

# How States Can Fight Patent Trolls

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## I. Introduction

The patent system exists to incentivize innovation, but in today's high-technology industries, the system has been hijacked by patent trolls. These “non-practicing entities” exist solely to buy patents and assert them against companies that are actually innovating. Patent trolls engage in egregious behavior such as sending out threatening demand letters to extort money from consumers and small businesses that can't afford to hire lawyers, often operating through shell companies to shelter assets.

The federal government has exclusive jurisdiction over patent law, but Congress has been slow to address the patent troll problem. Many states are fed up with patent trolls targeting their citizens and are tired of waiting for Congress to act. Some of these states are finding ways to combat trolls' most egregious behavior by suing trolls under existing consumer protection laws or by passing new state legislation. In this paper, we first discuss the commonalities among recently passed state legislation targeting patent trolls, comparing the provisions that address prohibited behavior, enforcement, remedies, and exemptions. We also provide recommendations for future legislation. We then provide case studies of the lawsuits that state attorneys general have brought against patent trolls under existing consumer protection laws, and provide recommendations for future lawsuits based on the outcomes of those cases.

## II. State Legislation to Combat Patent Trolls

As of June 2015, 18 states have successfully enacted legislation targeting patent trolls,<sup>1</sup> and 12 more have proposed such bills.<sup>2</sup> Many of the proposed bills share similar language, and we have categorized the provisions that have appeared in the proposed legislation. These provisions fall into four major categories: prohibited behavior, enforcement, remedies, and exemptions. For each category, we will discuss the advantages and disadvantages of potential provisions and provide recommendations for future legislation.

### A. Prohibited Behavior

Proposed state legislation has taken a variety of approaches to targeting patent troll behavior. All bills have prohibited bad faith patent assertions (and, in most cases, have provided factors for consideration in determining bad faith). Three<sup>3</sup> have prohibited even good faith assertions that do not have a reasonable basis—though, as we will discuss, this may turn out to be preempted by federal law. Other bills impose requirements on demand letters, and one bill only prohibits the bad-faith targeting of end-users.

#### i. Bad Faith and Preemption

As of June 2015, no one has sued under any of the state anti-troll statutes that prohibit

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<sup>1</sup> They are: Alabama, SB 121; Georgia, HB 809; Idaho, SB 1354; Illinois, SB 3405; Louisiana, SB 255; Maine, SB 654; Maryland, SB 585; Missouri, HB 1374; New Hampshire, SB 303; North Carolina, SB 648; Oklahoma, HB 2837; Oregon, SB 1540; South Dakota, SB 143; Utah, HB 117; Vermont, HB 299; Virginia, HB 375; Washington, SB 5059; and Wisconsin, SB 2013-498.

<sup>2</sup> They are: Connecticut, Kansas, Kentucky, Michigan, Mississippi, Nebraska, New Jersey, Ohio, Pennsylvania, Rhode Island, South Carolina, and Wisconsin.

<sup>3</sup> Illinois, Oklahoma, and Washington.

good faith assertions that do not have a reasonable basis—but if they do, defendants are sure to attempt to remove to federal court and argue that the laws are invalid as preempted by federal patent law.

Federal courts have exclusive jurisdiction under the patent law, and over “any civil action asserting a claim of unfair competition when joined with a substantial and related claim under the copyright, patent, plant variety protection, or trademark laws.”<sup>4</sup> However, as a Vermont district court has held, a claim of unfair trade practices that does not depend on the validity or infringement of any patents does not “arise under” federal law, and therefore federal courts do not have subject matter jurisdiction unless there is complete diversity.<sup>5</sup> As long as the attorney general is suing on behalf of the state, there will not be complete diversity because the state is not a “citizen” for the purposes of diversity jurisdiction.<sup>6</sup> In other words, alleging that a patent troll asserted its patents in bad faith is a state claim; alleging that a patent troll asserted its *bad* patents in bad faith will land you in federal court.

Though federal preemption of state law can be a complicated issue, the Federal Circuit has provided some guidance, holding that “federal patent law preempts state-law tort liability for a patent holder’s good faith communications asserting infringement of its patent and warning about potential litigation.”<sup>7</sup> Therefore, “to avoid preemption, ‘bad faith must be alleged and ultimately proven, even if bad faith is not otherwise an element of the tort claim.’”<sup>8</sup> Furthermore, in order to make out bad faith, a plaintiff must first show that the claims were objectively baseless,<sup>9</sup> and then also show that they were made in subjective bad faith,<sup>10</sup> each by clear and convincing evidence.<sup>11</sup>

While none of these statutes have been tested by a court, in order to avoid the risk of being preempted by federal law, states may want to employ the high standard of bad faith (both subjective bad faith and lacking objective reasonableness) in new laws targeting patent trolls.

## ii. Restricting Demand Letters

Some bills have attempted to curb the common patent troll practice of using demand letters to mislead, intimidate, and threaten recipients. Restrictions imposed on patent troll demand letters will almost certainly face First Amendment challenges. However, these laws will likely withstand these threats because similar requirements imposed on debt collection letters to prevent unfair debt collection practices have been held constitutional. The Fair Debt Collection

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<sup>4</sup> 28 U.S.C. § 1338 (2014).

