

Reproduced with permission from BNA's Patent, Trademark & Copyright Journal, 88 PTCJ 1140, 08/29/2014. Copyright © 2014 by The Bureau of National Affairs, Inc. (800-372-1033) <http://www.bna.com>

PATENTS

The author questions the state actions and the broad provisions of proposed federal legislation targeting abusive licensing “demand letters” generally attributed to patent trolls, with a different perspective on the letter-sender fighting back against FTC enforcement.

MPHJ Technology Investments LLC v. FTC: Fighting for Patent Owners' Rights in a Tide of Patent Reforms



BY VICTOR C. JOHNSON

Non-practicing entities (NPEs) have recently been the subject of increasing amounts of scrutiny by federal and state governments. President Obama, in his most recent State of the Union address, called on Congress to “a patent reform bill that allows our businesses to stay focused on innovation, not costly, need-

less litigation.”¹ Congress has attempted to pass legislation such as the Innovation Act and the Patent Transparency and Improvements Act.² Another bill, the Shield Act, introduced in February 2013, would have forced the holder of an invalidated or non-infringed patent to pay the legal fees of the other party if it had passed.³

Efforts from the executive branch have followed alongside these congressional efforts. In 2013, President Obama issued five executive actions that gave the PTO additional powers to fight the perceived NPE problem.⁴ These actions allow the PTO to: (1) “require patent applicants and owners to regularly update ownership information”; (2) provide “new targeted training to its examiners on scrutiny of functional claims” and “develop strategies to improve claim clarity”; (3) “publish new education and outreach materials, including an accessible, plain-English web site offering answers to common questions by those facing demands from a possible troll”; (4) hold “events across the country to

Victor Johnson (vjohnson@dykema.com) is a member in the Dallas office of Dykema Gossett PLLC, and a member of the firm's Intellectual Property Practice Group. His practice focuses on IP litigation including patent, trademark, copyrights and trade secret misappropriation. Victor regularly assists with clients on issues of brand development and protection and is experienced in all aspects of complex commercial litigation.

¹ Available at <http://www.whitehouse.gov/the-press-office/2014/01/28/president-barack-obamas-state-union-address>(87 PTCJ 679, 1/31/14).

² Innovation Act (H.R. 3309), passed by the House on Dec. 5, 2013 (87 PTCJ 259, 12/6/13); Patent Transparency and Improvements Act (S. 1720), introduced in the Senate Nov. 18, 2013 (87 PTCJ 164, 11/22/13).

³ Saving High-Tech Innovators from Egregious Legal Disputes Act (H.R. 845), introduced in the House Feb. 27, 2013 (85 PTCJ 572, 3/1/13).

⁴ Fact Sheet: White House Task Force On High-Tech Patent Issues Legislative Priorities & Executive Actions, June 4, 2013 (86 PTCJ 274, 6/7/13).

develop new ideas and consensus around updates to patent policies and laws”; and (5) the “launch an inter-agency review of existing procedures that [Customs and Border Protection] and the [International Trade Commission] use to evaluate the scope of exclusion orders.”

Following in these federal footsteps, 30 percent of U.S. states have enacted legislation aimed at eliminating claims by NPEs. Related bills are pending in two more states. These states are not clustered in a specific geographic region or ideological area, implying that these laws appeal to both sides of the political aisle.

MPHJ Technology Investments

One NPE that has been the subject of much coverage recently is MPHJ Technology Investments LLC. MPHJ’s efforts to enforce its patents have become the target of several state attorneys general and the Federal Trade Commission. The claims made by these entities against MPHJ have not been clearly explained in much of the coverage, and a review of those claims can be instructive to the patent bar.

