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Does the America Invents Act Signal an End to 'Patent Trolls'?

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Special to the Legal

When the boy-wizard Harry Potter and his pals encountered a fearsome mountain troll in the movie “Harry Potter and the Sorcerer’s Stone,” it took toughness, teamwork and some timely magic to knock out the ugly beast with his own club. For years, many had called for Congress to employ a similar approach to address so-called “patent trolls,” which have cost innovators an estimated \$500 billion dollars in settlement and defense costs in the past 10 years alone.

Last fall, in a bipartisan update of the U.S. patent system, these innovators may have had that wish granted. The Leahy-Smith America Invents Act (AIA) was signed into law by the president in September, its most significant change to the patent landscape being a transition from a system of “first-to-invent” to a system of “first-to-file.” However the AIA also brought an important and immediate end to the practice of naming dozens if not scores of disparate defendants in one suit — a patent troll’s favorite weapon. Though



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perhaps neither supernatural nor spectacular, Congress may have effectively disarmed those whom many consider a scourge to innovation through its own unique power: the amendment of the joinder rules.

A patent troll is generally defined as a type of entity that does not produce its own products — nonpracticing entity, or NPE — and does not intend to manufacture or produce patented products or services, but it enforces patents against groups of alleged infringers. The NPE may have purchased the patents from another holder, obtained them cheaply through bankruptcy or auction, or have acquired them by other means. Before the enactment of the AIA, the NPE could sue a dozen to well over 100 defendants at once, spread geographically across the country and offering completely unrelated goods and services, on the basis

that a single patent was infringed. The NPE would file suit in a district court deemed favorable for patent plaintiffs — such as the U.S. District Court for the Eastern District of Texas, a notorious haven for patent trolls — and the geographically disparate co-defendants would have little chance of moving the action to a more convenient venue. Bringing this type of bulk-suit could be done for the small price of a one-time filing fee of a few hundred dollars.

To defend a patent infringement suit in an out-of-state jurisdiction, however, costs incurred often reach over a million dollars, sometimes many millions of dollars, especially in suits where a number of separate defendants residing all across the country and involving wholly unrelated products and services are to be deposed. Moreover, the traditional balance of risk incentives and disincentives is weighted heavily in favor of the NPE. Unlike patent holders that actually manufacture or produce products and services, NPEs cannot be countersued for infringement, nor are they amenable to settling actions through mutually beneficial licensing agreements. Faced with this economic reality, many defendants make the decision of settling

these often frivolous claims for “nuisance value,” which can be as much as hundreds of thousands of dollars. Like the proverbial troll of yore, the patent troll in this way extorts a “toll” on the “bridge of innovation.”

Section 19 of the new AIA amends 35 U.S.C. Section 299 (relating to joinder and consolidation) such that accused infringers may only be joined in one action (or have their actions consolidated for trial) if a claim arises out of the same transactions or occurrences and questions of fact common to all defendants will arise in that single action. Thus, the joinder of co-defendants with differing products or services will in most cases be inappropriate. This new section will have little or no impact on traditional patent litigation between competing businesses in a particular industry, as the facts and transactions will be common to all parties involved. The implications for patent trolls, however, are huge.

For any case filed after the enactment of the AIA (Sept. 16), a patent owner will now have to file multiple, separate actions against alleged infringers within a particular common product, service or fact pattern, in separate venues. This will involve separate filing fees, separate procedural and substantive prosecution in each venue. The risks involved for patent owners are also now much larger. Within each of those separate jurisdictions, the patent will now have to be defended. This means individualized claims construction hearings, invalidity hearings and determinations, and increased risk of unfavorable rulings.

Also, the cost of discovery will no longer be streamlined. The patent troll will now be required to undertake discovery within each venue, meaning multiple document productions, depositions, multiple objections, disputes and hearings, and much more time and cost. Moreover, because each case will now center on one fact pattern, product or service, rulings are likely to be far more focused, adding even more risk that the patent will be invalidated or a finding of noninfringement will be issued. Forum shopping will also be limited; as the number of disparate co-defendants is significantly diminished, so too will transfers to convenient venues for accused infringers.

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Although reception to the new section has been positive among those seeking relief from the system patent trolls had exploited, certain commentators have argued that Congress did not go far enough to stop patent trolling. Suggested measures such as damages limitations tied to the patent’s specific contribution over prior technology, mandatory bifurcation of trials on liability and damages, as well as interlocutory appeals of claims construction rulings were not enacted.

Also, patent defense litigators have been watching closely as this law, entering into its sixth month of practical application by the courts, to see whether “commonality” will be interpreted as narrowly as they believe the AIA requires. At this early stage, however, it appears that Congress’s joinder overhaul, if not a magical fix, is nevertheless a daunting new hurdle for patent trolls. •