

Merchant & Gould

An Intellectual Property Law Firm

Headline: Minnesota Settlement Stifles Patent Troll's Licensing Attempts

Companies engaged in patent trolling are less likely to aggressively target small businesses for license fees as a result of an August settlement reached between Minnesota's Attorney General and MPHJ Technology Investments, LLC, a company that many claim a "patent troll."

Patent trolls are typically non-practicing entities that acquire and enforce patents without producing the patented invention. Trolls often target small businesses with aggressive threats of litigation and create shell corporations to obscure the actual ownership of the asserted patents. MPHJ had all of these tell-tale signs.

In the groundbreaking Minnesota settlement, MPHJ agreed to cease its patent enforcement campaign in the state. It is prohibited from resuming its patent enforcement efforts unless the attorney general grants permission. The attorney general's deal also blocks MPHJ from assigning its patents to any entity that does not agree to be bound by the settlement's terms.

Attorney General Defends Minnesota Companies from Patent Troll Tactics

MPHJ came to the attention of Minnesota Attorney General Lori Swanson after several small businesses complained they had received letters from MPHJ demanding fees for using basic office equipment to scan documents to e-mail. The letters alleged infringement of MPHJ patents and said that the small businesses could avoid costly litigation by paying a licensing fee of \$1,000 to \$1,200 per employee. Although state attorneys general are not typically involved in patent litigation, the present case warranted the attorney general's attention for several key reasons.

First, MPHJ's strategy was notable because it targeted end users of the technology, not manufacturers. If MPHJ had only targeted the manufacturers of the accused equipment – HP, Ricoh and Xerox – it is unlikely the attorney general would have gotten involved. But MPHJ targeted smaller end users after the manufacturers took an aggressive stand and filed inter partes reviews with the Patent and Trademark Office challenging the validity of the asserted patents. Many of the companies that received the MPHJ letters were small and lacked in-house patent counsel. That reality placed the companies in a position of either paying the license fee or facing potentially large legal costs to assess liability. It appears that MPHJ's strategy was to price the license fee at a level the companies would pay rather than face the legal expenses of defending against the claims.

Second, MPHJ hid its activities behind more than 60 subsidiaries. In many instances, companies that receive letters from trolls contact one another to share information about the business that has sent the patent enforcement letters and formulate a joint defense strategy. Rather than sending out letters from a single company, MPHJ used multiple subsidiary names on its Minnesota letters. Many of the small businesses were unaware

Merchant & Gould

An Intellectual Property Law Firm

that they were receiving letters from the same company. Consequently, MPHJ thwarted the ability of the small companies to join together in objecting to the patent fees and defend the lawsuits jointly.

Finally, there is no indication that MPHJ undertook any substantive factual investigation before sending patent enforcement letters in this case. In non-troll cases, patentees typically conduct a fact investigation to understand which products might infringe the asserted patents and how specifically those products infringe. But in the Minnesota case, MPHJ appeared to conduct little if any due diligence before sending out patent enforcement letters.

Impact of the Minnesota Settlement

There is a stayed civil penalty against MPHJ in Minnesota. MPHJ stated to the attorney general that it had not received money for a patent license or for an alleged infringement. If that turns out to be untrue, MPHJ would be subject to a \$50,000 penalty and would be required to refund the license fees.

The Minnesota settlement is likely to have impact on subsequent patent troll litigation. By laying a clear path to resolution of patent troll suits, this case may prompt other attorneys general to take action in their states. Notably, the Nebraska and Vermont Attorneys General have already initiated actions against MPHJ. In those states, MPHJ may have collected license fees from customers or end users. The Minnesota settlement terms lend credibility to the idea that those dollars should be repaid to the companies.

For companies in states without a pending attorney general's decision, there is a potential cause of action against MPHJ for violation of consumer protection laws. This is an especially critical issue for companies that have made payments.

Finally, the Minnesota settlement may create a reduced incentive to go after end users in future cases. Instead, one can expect the patentees to make the manufacturers of products the focus of their patent trolling activities.

Now that MPHJ's tactics have been given broad exposure in the general news media and legal circles, the Minnesota settlement may create an incentive for end-user companies to hold out and refuse to pay license fees to patent trolls. Those companies may be better served to join together, investigate the patents at issue, and prepare a letter to the attorney general in a given state to seek help in fighting the trolls.

By Michael Erbele and William Schultz, Merchant & Gould P.C.