<sup>5</sup> *Vermont v. MPHJ Tech. Invs., LLC*, No. 2:13-cv-170, slip op. at 10-11, 14, 17 (D. Vt. Apr. 14, 2015), available at <http://www.ago.vermont.gov/assets/files/Consumer/MPHJ/61%20Remand%20Order%202014-04-15.pdf> (“[T]he State here is challenging MPHJ’s bad faith acts, not its ability to protect its patent rights. The unfair and deceptive trade claims are supported by several factual bases that do not require an assessment of MPHJ’s patent rights.”).

<sup>6</sup> *Moore v. Cnty. Of Alameda*, 411 U.S. 693, 717 (1973).

<sup>7</sup> *Globetrotter Software, Inc. v. Elan Computer Grp., Inc.*, 362 F.3d 1367, 1374 (Fed. Cir. 2004) (citing *Zenith Elecs. Corp. v. Exzec, Inc.*, 182 F.3d 1340, 1355 (Fed. Cir. 1999)).

<sup>8</sup> *Id.* (quoting *Zenith*, 182 F.3d at 1355).

<sup>9</sup> *Id.* at 1377 (applying the *Noerr-Professional Real Estate* line of cases).

<sup>10</sup> *Judkins v. HT Window Fashion Corp.*, 529 F.3d 1334, 1338-39 (Fed. Cir. 2008) (“Indeed, once the court concludes that the claims of infringement are objectively baseless, the court must then consider whether the claims were made in subjective bad faith.” (citing *Prof’l Real Estate Investors v. Columbia Pictures Indus., Inc.*, 508 U.S. 49, 60 (1993))).

<sup>11</sup> *Golan v. Pingel Enterprise, Inc.*, 310 F.3d 1360, 1371 (Fed. Cir. 2002).

Practices Act prohibits debt collectors from making certain false or misleading statements<sup>12</sup> and furnishing deceptive forms,<sup>13</sup> among other things. Yet, these prohibitions do not violate the First Amendment because “there is no constitutional value in false statements of fact. Neither the intentional lie nor the careless error materially advances society’s interest in uninhibited, robust, and wide-open debate.”<sup>14</sup> Therefore, “even assuming that there is some First Amendment protection relevant to the FDCPA, such an allegedly false statement is not immunized.”<sup>15</sup> Thus, to the extent that anti-troll legislation prohibits false or misleading statements, it is similar to the FDCPA and other ordinary consumer protection legislation, which does not run afoul of the First Amendment.

However, anti-troll standards that go further—for example, those that would require that patent owners take certain investigatory steps before mailing a letter—might raise First Amendment issues as unconstitutional prior restraints.<sup>16</sup> For example, it may not violate patent owners’ First Amendment rights to sanction them for claiming that they have investigated a business’s use of their technology when they in fact have not, but it might violate patent owners’ rights to require that they undertake such an investigation before sending a letter.

## **B. Enforcement**

State patent troll bills to date have often relied on the attorney general for enforcement and/or created a private right of action for targets of bad faith assertion. Thirteen<sup>17</sup> states have passed bills that provide for both means of enforcement, and two<sup>18</sup> states have passed bills that rely solely on the attorney general for enforcement. None of the bills passed so far have only created a private right of action.

We recommend that states provide for enforcement by both the attorney general and private parties. Creating a private right of action makes trolls vulnerable to lawsuits by countless plaintiffs who have been targets of their demands, and state attorneys general do not necessarily have the interest or the budget to pursue patent matters.<sup>19</sup> Meanwhile, giving attorneys general the power to enforce the statute is the fact that the targets of patent troll demands—often small startups—do not have the resources to go to court themselves, which is exactly why patent trolls target them in the first place. To the extent that targets cannot protect themselves, giving attorneys general the power to step in is vital. Attorneys general also usually have the power to open an investigation without filing a lawsuit, allowing them to gather information about the extent of a troll’s activities in a way that a private party would not be able to until the discovery

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<sup>12</sup> 15 U.S.C. § 1692e (2015).

<sup>13</sup> 15 U.S.C. § 1692j (2015). It also prohibits harassment, 15 U.S.C. § 1692d (2015), and puts time and place restrictions on creditors’ communications with debtors, 15 U.S.C. § 1692c (2015).

<sup>14</sup> *Gertz v. Robert Welch, Inc.*, 418 U.S. 323, 340 (1974) (quoting *New York Times Co. v. Sullivan*, 376 U.S. 254, 270 (1964)) (internal quotation marks omitted).

<sup>15</sup> *Hartman v. Great Seneca Financial Corp.*, 569 F.3d 606, 616 (6th Cir. 2009).

<sup>16</sup> *Cf. Activision TV Inc. v. Pinnacle Bancorp, Inc.*, 976 F. Supp. 2d 1157 (holding that an order to stop troll from sending letters was a prior restraint, such that attorney general needed to show they were baseless and troll had no burden to show they were truthful).