MPHJ owns patents that allegedly cover certain types of networked scanner systems that it believes are widely used and infringed. The patents pose several enforcement problems: (1) they cover the entire system, and thus no single manufacturer, or set of manufacturers, are solely liable; and (2) identifying end-user infringers is difficult since the systems are internal and private. Regarding the latter problem, the U.S. Court of Appeals for the Federal Circuit held in *Judin v. United States* and *Hoffmann-LaRoche v. Invamed* that an infringement lawsuit may not be filed unless the patent owner first contacts the suspected infringer and attempts to confirm the suspected infringement.⁵

In an apparent attempt to satisfy this *Judin* requirement and to seek to license infringers, MPHJ sent thousands of letters to companies of all types it identified as likely having an infringing system. The first letter explained the patents, that MPHJ was inquiring whether the recipient infringed, and described ways to identify noninfringement (such as not having any networked scanner).⁶ The letter also stressed that if the recipient did not infringe, MPHJ simply wanted to be notified. If the recipient did infringe, MPHJ explained that a license was needed and offered to license its patents for the fee of \$1,000 to \$2,000 per employee. While MPHJ did obtain a few responses and granted several licenses, the bulk of the recipients failed to respond.

MPHJ then had its counsel send a second letter, which asked the recipient to respond to the first letter, and reiterated that if the recipient did not infringe, it only need to inform MPHJ of that fact.⁷ Again, few recipients responded.

MPHJ then had its counsel send a third letter. This letter noted the previous letters and again requested the recipient to inform MPHJ if it did infringe.⁸ The letter also explained that if no response was received, that MPHJ would assume the recipient had an infringing system and would bring suit. To make this clear, a draft complaint was attached.

Around this time, the Vermont attorney general stepped into the patent fray and targeted MPHJ.⁹ Vermont’s actions then prompted other states and the Federal Trade Commission to take interest. Distinguishing the actual claims being pursued from the media perception is important.

- First, neither the state attorneys general nor the FTC are contending that the patents are invalid or not infringed.

- Second, no one is claiming that MPHJ does not have the right to send some form of patent enforcement letters. Instead, the attorneys general have asserted claims based on the letters that do not directly go to the merits of the patent issues.

For example, Vermont’s attorney general asserted that patent enforcement letters could not be sent unless the patent owner already had evidence of infringement or to any recipient who is “too small,” which it defined as any company unable to afford patent litigation counsel. Another state attorney general contended it was an unfair trade practice for a patent owner to send correspondence to an infringer unless the owner had evidence that the infringer had known of the patent before it began infringing.

FTC Investigation, MPHJ Lawsuit

Similarly, the FTC has asserted its own position regarding the letters. Specifically, the FTC initiated an investigation of MPHJ, alleging that the letter campaign potentially constituted a deceptive trade practice.

The FTC raised three claims for violations of Section 5 of the FTC Act: (1) MPHJ’s characterization of the proposed royalty as being “fair” in the first letter was allegedly false; (2) MPHJ’s characterizing the response of some prior recipients of letters as being “positive” in the first letter was allegedly false; and (3) MPHJ’s threat to sue in its third letter was made without an intent to sue.

While the parties were engaged in discussions about the FTC’s concerns, the FTC shared a draft complaint against MPHJ.¹⁰ In response, MPHJ filed a declaratory judgment action and claimed that the FTC’s actions intruded upon its First Amendment rights.¹¹

The FTC has now moved to dismiss that case, claiming it had not made a “final” decision to bring the suit and, therefore, the suit is not ripe.

⁸ Available at http://www.bloomberglaw.com/public/document/MPHJ_Technology_Investments_LLC_v_Federal_Trade_Commission_Docket/3.

⁹ *Vermont v. MPHJ Technology Investments LLC*, No. 282-5-13 (Vt. Sup. Ct., filed May 22, 2013) (86 PTCJ 285, 6/7/13), complaint available at <http://pub.bna.com/ptcj/VermontvMPHJcomplaint.pdf>.

¹⁰ Available at http://www.bloomberglaw.com/public/document/MPHJ_Technology_Investments_LLC_v_Federal_Trade_Commission_Docket.

¹¹ *MPHJ Technology Investments, LLC v. FTC*, No. 14-cv-011 (W.D. Tex. filed Jan. 13, 2014) (87 PTCJ 549, 1/17/14), complaint available at <http://pub.bna.com/ptcj/MPHJvFTCcomplaint.pdf>.

⁵ *Judin v. United States*, 110 F.3d 780, 42 U.S.P.Q.2d 1300 (Fed. Cir. 1997); *Hoffmann-La Roche Inc. v. Invamed Inc.*, 213 F.3d 1359, 1363-65, 54 U.S.P.Q.2d 1846 (Fed. Cir. 2000) (60 PTCJ 86, 6/2/00).

