



Retail Detail

The Landscape Of Patent Litigation Has Changed

Retailers can take some comfort in the fact that President Obama signed important Patent Reform Legislation into law on September 16, 2011, and it is called the America Invents Act ("AIA"). The new law includes several provisions that should provide immediate relief to retailers who are routinely involved in patent litigation. In fact, there are two provisions of the AIA that will significantly impact retailers.

Claimants Now Have a Heightened Pleading Standard for Joining Multiple Defendants In Patent Litigation

In recent years, retailers have been named in a spate of lawsuits by so-called Non-Practicing Entities ("NPEs"). Even though the NPEs do not make or sell the patented technology, they obtain patents and then bring patent infringement claims against numerous defendants - at times more than 500 defendants. The NPEs use the large number of defendants to force settlements with key groups of defendants first, and then squeeze additional settlements from the other defendants. These claimants routinely name Retailers as defendants because the patents at issue typically relate to some aspect of the retailer's website, e-commerce transactions, or back-end financial processing processes. In these cases, the retailer has often obtained the relevant technology from some third-party vendor, with whom the retailer may or may not have an indemnity arrangement. Regardless, the NPE's goal is to force a settlement agreement with many of the defendants at an amount that is less than their cost of defending the litigation. Prior to this new legislation, sophisticated claimants relied, in part, on the lax pleading requirements allowing them to name dozens of unrelated companies in the same patent litigation. Such a strategy allowed the claimants to reduce their litigation costs by spreading them out over numerous defendants. Not surprisingly, this scatter shot approach to patent litigation has created a huge financial burden for retailers.

In response to these multi-defendant patent cases, the AIA includes a new joinder provision that heightens the claimant's pleading requirement before it may join multiple defendants in a single patent lawsuit. Prior to the AIA, NPEs generally could join separate defendants in a single lawsuit merely by asserting the same patent(s) against each defendant. The AIA now limits such actions by requiring the claimant to allege that the infringement arose under the same transaction or occurrence. Accordingly, claimants can no longer lump hundreds of defendants, such as retailers, together in a single patent suit merely because they use the same technologies to run their websites, databases and financial transactions.

Now, under the AIA, NPEs must file individual complaints for each defendant or, at best, join only a handful of the defendants in one of the complaints, if the facts of the case meet the new joinder requirements. The division of cases may require NPEs to file some of the complaints in different venues and take the NPEs out of plaintiff-friendly or "rocket docket" venues. Accordingly, the litigation/transaction costs for NPEs increase - in some instances dramatically - on a per-defendant basis.

The New Legislation Will Limit False Marking Patent Cases Against Retailers

Retailers have also seen a surge in “false marking” patent litigation. By way of background, under the patent laws, one of the ways to obtain monetary damages for patent infringement is to mark patented products with information that identifies the patent(s) associated with the product. This patent marking is meant to put the public – and in particular, competitors – on notice that a component of the product is patented.

Recently, the courts have expanded the types of false marking cases that could be brought against any vendor of patented products, and similarly expanded the potential damages for false marking. In general, a product is “falsely marked” if it identifies a patent incorrectly or identifies a patent that is now expired. Many times, false marking results because manufacturers continue to use manufacturing processes to mark their products with outdated and/or expired patents. The patent laws, until the recent legislation, allowed any member of the public to sue for patent false marking regardless of whether that individual was in any way harmed or damaged by the alleged false marking. Accordingly, many patent-savvy plaintiffs sought out manufacturers and retailers who inadvertently had sold products with improper or expired patents on their products.

The AIA changes the scope of false marking patent litigation by allowing only the US Attorney General or a company who has felt “competitive injury” to sue for false marking damages. The new standing requirement is intended to apply retroactively, so that any pending false marking litigation may be dismissed if it does not satisfy the standing requirements of the new provision. As a result, many courts immediately dismissed pending cases entirely or have provisionally dismissed the case, but allowed the plaintiff to attempt to re-plead its case in conformance with the new law.

The AIA provides retailers with a sense of comfort in knowing that (i) products and manufacturing processes do not automatically create liability even if the product identifies an expired patent, and (ii) patent savvy plaintiffs, who are not competitors, will not have standing to sue for false marking. The retailer will still be subject to false marking litigation either by the U.S. Government or by competitor, however, if the retailer marked its product with an intent to deceive the public. The new standing requirement should reduce frivolous false marking claims by opportunistic plaintiffs, and this will limit the burden that false marking patent litigation has placed on retailers.

The AIA has instituted many changes to patent law that are likely to benefit retailers, by either reducing litigation entirely or reducing the costs relating to such litigation. The joinder requirement aims to reduce large multi-defendant patent litigation while the false marking provision similarly seeks to reduce frivolous false marking litigation. We will continue to monitor the impact of these provisions on retailer-based patent litigation and advise of any proactive measures that retailers should take in the wake of any developments.

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