<sup>17</sup> Alabama, Georgia, Idaho, Maine, Maryland, New Hampshire, North Carolina, Oregon, South Dakota, Tennessee, Vermont, Virginia, and Wisconsin.

<sup>18</sup> Louisiana and Washington.

<sup>19</sup> Those suing troll targets under a private right of action should consider that their suit may end up getting removed to federal court if there is complete diversity between them and the troll.

phase of a lawsuit. These investigations provide a powerful tool for reaching settlements with trolls without the need to file a lawsuit, and for sending a clear public message to potential trolls and businesses in need of protection that such behavior is not tolerated.

### C. Remedies

Proposed state legislation targeting patent trolls has provided for six different kinds of remedies: injunctions, damages, exemplary damages, fines, attorneys' fees, and criminal penalties. Some bills, like that passed in Washington, do not explicitly state the available remedies.

While injunctions are certainly a much-needed remedy, ideally these bills will also have a deterrent effect to prevent patent trolls from engaging in this behavior in the first place, rather than simply stopping the behavior after trolls have engaged in it. Proposed legislation has provided for varying measures of damages—often actual damages plus punitive or exemplary damages. Exemplary damages in proposed bills have generally ranged between \$50,000 and \$500,000 or three times actual damages—whichever is greater. We strongly recommend including exemplary damages, since actual damages (losses other than litigation costs) are difficult to show and may be low because the greatest monetary cost to targets of patent trolls is the cost of litigation. Without exemplary damages, the bills are unlikely to have a deterrent effect on patent trolls. Furthermore, defined exemplary damages help litigants to better estimate the cost of winning or losing the lawsuit, giving targets who don't want the hassle of litigating better leverage to negotiate a settlement.

Virginia's anti-patent troll legislation creates a civil penalty of up to \$2,500 for each violation. A per-violation penalty can add up for trolls that send out thousands of letters demanding relatively small sums, hoping that at least a small percentage of people will give in to the demands rather than incur the cost of consulting an attorney. Assuming each letter counts as a violation, this could be a powerful deterrent to some of the most egregious troll practices.

We also recommend awarding attorneys' fees to parties that prevail against a patent troll under these new statutes in order to create incentives for parties to litigate. This is particularly important for statutes that create a private right of action, since trolls' targets are often small companies that would not be able to afford attorneys' fees, even if they are absolutely certain that they will prevail.

Most states that have proposed or passed a patent troll bill that shifts attorneys' fees have included a bond provision to ensure that fee shifting actually works. Patent trolls often make themselves judgment-proof by operating through shell companies with no monetary assets. If a judgment is entered against a patent troll, the troll will often simply declare bankruptcy and dissolve the shell company, leaving their targets with no way to collect attorneys' fees or other awards.<sup>20</sup> We strongly recommend a bond provision or other effective legal mechanism to ensure that the money for shifting attorneys' fees will be available regardless of the troll's corporate structure.<sup>21</sup>

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<sup>20</sup> Ryan Hauer, *Another Attempt at Patent Reform: S.1013 The Patent Abuse Reduction Act of 2013*, 24 DePaul J. Art, Tech. & Intell. Prop. L. 367 (2014).

<sup>21</sup> 160 Cong. Rec. S5090-01, 2014 WL 3742615 (2014) (statement of Sen. Orrin Hatch) ("Fee shifting alone gives a prevailing party little relief against patent trolls who litigate in the name of shell companies while their financial

We also recommend adopting criminal penalties like those enacted in Alabama, which make it a Class A misdemeanor to continuously and willfully violate Alabama’s new law against bad faith patent assertions. Criminal penalties send a powerful message from the state that the patent troll problem is a real one, and have a potentially strong deterrent effect. Criminal penalties are not unprecedented for similar violations; some states impose criminal penalties for unfair, deceptive or abusive acts and practices, though enforcement is primarily through civil means.

#### **D. Exemptions**

The proposed bills have a variety of exemptions, likely for political reasons. Some of the exemptions are for universities, for tech transfer companies, for a claim for relief arising under 35 U.S.C. § 271(e)(2) (DNA patents) or 42 U.S.C. § 262 (regulation of biological products), and for patent owners using the patent in manufacturing and production of products and materials.

### **III. Consumer Protection Litigation Against Trolls by State Attorneys General**

Even without the benefit of state legislation that specifically targets patent trolls, a few state attorneys general have taken on one particularly egregious troll using ordinary consumer protection laws and the state’s general investigatory powers. So far, four state attorneys general have investigated patent troll activity, with mixed success: Nebraska, New York, Minnesota, and Vermont. They have all attempted to go after the same troll: MPHJ Technology Investments, LLC (“MPHJ”).<sup>22</sup> (The Federal Trade Commission has also reached a settlement with MPHJ prohibiting deceptive misrepresentations when asserting MPHJ’s patent rights.<sup>23</sup>) These actions have sent an important message not only to MPHJ, but also to other trolls considering operating in these states that such behavior is not tolerated. The actions have also assured businesses in these states that their attorneys general are protecting them.

