

# BACKGROUND

No. 3035 | JULY 14, 2015

## A Measured Approach to Patent Reform Legislation

*Alden F. Abbott and John G. Malcolm*

### Abstract

*Patent reform legislation is under serious consideration by the Senate and House of Representatives a mere four years after the America Invents Act of 2011 (AIA) brought about a major overhaul of United States patent law. A primary goal is the reining in of “patent-troll” firms that purchase others’ patents for the sole purpose of threatening third parties with costly lawsuits if they fail to pay high patent license fees. Patent reform should deal in balanced fashion with identifiable abuses without watering down patent rights. Carefully calibrated reforms may merit support, but given the complexities of patent law, the possibility of unintended consequences, and the fact that major changes wrought by the AIA are still being sorted out, Congress should be extremely careful before acting. “Be careful and take things slowly” should be the operative watchword.*

Patent rights, like other property rights, serve as a vital engine of economic growth, improving the quality—and length in the case of innovative medical devices and techniques and new pharmaceuticals—of Americans’ lives. Garage inventors and multinational companies alike spend time, effort, and money researching and developing new ideas and technologies that make people’s lives better.

America’s Founding Fathers, recognizing the importance of encouraging and fostering innovation, enshrined adequate incentives to do so in the Patent and Copyright Clause of the Constitution,<sup>1</sup> which authorizes Congress to secure to authors and inventors limited-time protection for their writings and inventions. Congress has invoked this authority over time to enact and revise patent and copyright laws.

### KEY POINTS

- Congress is considering reforms that would substantially affect the conduct of patent litigation in the United States. Many of these reforms could prove useful in reducing the costs of the patent litigation system.
- Nevertheless, certain proposals would make it more difficult for holders of legitimate patents to vindicate their rights. In addition, there is the risk that novel legislative language might have unintended consequences, including the effects of future court decisions construing the newly adopted language.
- Congress should weigh the merits of individual reform proposals carefully, taking into account their possible harmful effects as well as their intended benefits, especially since the effects of 2011 legislative changes and recent Supreme Court decisions have not yet been fully absorbed.
- Careful, detailed assessment is warranted to ensure that further large-scale changes in U.S. patent law improve the U.S. patent system as a whole with due attention to the rights of inventors and the socially beneficial innovations that they generate.

This paper, in its entirety, can be found at <http://report.heritage.org/bg3035>

**The Heritage Foundation**  
214 Massachusetts Avenue, NE  
Washington, DC 20002  
(202) 546-4400 | [heritage.org](http://heritage.org)

Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

Although the patent system has changed throughout American history, the basic principles underlying the system have remained the same:

- They authorize the patent holder to pursue a variety of remedies against those who make unauthorized use of the covered invention;
- The patent holder can sue infringers in federal court to obtain monetary damages or injunctive relief; and
- The patent holder can also ask the United States International Trade Commission (ITC) to block the importation of infringing articles.

Patents are treated similarly to any other piece of property: They can be bought and sold on the open market, and what a patent holder does with a patent is his business. A patent holder may choose to do nothing with the patented invention; may authorize someone else to utilize his patented invention (which could be a product or business process); may license it to others for their use; or may hold on to the patent as an investment until he decides to sell it (or it expires).

Patent rights—the exclusive ability to sell an invention for a period of years—provide powerful financial incentives to companies to research and develop technologies that benefit society. For example, Pfizer’s 2010 sales of its Lipitor cholesterol medication were \$5.3 billion, or roughly \$14.6 million per day, which not only rewards Pfizer for its investment in Lipitor, but also pays for other costly and time-consuming research and development projects that may not have panned out. It is the relentless search for new markets that leads Pfizer to spend billions of dollars every year on research and development.

In 2011, the Lipitor patent expired, and generic drugs flooded the market. Pfizer developed the drug and made billions over its patent term, but now anyone can make it, and the American public has

benefitted greatly from this advancement in medical treatment.