⁶ A sample of the letter, provided as an exhibit in MPHJ’s complaint against the FTC (see below), is available at http://www.bloomberglaw.com/public/document/MPHJ_Technology_Investments_LLC_v_Federal_Trade_Commission_Docket/1.

⁷ Available at http://www.bloomberglaw.com/public/document/MPHJ_Technology_Investments_LLC_v_Federal_Trade_Commission_Docket/2.

Legal and Policy Issues

While we wait on a resolution of the case, it is important to focus on the significant legal and policy issues raised by the FTC's claims.

The first issue is one of the First Amendment rights of NPEs as asserted by MPHJ. The Federal Circuit has consistently held that under the First Amendment's "right to petition" clause, neither federal nor state law claims may be asserted against a patent owner for sending patent enforcement correspondence, unless it is both pled and proven that the patent assertion was objectively baseless on the merits, as well as subjectively baseless.¹² Further, as MPHJ has noted, the Federal Circuit expressly held in *Golan v. Pingel* that a patent owner can threaten to sue without intending suit.¹³

Neither the FTC nor any state attorney general has made any claim of objective baselessness. Instead, all of them have argued the First Amendment should not be read to impose such a requirement. The FTC has asserted that *Golan* does not apply to the FTC. If the FTC and the attorneys general win, other patent owners could be subject to state or federal claims for sending similar correspondence. It could also have the consequence of preventing patent owners with legitimate claims from seeking enforcement of their property rights out of fear of litigation by the FTC or the attorneys general.

A second issue is the FTC's claim against MPHJ's counsel that its letters on behalf of clients are subject to the FTC and that any threat to sue, if not followed by suit, is presumptively a violation of the FTC Act. Courts that have considered the issue have held that the FTC

Act does not apply to communications by counsel on behalf of a client, though they might apply to a law firm's communications on its own behalf (such as advertising its services). If the FTC prevails, counsel will have to take that into account in sending not only patent enforcement letters but also many other forms of communications on behalf of their clients outside the patent world.

A third issue is the FTC's claims regarding MPHJ's "fair royalty" statement. In its letter, MPHJ made the statement that interactions with prior licensees had helped it conclude that \$1,000 per employee was a "fair royalty." Offers of that size had been made previously, and resulted in a number of licenses that averaged over \$800 per employee. The FTC's position is that MPHJ's characterization of its offer of \$1,000 as "fair" violated the FTC Act where it had entered into prior licenses for lower amounts. It is of course common to offer a license at one price, and then settle for something less. It is, after all, an offer of negotiation. Under the FTC's argument, using any adjective in connection with a royalty offer, such as "fair" or "reasonable," could potentially create grounds for liability if the royalty proposed is any higher than the royalty provided in prior licenses.

Summary

In sum, the attorneys general and the FTC's positions, if fully successful, could have a substantial impact on patent owners. First Amendment protections could be eliminated. Enforcement of legitimate rights could be forgone. And infringers could get a free ride.

Patents are enshrined in the U.S. Constitution for a single purpose: "to promote the progress of science and useful arts." The Founders understood that protection of our patent system is critical to the progress of our society, and no doubt the advancements we have made in fields ranging from the arts to physics are due in large part to these protections. While some reforms are necessary to balance the patent system, we should always remember that too much protection is just as damaging to society as too little.

¹² See *Globetrotter Software, Inc. v. Elan Computer Group, Inc.*, 362 F.3d 1367, 70 U.S.P.Q.2d 1161 (Fed. Cir. 2004) (67 PTCJ 502, 4/2/04); *Matthews Int'l Corp. v. Biosafe Eng'g, LLC*, 695 F.3d 1322, 2012 BL 244416, 104 U.S.P.Q.2d 1393 (Fed. Cir. 2012) (84 PTCJ 912, 9/28/12). See also *In re Innovatio IP Ventures, LLC Litigation*, 921 F. Supp. 2d 903, 921, 2013 BL 29259 (N.D. Ill. 2013).

¹³ See *Golan v. Pingel Enterprise, Inc.*, 310 F.3d 1360, 64 U.S.P.Q.2d 1911 (Fed. Cir. 2002) (65 PTCJ 50, 11/15/02).