#### **A. MPHJ’s Behavior**

As trolls go, MPHJ is an easy target for consumer protection lawsuits due to its egregious behavior.<sup>24</sup> In 2012, it paid \$1 for five patents relating to scanning documents to email. It then created one hundred subsidiaries with six-letter nonsense names, and granted those subsidiaries

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backers or interested parties purposefully remain beyond the court's jurisdiction. Thus, there must be a mechanism to ensure that recovery of fees will be possible even against judgment-proof shell companies.”).

<sup>22</sup> Nebraska ended up in a suit against Activision TV because it made the mistake of sending its cease-and-desist letter to MPHJ’s attorney, Farney Daniels. The law firm then added the Nebraska attorney general, Jon Bruning, as a defendant in the suit it was litigating for Activision. Bruning claims to have no quarrel with Activision, which actually manufactures its TVs and is not a troll. See Timothy B. Lee, *Nebraska’s Attorney General Has Declared War on Patent Trolls*, WASHINGTON POST (Sept. 23, 2013), <http://www.washingtonpost.com/blogs/the-switch/wp/2013/09/12/nebraskas-attorney-general-has-declared-war-on-patent-trolls>.

<sup>23</sup> Decision and Order, MPHJ Tech. Invs., LLC, No. C-4513 (Fed. Trade Comm’n Mar. 13, 2015), available at <https://www.ftc.gov/system/files/documents/cases/150317mphjtechdo.pdf>. It is notable that the FTC got a settlement against Farney Daniels itself; the complaint the FTC threatened to file alleged that Farney Daniels sent its letters on firm stationary, but provided the phone number for a call center, not the firm. Complaint for Permanent Injunction and Other Relief at 9-10, *Fed. Trade Comm’n v. MPHJ Tech. Inv., LLC*, available at [http://cdn.arstechnica.net/wp-content/uploads/2014/01/FTC-MPHJ.draf\\_complaint.pdf](http://cdn.arstechnica.net/wp-content/uploads/2014/01/FTC-MPHJ.draf_complaint.pdf).

<sup>24</sup> Assurance of Discontinuance at 2, *In re Investigation by Eric T. Schneiderman, Attorney General of the State of N.Y., of MPHJ Tech. Investments, LLC*, Assurance No. 14-015 (Jan. 13, 2014), available at <http://ag.ny.gov/pdfs/FINALAODMPHJ.pdf>.



licenses to assert the patents.<sup>25</sup> Those subsidiaries proceeded to send more than 14,000 threatening letters to thousands of small and mid-size businesses in the hopes that the businesses would be bullied into taking licenses to avoid litigation. While ridiculous, it's not illegal on its face for a company to assert its patent through subsidiaries. What made MPHJ an easy target under consumer protection laws was that the letters were misleading. The first round of letters stated that “many companies” had taken licenses already and that the good-faith fair price they had negotiated with these other companies was \$1,200 per employee, when in fact no company had taken a license from the subsidiary.<sup>26</sup> The first-round letters, sent by the asserting subsidiary, and the second-round letters, sent by the law firm Farney Daniels, gave the impression that the asserting subsidiary and its outside counsel had investigated the targeted business and determined that the business “likely” infringed the patent.<sup>27</sup> The third-round letters, also sent by Farney Daniels, stressed that the subsidiary would file a complaint in federal court if the business did not respond within two weeks, going so far as to attach a draft complaint. However, despite the fact that many companies never responded to these letters, no lawsuits were filed.<sup>28</sup>

## **B. Successful Attorney General Interventions with MPHJ**

### **i. Minnesota**

In August 2013, Minnesota's attorney general, Lori Swanson, became the first to get an Assurance of Discontinuance from MPHJ.<sup>29</sup> Swanson's office had filed a Civil Investigative Demand against MPHJ on May 30, 2013, and had instituted an investigation under the state's consumer protection laws.<sup>30</sup> In response, MPHJ agreed not to pursue any further action relating to the letters it had already sent to Minnesota businesses and not to send any patent licensing or inquiry letters to anyone in Minnesota without first notifying the attorney general's office 60 days in advance and receiving its written consent.<sup>31</sup> Furthermore, if the state should discover that any Minnesota business actually paid MPHJ for a license (which MPHJ denies), MPHJ agreed to refund the money and pay the state a \$50,000 civil penalty.<sup>32</sup> Swanson was lauded for negotiating “an unprecedented order forcing MPHJ to stay out of her state.”<sup>33</sup>

### **ii. New York**

New York's attorney general, Eric Schneiderman, instituted an investigation in June 2013 into MPHJ's activities in New York under Section 63(12) of the New York Executive Law.<sup>34</sup>

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<sup>25</sup> *Id.*

<sup>26</sup> *Id.* at 2-3. The previous owner of the patents had extracted licenses from a small number of companies, but for much less than \$1,200 per employee. *Id.* at 3.

<sup>27</sup> *Id.* at 2, 4.

<sup>28</sup> *Id.* at 5.

<sup>29</sup> *Attorney General Lori Swanson Announces First-in-the-Nation Order to Stop Delaware Company from “Patent Trolling” in Minnesota*, OFFICE OF THE MINNESOTA ATTORNEY GENERAL (Aug. 20, 2013), available at [https://www.law.berkeley.edu/files/Panel\\_17b\\_Documents.pdf](https://www.law.berkeley.edu/files/Panel_17b_Documents.pdf).