In spite of its huge importance to the American economy,<sup>2</sup> which in other areas of the law might lead to regulatory capture, the legal framework of the patent system has remained remarkably stable over the years. In 2011, however, Congress passed the America Invents Act (AIA), which was signed into law by President Barack Obama. Although many of its provisions did not go into effect until early in 2013, the AIA radically overhauled the American patent system. Among other changes, the AIA made it substantially easier for third parties to challenge questionable patents in relatively low-cost and fast post-issuance administrative proceedings rather than having to file high-cost lawsuits in federal court.

Yet to some Members of Congress, “despite the breadth and depth of the AIA’s reforms...it was apparent even before the Act was signed into law that further legislative work remained to be done.”<sup>3</sup> Specifically, during the first session of the 113th Congress, Members went back to the drawing board, seeking to address a problem that hinders American innovation: patent litigation abuse, commonly called “patent trolling.” Patent reform has become such a priority that even President Obama and others who do not usually support such reforms have called for change.

### Assessing the Scope of the Patent-Troll Problem

Litigation is leverage. Rapacious trial lawyers and their unscrupulous clients can make a killing by filing frivolous lawsuits and extracting unfair settlements from people who cannot fight back, do not know how to fight back, or simply find it cheaper and easier not to fight back. In other contexts, these lawyers are sometimes called ambulance chasers, and abusive lawsuits designed to extract settlements are sometimes called nuisance suits or strike suits. Legal fights about the validity and scope of patents are no exception.

---

1. U.S. Const. art. I, § 8, cl. 8. This paper deals solely with patents, not copyrights.

2. Jonathan Rothwell, José Lobo, Deborah Strumsky, and Mark Muro, *Patenting Prosperity: Invention and Economic Performance in the United States and Its Metropolitan Areas*, BROOKINGS INSTITUTION (Feb. 1, 2013), available at <http://www.brookings.edu/research/reports/2013/02/patenting-prosperity-rothwell>.

3. Report, together with Dissenting Views and Additional Views, H.R. 3309, 113th Cong. (2013), available at <http://docs.house.gov/billsthisweek/20131202/HRPT-113-OJCR-HR3309.pdf>.

The term “patent trolls” (also referred to less colloquially as “patent assertion entities”) has arisen as a convenient shorthand for those bad actors who abuse the patent litigation system. A number of colorful anecdotes highlight this problem:

- Innovatio, a company holding certain Wi-Fi patents, claims that anybody using Wi-Fi, including a home user, is infringing its patents. The company has sent demand letters to “coffee shops, hotels, grocery stores and restaurants offering Wi-Fi, demanding \$2,300 to \$5,000 to settle.”<sup>4</sup>
- MPHJ Technology Investments has sent demand letters to hundreds of American businesses, claiming infringement of their patents involving scanner technology and seeking \$1,000 per worker in licensing royalties.<sup>5</sup>
- Eolas, a company that claimed it owned “essentially the whole Internet,” sued Microsoft, obtained a \$565 million judgment, and settled for an undisclosed amount even though its patents were ultimately invalidated.<sup>6</sup>

Although patent trolls undoubtedly have been responsible for individual wasteful lawsuits, the extent to which they actually have spawned a serious patent litigation problem is very much in question. As explained in a 2014 Heritage paper on patent

law reform,<sup>7</sup> while there was a significant increase in the number of patent lawsuits filed between 2009 and 2012, this may be explained, at least in part, by changes brought about from the AIA that prevented the joinder of multiple patent defendants in a single lawsuit. Moreover, the volume of patent lawsuits has remained remarkably stable over the years, at roughly 1.5 percent of the volume of patents issued each year by the United States Patent and Trademark Office (PTO). (More U.S. patent applications are filed each year,<sup>8</sup> consistent with a worldwide trend.)

