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Patents: Beyond the Basics – Current Risks and Opportunities



The world of patents is constantly changing. Recent developments could have a major effect on your business. It's important to stay one step ahead to avoid surprises.

That's why we enlisted the help of the folks at McCormick, Paulding & Huber. They've prepared a four-part Q&A series that will answer questions relating to patent trolls litigation, the new environment since AIA and more.

[Please note that this patent Q&A series is for general informational purposes only and does not represent legal advice by the authors or McCormick, Paulding & Huber LLP.]

Q: Does recent patent litigation offer small businesses some shelter from "patent trolls"?

A: Many small business owners around the country have received threatening "demand letters" from an entity called "MPHJ Technology Investments." However, the entity goes under a variety of names. The letters typically have been sent from a law firm called "Farney Daniels." The letters threaten legal action (within two weeks) against small business owners if they do not immediately cease their use of, or purchase a license for, scan-to-network printers (i.e., printers that enable you to scan a document and email the scanned document to yourself).

MPHJ Technology Investments and Farney Daniels have operated together as a classic non-practicing entity (NPE), which is a lawyer's term for what the media has dubbed "patent trolls." Patent trolls, which seek to license patents that they own but do not use, have been blamed for the rising frequency of patent litigation as well as for imposing costs on small business owners, who feel pressured to settle sometimes frivolous claims outside of court because they have insufficient resources to support a defense even when they believe they are not infringing.

But in 2014 two important government entities – the U.S. Supreme Court and the Federal Trade Commission (FTC) – issued good news for small business owners.

In the decision *Octane Fitness LLC v. ICON Health & Fitness Inc.*, the Supreme Court made it easier for prevailing parties to recover their litigation expenses (including attorneys' fees) from opponents whose claims were weak or frivolous (i.e., patent trolls whose patents a defendant did not infringe). In Connecticut, the *Octane* decision seems to have had an immediate effect in the patent litigation landscape, and not just for defendants. For example, *Romag Fasteners Inc. v. Fossil Inc.** is a case where the plaintiff, in 2014, won a jury award of about \$54,000. The plaintiff also moved the court to award attorney fees under the new *Octane* standard. The court found the case to be sufficiently exceptional for an award of fees, given that the defendant's defense was frivolous. Although the plaintiff has requested \$3,000,000 of attorney fees, the court has not yet ordered an amount to be awarded.

In the matter of *MPHJ Technology Investments LLC*, the FTC issued a consent order forbidding MPHJ from sending threatening letters that lack substantial evidence to support the allegations or intentions stated in those letters. MPHJ had based its business model on license fees obtained by threatening litigation against small businesses, apparently without ever actually investigating whether the threatened businesses infringed its patent and without ever initiating litigation. The FTC found that this was a misleading, unfair and anti-competitive business practice that had to be halted. Although the FTC's consent order is effective only against MPHJ specifically, it does put all NPEs on notice that they must behave more fairly toward those they believe might infringe on their patents.

Because MPHJ no longer can threaten litigation without actually incurring the expense of starting a case, it is expected that the company will soon cease to bother small businesses for license fees. Additionally, because other NPEs are aware of the FTC consent order, it can be expected that NPEs will curtail their licensing efforts

except in cases where they actually have substantial reason to believe that a valid patent they hold is infringed, and believe it is worthwhile to go forward with litigation. In such cases, it might be expected that NPEs will be more aggressive against the targeted infringers. However, this should be a problem only for those who actually infringe a patent.

Therefore, while small businesses now have less reason to worry that they might suddenly receive threatening letters related to their use of ordinary office equipment, there is a greater need and urgency for them to consult with legal counsel in case they receive such letters. Those letters now might be expected to be better substantiated and more likely to be associated with a risk of lawsuit.

Special thanks to our Q&A part 1 contributors from McCormick, Paulding & Huber LLP:

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