<sup>30</sup> Assurance of Discontinuance at 1-2, *Minnesota v. MPHJ Tech. Invs., LLC*, No. 62-CV-13-6080 (Ramsey Cty. Dist. Ct. Aug. 20, 2013), available at <https://intellectualip.files.wordpress.com/2013/09/state-of-minnesota-by-its-attorney-general-lori-swanson-v-mphj-technology-investments-llc.pdf>.

<sup>31</sup> *Id.* at 3-4. That consent “shall not be withheld without valid basis in fact or law.” *Id.* at 4.

<sup>32</sup> *Id.* at 4.

<sup>33</sup> Joe Mullin, ‘Scanner trolls’ kicked out of Minnesota, *Ars Technica* (Aug. 21, 2013), available at <http://arstechnica.com/tech-policy/2013/08/scanner-trolls-kicked-out-of-minnesota>.

<sup>34</sup> *Id.* at 1.



That law allows the attorney general to enjoin a business activity and seek damages when “any person . . . engage[s] in repeated fraudulent or illegal acts or otherwise demonstrate[s] persistent fraud or illegality in the carrying on, conducting, or transaction of business.”<sup>35</sup> In January 2014, they announced a settlement.<sup>36</sup> Without conceding that it had violated any laws,<sup>37</sup> MPHJ agreed (1) to allow previous New York licensees to cancel their licenses for a full refund, and (2) to refrain from asserting its patents against New York companies with fewer than 50 employees.<sup>38</sup> Furthermore, MPHJ agreed to abide by certain guidelines in the future when asserting its patents against small and mid-size New York businesses that do not actually manufacture infringing products.<sup>39</sup> The guidelines are designed to ensure (1) that MPHJ has a “good faith basis for asserting patents after conducting reasonable diligence”; (2) that MPHJ provides “material information necessary for an accused infringer to evaluate a claim,” a “reasonable royalty rate,” and the “value of a proposed license”; and (3) that “ownership and financial interest in the patents” is transparent.<sup>40</sup> Media reported that the settlement “puts patent trolls on notice” and “lays the groundwork to rein in patent troll abuse and fraud in New York.”<sup>41</sup>

### iii. Vermont

Vermont’s attorney general, William Sorrell, went one step further; rather than merely opening an investigation and settling, he filed a lawsuit against MPHJ.<sup>42</sup> The complaint alleged that MPHJ’s activities violated the Vermont Consumer Protection Act, 9 V.S.A. § 2453(a), because they constituted unfair and deceptive trade practices.<sup>43</sup> (Vermont’s governor signed a law targeting patent trolls only a few weeks after the attorney general filed its complaint against MPHJ, but the attorney general did not sue under the new law.) MPHJ tried to remove the case to federal court on the theory that the “validity, infringement, and enforcement of the patents reference in the letters fall within the original and exclusive jurisdiction of the federal courts.”<sup>44</sup> The Vermont District Court, however, remanded the case back to state court, holding that there was no federal question jurisdiction because Vermont’s complaint was “premised solely on Vermont state law, not federal patent law, and none of the claims for relief concern the validity

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<sup>35</sup> N.Y. EXEC. LAW § 63(12) (McKinney 2014). “Fraud” includes “any device, scheme or artifice to defraud and any deception, misrepresentation, concealment, suppression, false pretense, false promise or unconscionable contractual provisions.” *Id.*

<sup>36</sup> A.G. Schneiderman Announces Groundbreaking Settlement with Abusive “Patent Troll,” New York Attorney General (Jan. 14, 2014), <http://ag.ny.gov/press-release/ag-schneiderman-announces-groundbreaking-settlement-abusive-%E2%80%9Cpatent-troll%E2%80%9D>.

<sup>37</sup> Assurance of Discontinuance at 8, *In re* Investigation by Eric T. Schneiderman, Attorney General of the State of N.Y., of MPHJ Tech. Investments, LLC, Assurance No. 14-015 (Jan. 13, 2014), *available at* <http://ag.ny.gov/pdfs/FINALAODMPHJ.pdf>.

<sup>38</sup> *Id.* at 9.

<sup>39</sup> *Id.* at 10-11.

<sup>40</sup> *Id.* at 12-16.

<sup>41</sup> Jeremy Quittner, *New York’s Attorney General Puts Patent Trolls on Notice*, Inc. Magazine (Jan. 14, 2014), *available at* <http://www.inc.com/jeremy-quittner/new-york-patent-troll-mphj.html>.

<sup>42</sup> Consumer Protection Complaint, Vermont v. MPHJ Tech. Invs., LLC, No. 282-5-13Wncv (Vt. Super. Ct. Washington Unit May 8, 2013), *available at* <http://www.atg.state.vt.us/assets/files/Vermont%20v%20MPHJ%20Technologies%20Complaint.pdf>.

<sup>43</sup> *Id.* at 8-10. *See also id.* at 15-16.