In 2014, the number of federal patent lawsuits fell 18 percent compared to 2013, and the number of post-grant patent challenges rose substantially, consistent with the AIA goal of substituting lower-cost and faster administrative proceedings for high-cost lawsuits.<sup>9</sup> Furthermore, claims as to the specific annual cost burden that patent trolls impose on the U.S. economy (such as a \$29 billion direct cost estimate by two Boston University professors, based on data from RPX<sup>10</sup>) have been debunked.<sup>11</sup>

An additional problem is coming up with a workable definition of a patent troll. For example, the White House definition of trolls as those who “use patents primarily to obtain license fees rather than to support the development or transfer of technology”<sup>12</sup> would ensnare a wide variety of firms that have perfectly legitimate reasons for not practicing their patents.<sup>13</sup>

---

4. *WiFi Patent Troll Told That Each License Should Be Less Than 10 Cents*, TECHDIRT (Oct. 4, 2013), available at <http://www.techdirt.com/articles/20131004/03110024747/wifi-patent-troll-told-that-each-license-should-be-less-than-10-cents.shtml>.

5. *A Report on the Litigation Industry's Intellectual Property Line of Business: Trial Lawyers Inc.*, MANHATTAN INSTITUTE FOR POLICY RESEARCH (July 2013), available at [http://www.triallawyersinc.com/updates/tli\\_update11.html](http://www.triallawyersinc.com/updates/tli_update11.html).

6. *Id.*

7. See John G. Malcolm & Andrew Kloster, *A Balanced Approach to Patent Reform: Addressing the Patent-Troll Problem Without Stifling Innovation*, HERITAGE FOUNDATION BACKGROUNDER No. 2873 (Jan. 9, 2014), [http://thf\\_media.s3.amazonaws.com/2014/pdf/BG2873.pdf](http://thf_media.s3.amazonaws.com/2014/pdf/BG2873.pdf). This paper draws freely on key aspects of the 2014 Backgrounder.

8. See *2014 U.S. Patent Trends & Insights*, IFI CLAIMS® PATENT SERVICES (Jan. 11, 2015), available at <http://www.ificlaims.com/index.php?page=news&type=view&id=ifi-claims%2F2014-u-s-patent-trends>.

9. See *A Snapshot of Patent Litigation in 2014*, LAW360 (Feb. 18, 2015), available at <http://www.law360.com/articles/622097/a-snapshot-of-patent-litigation-in-2014>.

10. See James Bessen & Michael J. Meurer, *The Direct Costs from NPE Disputes* (Boston University School of Law, Working Paper No. 1234, 2012), available at [https://www.bu.edu/law/faculty/scholarship/workingpapers/documents/BessenJ\\_MeurerM062512rev062812.pdf](https://www.bu.edu/law/faculty/scholarship/workingpapers/documents/BessenJ_MeurerM062512rev062812.pdf).

11. See Heritage Backgrounder No. 2873, *supra* note 7, at 4.

12. Jared A. Favole & Brent Kendall, *Obama Plans to Take Action Against Patent Holding Firms*, WALL ST. J., June 4, 2013, available at <http://online.wsj.com/article/SB10001424127887324563004578524182593163220.html>; THE WHITE HOUSE, EXEC. OFFICE OF THE PRES., PATENT ASSERTION AND U.S. INNOVATION (June 2013), available at [http://www.whitehouse.gov/sites/default/files/docs/patent\\_report.pdf](http://www.whitehouse.gov/sites/default/files/docs/patent_report.pdf).

13. For example, when Kodak went through bankruptcy, it sold its patent portfolio for \$525 million to a number of other companies such as Apple, Google, and Microsoft, which have given no indication that they will use these patents to build anything. See Beth Jinks, *Apple, Google in Group Buying Kodak Patents*, BLOOMBERG TECH (Dec. 19, 2012), available at <http://www.bloomberg.com/news/2012-12-19/kodak-agrees-to-sell-imaging-patents-for-525-million.html>.

- Many universities conduct research and obtain patents never intending to manufacture anything.
- The same thing can be said for garage inventors who come up with patentable inventions with the intention of selling or licensing those patents so that they can move on to the next invention.
- Some companies obtain patents for innovations that they consider intermediate steps to longer-term research projects or opt to conduct marketing studies before exploiting those patents by manufacturing something or licensing them for use by others.
- Some companies holding valuable patents may be in the process of selling their businesses or going out of business, yet they feel compelled to sue an infringer to preserve this valuable asset for a would-be buyer or to protect creditors and shareholders.

In short, there are many other reasons why a patent holder might file a legitimate infringement lawsuit even though it is not itself manufacturing a product that incorporates that patent at that time. Any definition of a patent troll that includes such actors would be throwing the baby out with the bathwater.

