

INSIGHTS

Echoes from the Gunn? Aggravated States and Demand Letters

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A gunshot that cracks the silence of an old west desert canyon creates an echo coming from all directions. A Supreme Court decision can make similar reverberations throughout the legal world. Last year, just such a sound was heard. The U.S. Supreme Court held in [Gunn v. Minton](#) that a Texas malpractice matter did not meet the "substantiality" requirement for allowing federal jurisdiction in traditionally state-based matters, and that the states can exert their jurisdiction over state-based issues even though the matter may include steps or analysis used in the traditional federal spaces of patent litigation and prosecution. Actions taken by the states indicate that the thunderous clap of the *Gunn* decision was clearly heard.

States Drawing Their Gunn

Since the decision, the states have looked to the *Gunn* patent malpractice decision as support and justification for using state-based consumer and business protection statutes against entities sending licensing demand letters. Their assertions have been met with mixed success.

- The Attorneys General of Vermont and Nebraska each have directly engaged a non-practicing entity (NPE) called MPHJ Technology Investments LLC (MPHJ) in court over perceived deceptive trade practices against consumers in their states.
 - The Attorney General of Vermont in May 2013 sued MPHJ, which is now in [federal district court](#), for violating the Vermont Consumer Protection Act (more *supra*), accusing MPHJ and its 40+ subsidiaries of consumer fraud and deceptive trade practices for sending patent demand letters to non-profit and small businesses within the state. The suit is ongoing, but MPHJ has recently moved to dismiss the case on the argument that patent licensing is not practiced in a "consumer market place" but rather is a private negotiation between distinct parties.
 - The Attorney General for Nebraska sent MPHJ a [letter](#) dated July 2013, ordering MPHJ to cease-and-desist from issuing patent licensing demand and enforcement threat letters pending the outcome of the AG's investigation into violation of Nebraska's Consumer Protection and the Uniform Deceptive Trade Practices Acts. In January 2014, the United States District Court of Nebraska [enjoined](#) the AG from enforcing the cease-and-desist order because the blanket order violated MPHJ's ability to hire the counsel of its choosing and because the letters themselves represent free speech; however, the order did not prohibit the AG from

continuing its investigation.

- Other Attorneys General have reached settlements with MPHJ, requiring it to discontinue its patent demand letter activities in their states or risk fines and sanctions.
 - In August 2013, the Attorney General of Minnesota entered with MPHJ into an [Assurance of Discontinuance](#), where the Attorney General agreed to cease its investigation into MPHJ and hold in abeyance a \$50,000 civil fine and demand for disgorgement of all revenues collected from Minnesota entities in exchange for MPHJ agreeing to cease sending patent demand letters to Minnesota entities without prior approval from the Attorney General. MPHJ also stipulated that it did not receive any licensing fees from Minnesota entities.
 - In January 2014, the Attorney General for New York also reached an [Assurance of Discontinuance](#) requiring MPHJ to send to New York licensees a notice that they have the right to void any license made with MPHJ and to receive their licensing fees back. The Assurance also required MPHJ to ensure that it has not and will not target companies with less than 50 employees. In future conduct, MPHJ must identify itself as the owner-of-interest of the asserted patent; it cannot transfer the patents to another entity without notice to the Attorney General; and it must follow a detailed procedure for communicating patent demand letters to potential New York targets or face a \$5,000 fine for each violation.
- As previously mentioned, states are implementing statutory-based protections for their businesses.
 - In May 2013, the Governor of Vermont signed into law [Act 0044](#), also known as the "Bad Faith Assertions of Patent Infringement Act," which amended Vermont's consumer protection statute. Beside assisting with several other areas important to Vermont consumers, Act 0044 created a new chapter (Chapter 120) that specifically provides for action against a party that issues patent infringement or licensing demand letters if sent "in bad faith." A Vermont state court, upon finding that the petitioner has made a case that has a reasonable likelihood of success, can require the respondent letter-issuing party to post a bond for up to \$250,000 for hearing costs and attorney's fees. If the court finds bad faith, the court can fine the violator for damages, reasonable attorney's fees, and exemplary damages of the greater of either \$50,000 or three times the total damages, costs and fees.
 - In March 2014, a [bill](#) similar to the one in Vermont was signed into law in Oregon. In April 2014, Idaho also signed a similar [bill](#) into law.
 - [Kentucky](#), [Maryland](#), [Wisconsin](#) and [Virginia](#) are among other states considering similar statutory revisions.

Federal Gunn Control

The states interpreting patent claims for any reason do not appear to be sitting well with some in Congress.

- Rep. Bob Goodlatte introduced into the House of Representatives in October 2013 the bill titled "[***The Innovation Act of 2013***](#)" (H.R. 3309), which passed the House in December 2013. Section 9(f) of the bill includes the following "clarification of jurisdiction" language: "The Federal interest in preventing inconsistent final judicial determinations as to the legal force or effect of the claims in a patent presents a substantial Federal issue that is important to the Federal system as a whole." This provision may effectively overrule *Gunn* in instances where a patent claim interpretation, construction or determination is made; currently it is evaluated on a case-by-case basis.
- The Senate version of the House bill, titled "[***Patent Transparency and Improvements Act of 2013***](#)" (S. 1720), is currently in the Senate Judiciary Committee. The Senate bill does not contain the same clarifying provision as the House bill. Section 5 instead attempts to define "bad-faith demand letters," the minimum descriptive requirements, and authority of the Federal Trade Commission to determine if an unfair or deceptive act or practice has occurred.
- In February 2014, the National Association of Attorneys General submitted [***a letter***](#) to Senate leadership indicating concern about the current version of the Senate bill and asking for clarification between the states and the federal government concerning the handling of patent demand letters. In their letter, the 42 Attorneys General asked for clarification in the Senate's version of the bill that would assist the state courts to clearly determine bad faith demand letters and would require that the party sending demand letters be properly identified as the patent holder.

Conclusion

Though cloaked as a mere malpractice case, the blast of the *Gunn* decision clearly sparked the states to act where they never thought they could: The patent sphere. Unlike a normal echo, the reverberations from the *Gunn* shot appear in the states to be expanding and getting louder.