<sup>44</sup> Vermont v. MPHJ Tech. Invs., LLC, No. 2:13-cv-170, slip op. at 6 (D. Vt. Apr. 14, 2015), *available at* <http://www.ago.vermont.gov/assets/files/Consumer/MPHJ/61%20Remand%20Order%202014-04-15.pdf>.

of MPHJ’s patents.”<sup>45</sup> The court also found no diversity jurisdiction because the state is not a citizen for the purposes of diversity jurisdiction, and the relief sought—“a statewide injunction and civil penalties that would be unavailable to private litigants”—shows that Vermont is the real party in interest, not the Vermont businesses that received letters.<sup>46</sup> MPHJ had also claimed that Vermont courts had no personal jurisdiction over it, and aggressively moved for Rule 11 sanctions against the state, but the federal court remanded for lack of subject matter jurisdiction without addressing those claims.<sup>47</sup> The case is now pending in Vermont state court.

### C. Failed Attorney General Intervention with MPHJ

#### i. Nebraska

The Nebraska attorney general targeted Farney Daniels, the law firm that sent the second- and third-round letters on behalf of MPHJ, instead of MPHJ itself—a decision that resulted in an unsuccessful lawsuit and the attorney general’s office paying Farney Daniels’s attorneys’ fees. The Nebraska attorney general’s letter accused Farney Daniels of violating the Nebraska Consumer Protection Act<sup>48</sup> and the Uniform Deceptive Trade Practices Act<sup>49</sup> by sending unsubstantiated infringement assertions with false or misleading statements for non-practicing entities.<sup>50</sup> It also ordered the firm to respond to an enclosed Civil Investigated Demand and to “immediately cease and desist the initiation of any and all new patent infringement enforcement efforts within the State of Nebraska pending the outcome of this office’s investigation.”<sup>51</sup>

Rather than comply, Farney Daniels added the attorney general as a defendant in another case it was litigating: a pending patent infringement lawsuit in which Farney Daniels represented Activision TV, a company that did practice the patents at issue in the case.<sup>52</sup> Farney Daniels complained that the letters it sent to Nebraska businesses on behalf of Activision were encompassed by the attorney general’s letter; that those letters were not unsubstantiated, misleading, or sent on behalf of a non-practicing entity; and that it was the attorney general whose claims were unsubstantiated.<sup>53</sup> The court granted a preliminary injunction to prohibit the attorney general from enforcing his cease-and-desist letter on at least two grounds: (1) that “the cease and desist order in this case is akin to a prior restraint” on speech and thus presumptively unconstitutional; and (2) that without an allegation of bad faith on the part of Activision, any law restraining patent assertion is preempted by federal law.<sup>54</sup>

Later, MPHJ successfully intervened in the *Activision* case, arguing that it was in the same position as Activision because Farney Daniels had been ordered to cease and desist from

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<sup>45</sup> *Id.* at 10.

<sup>46</sup> *Id.* at 24-25.

<sup>47</sup> *Id.* at 7-8.

<sup>48</sup> NEB. REV. STAT. § 59-1601 *et seq.* (Reissue 2010, Supp. 2012).

<sup>49</sup> NEB. REV. STAT. § 87-301 *et seq.* (Reissue 2008, Supp. 2010).

<sup>50</sup> First Amended Complaint Exhibit F at 1, *Activision TV Inc. v. Pinnacle Bancorp, Inc.*, 976 F. Supp. 2d 1157 (D. Neb. 2013) (No. 8:13-cv-215), *available at* [https://docs.google.com/file/d/0B\\_b15LgT1GHYRS00Wno2MmVPSG8/edit](https://docs.google.com/file/d/0B_b15LgT1GHYRS00Wno2MmVPSG8/edit).

<sup>51</sup> *Id.* at 2.

<sup>52</sup> First Amended Complaint at 9, 11, *Activision*, 976 F. Supp. 2d 1157 (No. 8:13-cv-215).

<sup>53</sup> *Id.* at 11-17.

<sup>54</sup> *Activision*, 976 F. Supp. 2d at 1167-68 (citing *Globetrotter Software, Inc. v. Elan Computer Grp., Inc.*, 362 F.3d 1367, 1374, 1377 (Fed. Cir. 2004)).

actions on its behalf as well.<sup>55</sup> MPHJ was likewise granted a preliminary injunction prohibiting the attorney general from enforcing its cease-and-desist letter, for the same reasons that Activision's preliminary injunction was granted.<sup>56</sup> The judge ordered the parties to negotiate a permanent injunction,<sup>57</sup> but the parties failed to reach an agreement.<sup>58</sup> The court ultimately entered summary judgment for Activision and MPHJ, holding that: (1) the attorney general's claims were preempted by federal law because he had not alleged bad faith against Activision, and had not alleged sufficient facts to support a claim that MPHJ's patent assertions were objectively baseless;<sup>59</sup> and (2) the attorney general was liable under 42 U.S.C. § 1983 for violating Activision's and MPHJ's First Amendment rights and due process rights by sending a cease-and-desist letter without sufficient evidence or procedural process.<sup>60</sup> The court enjoined the attorney general from further pursuing any action against MPHJ, Activision, or their counsel with regards to the patents, unless the attorney general can make a showing of bad faith demonstrating both objective and subjective baselessness.<sup>61</sup> By the end of it all, the attorney general ended up owing Activision \$325,000 and MPHJ \$400,000 in attorneys' fees.<sup>62</sup>