Furthermore, even entities whose business model relies on purchasing patents and licensing them or suing those who refuse to enter into licensing agreements and infringe those patents can serve a useful—even a vital—purpose. Some infringers may be large companies that infringe the patents of smaller companies or individual inventors, banking on the fact that such a small-time inventor will be less likely to file a lawsuit against a well-financed entity. Patent aggregators, often backed by well-heeled investors, help to level the playing field and can prevent such abuses.

More important, patent aggregators facilitate an efficient division of labor between inventors and those who wish to use those inventions for the betterment of their fellow man, allowing inventors to

spend their time doing what they do best: inventing. Patent aggregators can expand access to patent pools that allow third parties to deal with one vendor instead of many, provide much-needed capital to inventors, and lead to a variety of licensing and sub-licensing agreements that create and reflect a valuable and vibrant marketplace for patent holders and provide the kinds of incentives that spur innovation. They can also aggregate patents for litigation purposes, purchasing patents and licensing them in bundles.

This has at least two advantages: It can reduce the transaction costs for licensing multiple patents, and it can help to outsource and centralize patent litigation for multiple patent holders, thereby decreasing the costs associated with such litigation. In the copyright space, the American Society of Composers, Authors, and Publishers (ASCAP) plays a similar role.

All of this is to say that there can be good patent assertion entities that seek licensing agreements and file claims to enforce legitimate patents and bad patent assertion entities that purchase broad and vague patents and make absurd demands to extort license payments or settlements. The proper way to address patent trolls, therefore, is by using the same means and methods that would likely work against ambulance chasers or other bad actors who exist in other areas of the law, such as medical malpractice, securities fraud, and product liability—individuals who gin up or grossly exaggerate alleged injuries and then make unreasonable demands to extort settlements up to and including filing frivolous lawsuits.

### **Bad Patents Enable Bad Lawsuits**

The PTO's issuance of bad patents is a contributing factor in patent trolling. For a long time, critics have pointed out that reforming the PTO's processes (for example, by enabling it to keep fees and increase its staff)<sup>14</sup> and limiting the scope of patentable subject matter could reduce much of the troll problem. While there are advantages and disadvantages to each of these proposals, the underlying premise that bad patents enable bad lawsuits is certainly correct, and the PTO has been using its regulatory authority to improve patent quality.<sup>15</sup> These efforts are

14. H.R. Res. 3309, *Improving the Patent System to Promote American Innovation and Competitiveness Hearing Before the H. Comm. on the Judiciary*, 113th Cong. 3–4 (statement of Robert A. Armitage), available at <http://judiciary.house.gov/hearings/113th/10292013/Armitage%20Testimony.pdf>.

15. See, e.g., PTO, USPTO LAUNCHES ENHANCED PATENT QUALITY INITIATIVE (Feb. 4, 2015), available at [http://www.uspto.gov/blog/director/entry/uspto\\_launches\\_enhanced\\_patent\\_quality](http://www.uspto.gov/blog/director/entry/uspto_launches_enhanced_patent_quality).

important because downstream reform of patents in court will never be as effective as weeding out bad patents at the issuance stage.

Additionally, the Supreme Court of the United States has issued a number of major decisions over the past decade (five in its 2013–2014 term alone) that are aimed at tightening the qualifications for obtaining patents and enhancing incentives to bring legitimate challenges to questionable patents.<sup>16</sup> Although there is no single judicial silver bullet, there is good reason to believe that, taken as a whole, these decisions will significantly enhance efforts to improve patent quality and to weed out bad patents and frivolous lawsuits.

### **The Need for Caution in Pursuing Additional Trolling Reforms**

While the patent troll problem may be smaller than the Boston University study would suggest,<sup>17</sup> there is little doubt that it still exists and can lead to injustices that can and should be corrected. For example, although the study’s definition of “troll” is overbroad and exaggerates the scope of the problem, it does suggest that patent assertion entities tend to file lawsuits against more defendants than do other types of patent holders.<sup>18</sup> Although anecdotal evidence is not proof of a systemic problem, it still

can sway public opinion and represents injustices in need of correction.

