Client Alert

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State Attorneys General Intervene in Patent Trolling

The patent troll playbook is hardly groundbreaking. Patent assertion entities ("PAE"), often known by the pejorative "patent trolls," purchase portfolios of patents and then assert infringement of those patents against third parties in an attempt to collect licensing fees. This business model has been around a long time now, but with a 600 percent increase in the number of patent infringement lawsuits filed between 2006 and 2012, the prevalence of claims made by PAEs is at an all-time high. Much, or most, of this increase in patent litigation is a result of PAEs' beginning to target smaller companies. The business model for patent assertion entities has shifted to more of a volume-based endeavor.

Although precise statistics are not available, it is believed that the increase in patent litigation tracks the increase in demand letters from PAEs. Indeed, an estimated 100,000 demand letters were received in 2011 by small companies alone. Demand letters can be troubling because some unscrupulous PAEs assert infringement against their portfolio of patents with little to no basis for such a claim. These demand letters are usually vaguely worded, provide little or no substantiation and order payment of a licensing fee calculated to be lower than the cost for the accused company to research the claim and push back on the PAE. Ignoring a demand letter also poses risk because if an accused is ultimately found to have infringed, such infringement may be deemed willful. 35 U.S.C. § 284 allows for award of up to three times actual damages in the case of willful infringement.

Many businesses feel that the PAEs' business model is nothing more than a "shakedown," and, based in large part on PAEs' targeting of Main Street, some state attorneys general ("AGs") are starting to agree. In three different states this year, AGs have clashed with a PAE named MPHJ Tech Investments LLC ("MPHJ"). AGs have taken issue with MPHJ's letter campaign both in terms of breadth and reasonableness. Letters were sent to any company that used scanners to email documents and demanded a licensing fee or proof from the accused company of noninfringement. Patents, however, are covered under federal law, so AGs are attempting to distinguish the patent aspects of the demand letter business model from the potentially unfair and deceptive practices employed by PAEs in conducting their demand letter campaigns. To that end, AGs are pushing back against MPHJ under state consumer protection acts.

Vermont's AG was the first to act against MPHJ when, on May 8, 2013, he filed a lawsuit against MPHJ alleging unfair and deceptive trade practices. Soon after, Minnesota's AG reached a settlement with MPHJ where they agreed to allow the AG to vet any future proposed demand letter prior to mailing within the state. Nebraska's AG also got involved when he sent a cease and desist letter to the law firm responsible for mailing MPHJ's demand letters to recipients within the state. The cease and desist letter demanded that the law firm not initiate any new patent enforcement efforts within the state pending the result of an investigation. A court has since ruled that this cease and desist is unenforceable prior to a hearing or conclusion of an investigation since it would amount to a prior restraint in violation of the First Amendment right of association. Regardless of the setback in Nebraska, state AGs are taking notice of these events. In fact, this topic was discussed in depth at a semiannual National Association of Attorneys General conference in October.

Even though AGs are attempting to distinguish their state-based causes of action from the underlying patents at issue, there remain unresolved issues relating to preemption of the state consumer laws by the

federal patent statutes. Indeed this point has not been lost on MPHJ as they assert in the Vermont litigation that "[this case] represents an aggressive attempt by the state to make substantial changes in the federal patent system through the exercise of state police powers." Courts are just beginning to weigh in on this issue. For example, the Nebraska court that found the AG's cease and desist letter unenforceable noted in the same ruling that the federal government largely has preempted the field of patent law.

Virginia's Consumer Protection Act allows for the AG, or any attorney for the commonwealth, to file suit seeking injunction and civil penalties for violations. Va. Code Ann. §§ 59.1-203, -206. Therefore, the practical implication of these events is that, for now, businesses in Virginia may have a new avenue for fighting against what they feel is an unfair or unreasonably vague assertion of infringement by a PAE. There is now some precedent to help guide AGs, and they are becoming more receptive to providing help in this arena since, as Vermont's assistant AG noted, "the AG's role is not only to protect the individual consumer, but also to protect legitimate businesses." Virginia in particular may be primed to help businesses fight PAEs because House of Representatives Judiciary Committee Chairman Bob Goodlatte (R-VA) recently introduced federal legislation seeking to limit patent trolling (the Innovation Act, H.R. 3309).

While an appeal to the Virginia AG may be a new tool available to companies accused of patent infringement by PAEs, this tool should be considered only in egregious cases. If a demand letter is substantiated, then investigation and analysis into the claimed infringement is necessary. Hunton & Williams is happy to offer a wide array of patent infringement services including due diligence, investigation and litigation. Please contact us to find out how we can help.

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