There are a few things the Nebraska attorney general could have done differently to avoid this outcome. First, he could have gone after MPHJ directly.<sup>63</sup> It seems unusual to go after an attorney for unfair competition when the attorney is acting on behalf of a client. To go after a lawyer working for a troll, it might be better to assert some kind of ethical or professional violation, akin to an FRCP Rule 11 violation. Second, the attorney general could have been more specific about the fact that he was complaining about letters on behalf of MPHJ, and not those on behalf of Activision. Although MPHJ successfully intervened and prevailed on its own preliminary injunction motion, the attorney general failed to allege bad faith on the part of MPHJ in its briefing on the initial preliminary injunction motion, and the court refused to later reconsider in light of the attorney general's allegations of bad faith because they could have been raised in the initial motion.<sup>64</sup> If the attorney general had been specific about the letters he

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<sup>55</sup> *Activision TV, Inc. v. Pinnacle Bancorp, Inc.*, No. 8:13-cv-215, 2013 WL 5963142, at \*3 (D. Neb. Nov. 7, 2013).

<sup>56</sup> Order on Preliminary Injunction at 5, 8, *Activision TV, Inc. v. Pinnacle Bancorp, Inc.*, No. 8:13-cv-00215 (D. Neb. Jan. 14, 2014). The attorney general had withdrawn his cease-and-desist letter with respect to Activision, but the court held that that did not moot the issue with respect to MPHJ. *Id.* at 2-3.

<sup>57</sup> *Id.* at 7-8.

<sup>58</sup> Order at 1, *Activision TV, Inc. v. Pinnacle Bancorp, Inc.*, No. 8:13-cv-00215 (D. Neb. Jan. 29, 2014).

<sup>59</sup> Memorandum Order at 7, 13-14, *Activision TV, Inc. v. Bruning*, No. 8:13-cv-00215 (D. Neb. Sept. 2, 2014).

<sup>60</sup> *Id.* at 7-9.

<sup>61</sup> *Id.* at 10, 14-15.

<sup>62</sup> Judgment Awarding Fees & Costs to Plaintiff Activision TV, Inc and Intervetor-Plaintiff MPHJ Technology Investments, LLC at 1, *Activision TV, Inc. v. Bruning*, No. 3:13-cv-00215 (D. Neb. Dec. 2, 2014), available at <http://ipwatchdogs.com/cases/NE-atty-fees-order.pdf>.

<sup>63</sup> It seems clear that the attorney general did mean to go after Farney Daniels's activities on behalf of MPHJ, not Activision. See *Activision*, 976 F. Supp. 2d at 1161 (“[T]he Nebraska Attorney General’s Office Consumer Mediation Center received three complaints regarding patent license solicitation letters sent by Farney Daniels and/or and entity named BriPol LLC, AccNum LLC, or IsaMai LLC, on behalf of an entity named MPHJ Technology Investments, LLC.”).

<sup>64</sup> Order on Preliminary Injunction at 5, 8, *Activision TV, Inc. v. Pinnacle Bancorp, Inc.*, No. 8:13-cv-00215 (D. Neb. Jan. 14, 2014) (noting that the attorney general only argued mootness); Order at 1, *Activision TV, Inc. v. Bruning*, No. 8:13-cv-00215 (Apr. 4, 2014) (refusing to reconsider). The court seemed to think that preemption was a separate ground on which it could rest its preliminary injunction holding, but allegations of bad faith may successfully serve to create a state tort action even in an area related to patents. Compare Order at 2, *Activision TV, Inc. v. Bruning*, No. 8:13-cv-00215 (Apr. 4, 2014) (“Of equal importance, the Court in its previous order specifically founded its decision

believed were improper and had alleged subjective and objective bad faith on the part of Farney Daniels from the beginning, he might have had a better case.

#### IV. Conclusion

MPHJ, as an individual patent troll, might not be a threat for much longer. It has suffered defeats in Minnesota and New York, and though it won in Nebraska, it seems clear that a more cautious attorney general might extract terms similar to New York's settlement. But countless other patent trolls continue to unfairly extort money from legitimate businesses via deceit and intimidation. States can be powerful protectors of their citizens against trolls like MPHJ, but they can only do so much. Because bad faith must be asserted in order to avoid a state law cause of action being preempted by federal law, states can only really fight the egregious trolls that explicitly lie in their letters. In order to fully address the patent troll problem—a multi-dimensional problem of which frivolous demand letters make up only part—Congress must act.

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on the basis of preemption, concluding that this case is based on patent law. The attorney general defendants do not even address that very important finding in their motion for reconsideration.”), *with Activision*, 976 F. Supp. 2d at 1168 (“Further, as there is no claim of bad faith, federal law governing these patents, including sending initial letters to businesses believed to violate a patent owned by Activision, is preempted by the federal government.”).