Moreover, since many patent assertion entities are backed by financial investors who may be somewhat (or completely) disconnected from the innovation process, some of them may be more tempted than non-patent assertion entities to seek a quick return on their investment by being overly aggressive in interpreting the scope of their patents or pursuing dubious claims against a wide array of vulnerable defendants. Because many of these defendants may be small businesses that are incapable of fighting back, this sort of behavior should be discouraged.

Even if congressional action to curb particular troll abuses is warranted, however, there remain serious questions as to the particular form and comprehensiveness of any statutory fixes and their likely or at least potential secondary effects. Major legislative overhauls of federal statutory schemes have had unanticipated consequences, many of them harmful, as recent history reveals.<sup>19</sup>

Moreover, despite its imperfections, the U.S. patent law system unquestionably has been associated with spectacular innovation in a wide variety of fields, ranging from smartphones to pharmaceuticals. Thus, in deciding what statutory fixes are

16. Such decisions include, for example, *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006) (precluding automatic injunctions for patent infringement and holding that the traditional four-part equitable test for injunctive relief applies to Patent Act cases); *KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398 (2007) (making it easier to strike down a bad patent on grounds of “obviousness”); *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007) (holding that a patent licensee is not required to terminate or be in breach of its license agreement before seeking a declaratory judgment that the underlying patent is invalid, unenforceable, or not infringed); *Bilski v. Kappos*, 561 U.S. 593 (2010) (holding that a financial business method was an “abstract idea” not entitled to patent protection); *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617 (2008) (making it harder for a patentee to succeed in an infringement case against downstream users of a component substantially embodying a larger patented invention); *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437 (2007) (mere software code cannot be a component of a patented invention); *Nautilus, Inc. v. Biosig Instruments, Inc.*, 134 S. Ct. 2120 (2014) (a patent taken as a whole must inform those learned in the field of the scope of the invention with “reasonable certainty”); *Alice Corp. Pty. v. CLS Bank Int'l*, 134 S. Ct. 2347 (2014) (claims regarding computer-implemented inventions, including systems, machines, processes, and items of manufacture, are not patent-eligible subject matter); *Limelight Networks, Inc. v. Akamai Technologies, Inc.*, 134 S. Ct. 2111 (2014) (a defendant is not liable for inducing infringement of a patent when no one has directly infringed the patent); *Octane Fitness LLC v. Icon Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014) (making it easier for district court judges to find “exceptional” circumstances justifying the award of fees to the prevailing party); and *Highmark Inc. v. Allcare Health Mgmt. Sys. Inc.*, 134 S. Ct. 1744 (2014) (making the determination of whether a case is “exceptional” to justify the award of fees a matter of trial court discretion).

17. See *supra* note 10 and accompanying text.

18. See 2013 Patent Litigation Study: Big Cases Make Headlines, While Patent Cases Proliferate, PRICEWATERHOUSECOOPERS, available at [http://www.pwc.com/en\\_US/us/forensic-services/publications/assets/2013-patent-litigation-study.pdf](http://www.pwc.com/en_US/us/forensic-services/publications/assets/2013-patent-litigation-study.pdf).

19. See, e.g., Andrew Johnson, *100 Unintended Consequences of Obamacare*, NAT'L REVIEW (Oct. 1, 2013) (failures of health care legislation), available at <http://www.nationalreview.com/article/359861/100-unintended-consequences-obamacare-andrew-johnson>; Alyene Senger, *Eight Groups Harmed by the ACA's Flawed Policies*, HERITAGE FOUNDATION ISSUE BRIEF No. 4356 (Feb. 23, 2015) (failures of health care legislation), available at <http://www.heritage.org/research/reports/2015/02/eight-groups-harmed-by-the-acas-flawed-policies>; Diane Katz, *Dodd-Frank at Year Three: Onerous and Costly*, HERITAGE FOUNDATION ISSUE BRIEF No. 3993 (July 19, 2013) (failures of comprehensive financial services legislation), available at <http://www.heritage.org/research/reports/2013/07/dodd-frank-at-year-three-onerous-and-costly>.



appropriate to rein in patent litigation abuses, Congress should seek to minimize the risk that changes in the law will have the unintended consequence of weakening patent rights, thereby undermining American innovation.

