotter's patents,
2. Warned of potential litigation, and
3. Plainly had a settlement/licensing dimension in the acquisition negotiations.

Greer characterized these as wrongful interference and unfair competition. The Federal Circuit held such state-law claims preempted by federal patent law unless the patent holder acted in bad faith in asserting infringement.

Two key points about that "bad faith" requirement:

1. Bad faith is not optional—it is a mandatory element.
2. *Globetrotter* reaffirmed *Zenith Elecs. Corp. v. Exzec, Inc.*, 182 F.3d 1340 (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. … [B]ad faith must be alleged and ultimately proven, even if bad faith is not otherwise an element of the tort claim. 362 F.3d at 1374–75.

2. First Step, Objective baselessness; subjective motives are not enough.

The court imported the *Professional Real Estate*[2] sham-litigation standard and made it dispositive:

1. First, the infringement allegations must be objectively baseless—no reasonable litigant could realistically expect success on the merits, and
2. Only then do a patentee's subjective motives come into play.

3. Second Step, Subjective baselessness

If objective baselessness is found, then the court must answer whether the plaintiff **knew** its position was baseless or proceeded in reckless disregard of that fact, or acted with an improper motive, such as an attempt to interfere directly with a competitor's business relationships through the use of the lawsuit as an anticompetitive weapon. If yes, then a court may consider settlement communications.

B. What Greer's evidence failed to do in *Globetrotter*

Greer alleged that:

1. The timing of letters (sent during Rainbow-Elan negotiations) showed a desire to kill the deal;
2. Globetrotter had once questioned validity before acquiring the patent; and
3. Globetrotter never actually sued on the '369 and '412 patents it had mentioned.

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[2] *Pro. Real Est. Invs., Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49, 50, 113 S. Ct. 1920, 1922, 123 L. Ed. 2d 611 (1993).

Those are classic "settlement dynamic" facts: motive, timing, and negotiation posture. Globetrotter held that such evidence goes only to subjective intent and, standing alone, cannot establish "bad faith":

1. Greer "made no effort" to show that the infringement claims were objectively baseless.
2. As to the '297 patent, the only "objective" fact Greer relied upon was the district court's non-infringement ruling—later reversed by the Federal Circuit.

Because objective baselessness was absent, and because "bad faith cannot be satisfied in the absence of" such a showing, the Court held that Globetrotter's infringement letters and related communications could not be treated as wrongful at all. They were legally protected enforcement activity.

That doctrinal structure is precisely what should govern whether settlement demands can be considered in the § 285 analysis.

III. Other Federal Circuit Cases: Bad Faith—Defined by Objective/Subjective Baselessness—Is a Threshold

Globetrotter sits in a settled line of Federal Circuit cases:

1. *Zenith Elecs. Corp. v. Exzec, Inc.*, 182 F.3d 1340 (Fed. Cir. 1999): State-law liability for speech accusing infringement and warning customers is preempted unless the patentee acts in bad faith, meaning (i) its statements are objectively baseless or false, and (ii) coupled with improper purpose, subjective bad faith.
2. *Golan v. Pingel Enterprise, Inc.*, 310 F.3d 1360 (Fed. Cir. 2002): For claims based on patent cease-and-desist letters, the plaintiff must show the patentee "had no reasonable basis to believe" the accused product infringed. *Id.* at 1371. That is again an objective-baselessness and subjective-baselessness test.
3. *Mikohn Gaming Corp. v. Acres Gaming, Inc.*, 165 F.3d 891 (Fed. Cir. 1998): Infringement letters are insulated from state-law liability unless objectively and subjectively baseless.
4. *Virginia Panel Corp. v. MAC Panel Co.*, 133 F.3d 860 (Fed. Cir. 1997):A patentee "that has a good faith belief that its patents are being infringed violates no protected right when it so notifies infringers."

Across these authorities, the pattern is unmistakable:

1. A patentee's infringement letters and related settlement/licensing overtures are presumptively lawful.
2. They can be treated as "wrongful" only after a showing that the infringement assertions are:
    a. objectively baseless—i.e., that no reasonable litigant could have expected to prevail, and

b. Subjectively baseless – i.e., that the patentee **knew** its position was baseless or proceeded in reckless disregard of that fact, or acted with an improper motive.