## Table Comparing Provisions of Proposed State Legislation

State	Bill	Status as of April 2015	Prohibited Behavior			Enforcement		Remedies							Other				
			Prohibits bad faith assertions	Factors for bad faith	Reasonable basis requirement	Enforceable by attorney general	Enforceable by private citizen	Damages	Exemplary Damages	Injunction	Penalty/Fine	Attorneys' fees	Criminal penalties	Bond provision	Prohibits targeting end-users	Creates jurisdiction	Definitions	Statute of Limitations	Exemptions
Alabama	SB 121; Act No. 2014 218	Signed by governor 4/2/2014	X	X		X	X	X	X	X		X	X						
Connecticut	SB 258		X	X		X	X	X	X	X		X	X			X			
Georgia	HB 809; Act No. 513	Signed by governor 4/15/2014	X	X		X	X	X	X	X		X	X			X			
Idaho	SB 1354; Chapter No. 277	Signed by governor 3/26/2014	X	X		X	X	X	X	X		X	X		X	X	X		
Illinois	SB 3405; Act No. 1119	Signed by governor 8/26/2014	X		X			X								X			
Kansas	HB 2663	Died in committee	X	X		X	X	X	X	X		X	X			X			
Kentucky	SB 116		X	X		X	X	X	X	X		X	X			X			
Louisiana	HB 564		X	X								X				X			
Louisiana	SB 25; Act No. 297	Signed by governor 5/28/2014	X	X		X						X		X	X	X			
Maine	SB 654; Public Law No. 543	Signed by governor 4/14/2014	X	X		X	X	X	X	X		X	X			X			
Maryland	HB 430		X	X		X	X	X	X	X		X				X			
Maryland	SB 585; Chapter No. 307	Signed by governor 5/5/2014	X	X		X	X	X	X	X		X				X			
Michigan	HB 5701		X	X		X	X	X	X	X		X	X			X			
Mississippi	HB 521		X	X		X	X	X	X	X		X	X			X			
Mississippi	HB 1074		X	X		X	X	X	X	X		X	X			X			
Missouri	HB 1374		X	X		X	X	X		X		X				X		X	
Missouri	SB 706	Signed by governor 7/8/2014	X	X		X	X	X	X	X		X				X			
Nebraska	LB 677																		
Nebraska	LR 534																		
New Hampshire	SB 303; Chapter No. 2014-197	Signed by governor 7/11/2014	X	X		X	X	X		X		X	X			X			
New Jersey	AB 2462		X	X		X	X	X	X	X		X				X			
New Jersey	SB 1563		X	X		X	X	X	X	X		X	X			X			
North Carolina	HB 1032		X	X		X	X	X	X	X		X	X		X	X		X	
North Carolina	SB 648; Session Law No.r 2014-110	Signed by governor 8/26/2014	X	X		X	X	X	X	X		X	X		X	X	X	X	
Ohio	HB 573	Died in committee	X	X		X	X	X	X	X		X	X			X			
Oklahoma	HB 2837; Chapter No. 305	Signed by governor 5/16/2014	X	X	X	X	X	X	X	X		X	X			X			
Oregon	SB 1540; Chapter No. 19	Signed by governor 3/3/2014	X	X		X	X									X			
Pennsylvania	SB 1222	Died in committee	X			X	X	X	X	X		X	X			X			
Rhode Island	SB 2822		X	X		X	X	X	X	X		X	X			X		X	
South Carolina	HB 4371		X	X		X	X	X					X		X	X		X	
South Carolina	HB 4629		X	X		X	X	X	X	X		X	X			X			
South Carolina	SB 1121		X	X		X	X	X	X	X		X	X			X			
South Dakota	SB 143	Signed by governor 3/26/2014	X	X		X	X	X	X	X		X	X			X		X	
Tennessee	HB 2117		X	X		X	X	X	X	X		X	X			X			
Tennessee	SB 1967; Chapter No. 879	Signed by governor 5/15/2014	X	X		X	X	X	X	X		X	X						
Utah	HB 117; Chapter No. 310.	Signed by governor 4/7/2014	X	X		X	X	X	X	X		X	X			X			
Vermont	HB 299; Act No. 0044	Signed by governor 5/22/2013	X	X		X	X	X	X	X		X	X			X			
Vermont	SB 7; Act No. 0047	Signed by governor 5/24/2013	X	X		X	X												
Virginia	HB 12		X	X		X	X	X	X	X		X	X			X			
Virginia	HB 375; Chapter No. 810	Signed by governor 5/23/2014	X	X		X	X	X	X	X	X	X			X	X			
Virginia	SB 150; Chapter No. 819	Signed by governor 5/23/2014	X	X		X	X	X	X	X	X				X	X		X	
Washington	SB 5059	Signed by governor 4/25/2015	X	X	X	X			?							X		X	
Wisconsin	AB 656		X	X		X	X	X	X	X		X				X			
Wisconsin	SB 498; Act No. 339	Signed by governor 4/23/2014	X	X		X	X	X	X	X		X				X			