

# Client Alert

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## An NPE Settles with New York, Sues FTC

By **Scott F. Llewellyn, Wendy J. Ray and Rose S. Lee**

Over the past year, both the legislative and executive branches of the federal government have expressed increasing support for legislation and other measures targeting patent litigation abuse by non-practicing entities (NPEs), notwithstanding some opposition expressed by members of the federal judiciary. (See our previous alert [here](#).) Given federal jurisdiction to hear patent suits, it makes sense that many states have stayed out of the debate. But a recent settlement agreement between the New York Attorney General and an NPE demonstrates that states can address litigation abuse by NPEs, even if less directly or expansively than Congress might. The settlement not only limits abuse by the NPE expressly subject to its terms, but also attempts to set standards for all NPEs targeting New York businesses.

On January 13, 2014, New York Attorney General Eric T. Schneiderman reached a [settlement](#) with MPHJ Technology Investments, LLC. MPHJ was widely considered one of the most abusive NPEs, having sent letters to more than a thousand small- and medium-sized New York businesses between September 2012 and May 2013, claiming that the businesses “very likely infringed” MPHJ’s patents related to scanning and emailing documents. The demand letters were sent from a hundred different subsidiary companies, making it “more difficult for targeted businesses to find information about the Company,” according to the New York Attorney General. Many letters threatened suit by attaching draft complaints alleging patent infringement, but the Attorney General noted that MPHJ has not, “to this day, filed a single patent infringement lawsuit against a New York business.”

While the settlement was only with MPHJ, the Attorney General’s office made clear that it believes the requirements of the settlement apply more broadly, stating that “[t]he requirements imposed on MPHJ in the settlement should be viewed by other patent trolls as the minimum standards that such entities . . . must follow to avoid liability.” Among other things, the settlement requires (1) using true identities when making demands and (2) making a “serious, good faith” effort to determine whether a business actually infringes a patent before sending a threatening letter. The settlement also prohibits (1) communicating through legal counsel unless that counsel has a good faith basis for asserting the patent, (2) requiring businesses to enter into non-disclosure agreements that would restrict their communications with other targeted businesses, and (3) asserting a patent without disclosing the existence of USPTO findings that raise questions regarding the validity of the asserted patent. Failure to meet these standards presumably might require repaying money received from targeted New York businesses, as MPHJ is required to do under the settlement. The settlement states that it covers “New York Persons,” meaning “any natural person who resides in New York, or any small or medium business or Entity that is incorporated, or has a place of business in the State of New York (where activities at such New York locations are a basis for the patent Assertion).”

Given the Attorney General’s statements regarding the broad applicability of the settlement’s “minimum standards,” defendants in unrelated patent litigation may be able to use the settlement as support for discovery regarding a plaintiff’s pre-filing investigation, particularly for litigation involving New York businesses. According to the guidelines in the settlement agreement, an NPE has a good faith basis for asserting infringement only after making reasonable efforts to (1) “evaluate the scope of the Asserted patent in a manner consistent with the law on patent claim construction” and

## Client Alert

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(2) “identify and evaluate a specific accused product, system, or method that the [defendant] makes, uses, offers to sell, or sells that the Company believes in good faith actually infringes the Asserted patent.” The settlement also requires NPEs to provide material information necessary for an accused infringer to evaluate a claim, including information necessary to evaluate a reasonable royalty rate. In particular, an NPE cannot “refuse to provide a claim chart or equivalent document that sets forth the basis of the Company’s belief that the allegedly infringing product or activity satisfies the elements of the Asserted claims, upon the request of” the accused infringer. To the extent discovery reveals that an NPE did not satisfy the settlement’s standards before threatening or bringing suit, the settlement may provide support for relief under Rule 11 or otherwise, particularly for litigation involving New York businesses, though it is unclear whether a court will be willing to consider the settlement’s terms relevant to any Rule 11 inquiry.

The New York Attorney General’s position, as reflected in the settlement, is consistent with that of some other state attorneys general who have weighed in on MPHJ’s practices. On August 20, 2013, Minnesota Attorney General Lori Swanson reached a settlement agreement with MPHJ requiring the company to cease patent trolling in Minnesota, which was the first settlement of its kind between an attorney general and patent assertion entity. Similarly, Vermont and Nebraska have brought actions against MPHJ for violating state consumer protection and unfair competition laws. But the New York Attorney General appears to be the first to attempt to impose standards governing all NPE activity within a state.

While it is unclear what effect the New York settlement standards will ultimately have on NPE activity within New York under its express terms, or outside of New York as persuasive authority, the attempts by states to curb patent litigation abuse provide further confirmation that the perception of patent troll suits is changing. And the change in perception alone may be sufficient to spur courts and the relevant authorities to deter some of the most egregious NPE practices, even if legislative reform remains the most attractive option for a comprehensive, nationwide solution.

But MPHJ has now countered with an action that has the potential to change the perception of NPE activity yet again. On the same day MPHJ and the New York Attorney General reached a settlement, MPHJ filed a “preemptive” lawsuit against the Federal Trade Commission (FTC) based on the FTC’s threats to sue the company for deceptive trade practices. MPHJ claims that the FTC is unlawfully interfering with the company’s right to enforce its patents, because (MPHJ asserts) (1) the FTC does not have jurisdiction over MPHJ’s conduct, which MPHJ believes does not constitute commerce, and (2) the FTC’s threatened suit would violate MPHJ’s First Amendment right to notify companies it believes have infringed its patents. MPHJ’s suit makes clear that NPEs will have a voice in the debate, too, and provides a reminder that patent litigation reform potentially affects rights granted by the Constitution. The outcome of the suit obviously will not be known for some time, and it seemingly faces long odds, given the FTC’s allegations regarding MPHJ’s activities. It nonetheless has the potential to impact not only the perception of NPE activity generally, but also contemplated executive and legislative action related to patent litigation reform, particularly if it spurs other NPEs to defend their practices more aggressively.

### Contact:

**Scott F. Llewellyn**  
(303) 592-2204  
[sllewellyn@mofo.com](mailto:sllewellyn@mofo.com)

**Wendy J. Ray**  
(213) 892-5446  
[wray@mofo.com](mailto:wray@mofo.com)

**Rose S. Lee**  
(213) 892-5355  
[roselee@mofo.com](mailto:roselee@mofo.com)

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