Does The America Invents Act Spell The Demise Of The Patent Troll?

The Editor interviews ***Eric Grondahl****, Partner in McCarter & English LLP's Intellectual Property, Information & Technology Practice.*

Editor: Please describe your practice area. Is there a concentration of McCarter's IP practice in the Hartford office?

Grondahl: My own practice is a nearly even split of prosecution and patent litigation. The firm as a whole has over 70 IP attorneys, and in Hartford we have eight IP/IT attorneys practicing in the areas of patent prosecution, trademark prosecution, IP/IT transactional work, and an IP litigation practice.

Editor: There is a discussion in our accompanying articles alluding to patent trolls. Please define the meaning of this term.

Grondahl: When someone refers to a patent troll, they're typically referring to a so-called non-practicing entity (NPE). An NPE is not itself practicing the patented technology but has acquired a patent or a portfolio of patents for the purpose of licensing or litigation. Often litigation is initiated against a number of defendants in a particular industry area.

Editor: Does the newly enacted America Invents Act provide additional safeguards against the extortionist behavior of patent trolls?

Grondahl: The new act does have a section, Section 299, which will make it more difficult for the so-called patent trolls to continue business the way they have been conducting it. In many cases, a patent troll will sue a large number of unrelated defendants in an industry in one lawsuit and then try to reach some quick settlements. The new law will make this strategy more difficult because it limits their ability to join multiple defendants in one lawsuit As a result, they will be forced to institute more individual lawsuits and incur more costs. This may provide some safeguards.

Editor: What is the cost for defending against a patent suit brought by a frivolous claim such as those brought by trolls?

Grondahl: Defending patent litigation can easily run hundreds of thousands or into the millions of dollars. A patent troll can use this to force settlements rather than incur those costs. There are some things that can be done to mitigate the cost, such as joint defense agreements where multiple defendants will share certain costs of defending a particular claim.

Editor: How often does a request for reexamination of a claim based on prior art occur?

Grondahl: In my experience it is not uncommon in litigation for a defendant to seek reexamination. I looked at some patent office statistics recently, and

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while they were a few years dated, they showed that there are well over 1,000 reexaminations a year being filed. In our experience it is typically the institution of litigation or a threat of litigation that drives reexamination requests. Reexamination requests, depending on the nature of the subject matter, can also be very expensive – sometimes amounting to a hundred thousand dollars or more depending on the complexity of the technology and other issues. This is still less than the cost of litigation. In my own experience in representing the defendants, we have filed reexaminations in about 30 to 40 percent of these cases. Plaintiffs rarely file reexamination suits although I've had it happen once.

Editor: How does continuous policing of patent issuance by competitors or related companies affect a manufacturer's costs?

Grondahl: The added cost can be substantial. There are services that provide policing while some of the larger companies may do it in-house.The cost can depend on the thoroughness and frequency with which the monitoring is done. Many of the services use word-search type programs for policing. If the fee is based on a per search basis and there are a number of search areas, it can get very expensive.

Editor: What impact has the case of *eBay Inc. v. MercExchange, L.L.C.* had in inhibiting patent trolls from suing manufacturers or getting permanent injunctions?

Grondahl: The decision has certainly made it much more difficult for patent trolls to obtain injunctions. As a non-practicing entity that is not manufacturing any product, there is no reason to give them a permanent injunction against a manufacturer who is producing a product. They are not being affected in the marketplace. The result of the case is to inhibit injunctions.

Editor: Is the federal court in the Eastern District of Texas the favorite venue for patent trolls to bring their cases or have other venues replaced Texas?

Grondahl: It was certainly at one time a favorite jurisdiction for plaintiffs for all patent litigation, not just patent trolls. I think it would still be a preferred jurisdiction for patent trolls, but some venue decisions from the Federal Circuit Court have made it more difficult to claim venue in the Eastern District of Texas for certain cases. The District Court of Delaware and other districts in the country have seen their patent litigation caseloads increase as a result.

Editor: How widespread is actual patent litigation brought by predators against patent holder defendants?

Grondahl: Since 2008 with the decline in the economy we've seen litigation decrease somewhat. The statistics I've seen nationwide suggest that in the last year or so litigation may have ticked up again, but I have not seen a definitive study.

Editor: What cost advantage do patent trolls have in litigation?

Grondahl: One advantage that they often have is that they may have a law firm that is working on a contingent-fee basis or there may be situations where they have captive counsel that are handling the litigation, and this controls their expenses. Either of those situations can give them an advantage over a defendant who is paying lawyers on a more traditional basis.

Editor: How often are hedge funds or other third party investors involved in backing patent trolls in their litigations?

Grondahl: I have not experienced that situation specifically with a hedge fund. I have in the past had clients who were plaintiffs in patent litigation where an outside firm financed the patent litigation. The third party investor in that case was an investment fund specifically formed for that purpose.

Editor: What measures do manufacturers use to limit their exposure to patent trolls?

Grondahl: If a client came to me asking how do I avoid getting sued by a patent troll, my answer would be that avoiding suit is difficult because patent trolls sometimes come out of the woodwork with patents that may be fairly old or of questionable merit. We have seen cases where a patent troll acquired a fifteen-year-old patent and sued a number of companies. There is no reasonable way to protect yourself or limit exposure when a patent that old is suddenly enforced by a patent troll.

Editor: Is there insurance against such challenges?

Grondahl: There is insurance that will cover defense costs in patent infringement litigation. I have handled several cases where our fees were paid by an insurance company, which obviously works to the benefit of the client.

Editor: What is the opposition proceeding often used in Europe and now instituted in the new patent law?

Grondahl: There is an opposition procedure in Europe that allows a competitor to institute a proceeding to have a patent reconsidered and perhaps declared invalid. The new America Invents Act establishes a somewhat similar proceeding, although there are important differences. Under the new law, beginning in September 2012, during the first nine months after a patent is issued, a competitor can institute an opposition proceeding. While the procedures will have to be fleshed out by rules to be established by the Patent Office, one of the key differences in the U.S. is that the statute contemplates a proceeding where there would be discovery and evidence brought before the Patent Office. This may be similar to what happens now in the Trademark Office in a trademark opposition proceeding. It seems to me that the intent here is to funnel more cases to the Patent Office and away from the federal courts. For law firms and their clients it may change the way that you want to staff various cases. An opposition proceeding at the Patent Office will require handling by registered patent attorneys who are litigators rather than federal court litigators. Having these issues addressed in the Patent Office may be less expensive than the courts, but the backlog and delay may be greater in view of the burden on the Patent Office today.

Editor: Much depends also on the funding of the patent office and whether it is allowed to keep the funds it receives.

Grondahl: Funding has been an issue for the Patent Office for several years. The Patent Office is self-funded through user fees. In some years the patent Office has taken in more than its budget, but the excess money has been directed into the Treasury's general fund instead of being applied to taking care of the needs of the Patent Office and those paying the fees.

Editor: Lately, there has been a plethora of patent sales by such companies as Motorola. Is this in part the result of the purchaser wishing to safeguard against patent challenges from unknown entities seeking a settlement?

Grondahl: That is certainly one possibility and that could be a strategy to prevent trolls from purchasing those patents and then suing based on the patents. Of course, the alternative explanation for the sales might be that they're being purchased by patent trolls. When a purchase is made by a larger company (such as Google), I would expect that it may be motivated at least in part by trying to make sure that the patents are not purchased by a troll and enforced against it. Owning the patents shields companies from such claims.

Please email the interviewee at egrondahl@mccarter.com with questions about this interview.