Thus, bad faith is not a factor on a sliding scale; it is a threshold determination. One cannot weigh communications as "abusive" or "coercive" in any legal sense until that threshold—objective and subjective baselessness—is crossed.

IV. *Octane* and § 285 Must Be Read in Harmony With This Bad-Faith Threshold

A. *Octane* expanded discretion; it did not erase constitutional and preemption constraints

Octane Fitness, LLC v. ICON Health & Fitness, Inc., 572 U.S. 545 (2014):

1. Rejected the *Brooks Furniture* "clear and convincing" and rigid two-part test;
2. Adopted a flexible "totality of the circumstances" standard;
3. Defined an "exceptional case" as one that "stands out" either in the substantive strength of the position or the unreasonable manner in which it was litigated.

Nothing in *Octane* suggests that courts are now free to ignore:

1. The Federal Circuit's longstanding preemption doctrine shielding patent enforcement communications absent *Globetrotter* bad faith; or
2. The First Amendment and *Noerr-Pennington* values incorporated into *Globetrotter*'s objective/subjective-baselessness requirement.

Accordingly, § 285 must operate subject to the same constitutional floor: patent enforcement speech (including settlement demands) cannot be treated as wrongful—whether for purposes of tort liability or fee-shifting—unless and until a court finds the underlying enforcement effort objectively baseless and subjectively baseless.

B. Why a bad-faith predicate is required before settlement demands enter the § 285 analysis

If settlement demands can be weighed as "exceptional" without an antecedent finding of bad faith (in the *Globetrotter* sense), three conflicts arise:

1. Direct tension with *Globetrotter* and *Zenith*

Those cases hold that alleging infringement and threatening litigation are protected acts unless the claims are objectively baseless. To treat the same protected communications as "bad behavior" under § 285—while conceding the underlying claims had a reasonable basis—would undermine that protection.

2. Chilling effect on legitimate settlement

The Federal Circuit has explicitly recognized that patentees must be free to:

a. Notify accused infringers of their rights,

b. Propose licenses, and
c. Candidly warn of litigation if no resolution is reached.

If robust, even hard-bargained demands can, by themselves, make a case "stand out" for fee-shifting—without any finding that the infringement theory was objectively baseless—rational patentees will be chilled from early enforcement and settlement efforts.

3. *Noerr-Pennington* / *Professional Real Estate* concerns

Professional Real Estate holds that "an objectively reasonable effort to litigate cannot be sham regardless of subjective intent." 508 U.S. at 57. *Coastal States*[3] and its progeny extend that immunity to the "acts reasonably and normally attendant upon effective litigation," including threats and settlement overtures. Penalizing a patentee under § 285 based primarily on those attendant acts, when the suit itself is objectively and/or subjectively reasonable, conflicts with that doctrine. A consistent framework requires the same gatekeeper: no consideration of such communications as "wrongful" unless the underlying claims are objectively and subjectively baseless.

V. The Required Structure: Bad Faith First, Settlement Conduct Second

To integrate § 285 with *Globetrotter* and its line, courts should adopt an explicit two-step structure to determine whether settlement demands may be considered:

Step 1: Determine whether the patentee acted in "bad faith" (objective baselessness): Before settlement demands, threats, or licensing proposals are considered in the Octane "totality," the court should make a threshold finding:

1. Did the patentee's infringement allegations lack any reasonable basis, such that "no reasonable litigant could realistically expect success on the merits"? (*Professional Real Estate*, applied in *Globetrotter* and *Golan*.)

If the answer is no—if the patentee's theory was at least objectively reasonable—then, under *Globetrotter*, those communications are not legally "wrongful" at all.

If the answer is yes- if the patentee's theory was objectively unreasonable, proceed to Step 2:

Step 2: Determine whether the patentee acted in "subjective faith" (subjective baselessness):

2. Did the patentee:
   a. know its position was baseless or
   b. proceed in reckless disregard of that fact, or
   c. act with an improper motive?

[3] *Coastal States Mktg., Inc. v. Hunt*, 694 F.2d 1358, 1367 (5th Cir. 1983).

If yes, then a court may consider settlement communications, threats, or licensing proposals in the *Octane* "totality." The court should make an explicit threshold finding:

1. The patentee's infringement allegations lack any reasonable basis, such that "no reasonable litigant could realistically expect success on the merits". (*Professional Real Estate*, applied in *Globetrotter* and *Golan*.), and
2. The patentee know its position was baseless, proceed in reckless disregard of that fact, or acted with an improper motive.

If no, then a court may not consider settlement communications, threats, or licensing proposals in the *Octane* "totality." In short: no *Globetrotter* bad faith, no reliance on settlement demands. The logic runs from bad faith first to settlement conduct second. The demands do not create exceptionality; they corroborate and amplify a finding of objectively/subjectively baseless enforcement. This sequencing is exactly what *Globetrotter* demands.

VI. Practical Implications and Fact Patterns

A. Cases where settlement demands should be off-limits under § 285

Where:

1. The patentee conducted a non-frivolous pre-suit investigation,
2. Its claim construction and infringement theories were at least colorable,
3. The case survived early dispositive motions or presented genuine issues of fact, and
4. The patentee provided claim charts or articulated its theory,

a court should not weigh those demands as evidence of exceptionality. Under *Globetrotter* and *Golan*:

1. There is no objective baselessness;
2. Therefore no bad faith; and
3. Settlement communications remain protected patent enforcement conduct, not "litigation misconduct."

B. Cases where settlement demands properly enter the exceptionality analysis

By contrast, if the court finds that:

1. The patent's asserted claims plainly cannot cover the accused product under any reasonable construction,
2. The patentee ignored clear, undisputed public prior art or admissions of non-infringement,

then a finding of objective baselessness and bad faith is warranted. Once that finding is made, it is then appropriate to consider:

1. The content of the settlement letters,

2. The scale and repetition of the campaign,
3. Any threats grossly disproportionate to plausible remedies,

as part of the "totality of the circumstances" that makes the case exceptional.

The crucial point is that settlement demands become relevant only after the predicate finding of bad faith on the underlying infringement assertions has been made.

VII. Answering the Likely Counterarguments

A. "Octane freed courts from rigid thresholds."

Octane increased discretion but did not authorize courts to punish constitutionally protected enforcement speech. *Globetrotter* and related cases identify bad faith—defined via objective/subjective baselessness—as the constitutional and preemption-based floor. That floor must constrain how § 285 is applied to enforcement communications.

B. "Preemption cases dealt with state law; § 285 is federal."

True, but the right they protect is federal: the patentee's right to assert its patent and petition the courts. It would be anomalous for federal law to say that a patentee's settlement demands cannot be the basis of state-law liability without bad faith, yet allow federal fee-shifting against that same conduct when infringement theories are objectively reasonable.

C. Courts already look at demands as part of 'manner of litigation.'"

They can—after bad faith is found. The argument here is not that settlement conduct is categorically irrelevant, but that *Globetrotter* requires a prior judicial determination of bad faith (objective/subjective baselessness) before those demands may be treated as misconduct that makes a case exceptional.

VIII. Conclusion

Globetrotter and its companion cases make clear that patent enforcement communications—including infringement letters and associated settlement demands—are presumptively legitimate exercises of patent rights and petitioning activity. They become "bad faith" only when the underlying infringement assertions are objectively/subjectively baseless, such that no reasonable litigant could expect to succeed, and pursued for an improper purpose. *Globetrotter* expressly holds that the bad-faith standard "cannot be satisfied" without that showing.

Section 285 and *Octane* must be read against that backdrop. A court should not treat settlement or licensing demands as evidence of an "exceptional case" unless it first makes a finding of bad faith in the *Globetrotter* sense—that is, a finding that the patentee's infringement allegations were objectively/subjectively baseless when made. Only after that predicate is met may settlement conduct enter the § 285 calculus as part of the totality of circumstances.

Absent such a bad-faith threshold, using settlement demands to support fee-shifting risks penalizing exactly the kind of pre-suit enforcement and negotiation that *Globetrotter*, *Zenith*, *Golan*, and *Mikohn* were designed to protect.