### **Patent Reform Proposals Currently Under Consideration**

When it comes to patent litigation reform, the devil is in the details. The Senate and House seriously considered broad patent reform bills during the 113th Congress (the House of Representatives passed its version, H.R. 3309, in December 2013) but ultimately took no action.<sup>20</sup>

During the 114th Congress, two comprehensive bills—H.R. 9, the Innovation Act, and S. 1137, the Protecting American Talent and Entrepreneurship (PATENT) Act—and various smaller targeted bills are under consideration.<sup>21</sup> In assessing the merits of these proposals, one should bear in mind that the full effects of the AIA have yet to be felt, and any information about litigation and patent review trends in the wake of the AIA is at best preliminary in nature. The same could be said about the recent pronouncement by the Supreme Court.<sup>22</sup>

In addition, as previously stated, litigation is leverage. It is subject to abuse by patent holders asserting frivolous claims in the case of an invalid or excessively vague patent, and it is subject to abuse by recalcitrant, willful infringers who do not want to pay a reasonable amount for the right to use a valid patent, thereby weakening the value of the patent and resulting in significant commercial losses to the patent holder. Any legislative proposal should take account of this fact and strive to do everything possible to limit the former without encouraging the latter.

Furthermore, the introduction of new terms of art and procedural mechanisms through legislation undoubtedly will create new issues to be litigated, with accompanying costs. Congress should be

mindful of such costs in deciding how extensively to overhaul current patent procedures.

Although the various congressional proposals differ in their specifics, they deal collectively with a discrete set of issues that affect the patent litigation system. Because these proposals are in flux and will likely change during the legislative process, this analysis assesses the merits of nine broad thematic reforms that are dealt with in current bills. Various reform proposals appear to hold some promise, but greater study is warranted before Congress determines precisely what statutory changes merit adoption.

#### **Heightened Patent Pleading Requirements.**

Current proposals require a detailed description of each patent and claim allegedly infringed, including, where possible, names, model numbers, description of elements and means of infringement, and acts of direct and indirect infringement. Where specifics are not available, a party is allowed to plead allegations based on available information.

In assessing such proposals, the benefits of increased clarity need to be weighed against costs imposed on patent holders. Greater pleading specificity might be helpful if it deters frivolous lawsuits, but any benefits from these heightened pleading standards would be outweighed if they unnecessarily discouraged the filing of legitimate suits by substantially raising litigation costs in gathering all the required information and in deciding whether new heightened pleading specifics have been satisfied.

At this point, it is impossible to determine whether the level of detail required by the new proposals would impose undue burdens on patentees that outweigh any potential advantages in clarifying the allegations that an alleged infringer faces. In some circumstances, small inventors and small companies that own patents might hesitate to bring legitimate infringement suits if they perceived initial complaint burdens as too costly. As it is, even absent congressional action, Judicial Conference

---

20. For an analysis of key features of the proposals debated in the 113th Congress, see Heritage Backgrounder No. 2873, *supra* note 7.

21. For a more detailed analysis of House and Senate patent litigation reform proposals in the 114th Congress, see Brian T. Yeh and Emily M. Lanza, *Patent Litigation Reform Legislation in the 114th Congress*, CRS REPORT 7-5700 (Apr. 10, 2015), available at <https://www.fas.org/sgp/crs/misc/R43979.pdf>.

22. See, e.g., *Nautilus, Inc. v. Biosig Instruments, Inc.*, 134 S. Ct. 2120 (2014) (a patent taken as a whole must inform those learned in the field of the scope of the invention with “reasonable certainty”), as well as other Supreme Court decisions cited in *supra* note 16.

procedural changes will almost certainly require patentees to meet somewhat more exacting pleading requirements by the end of this year.<sup>23</sup>

**Greater Patent Transparency.** Current proposals require a patentee alleging infringement to disclose specific information regarding the patent, including assignees, licensees, and other parties that have financial interests in the patent and ultimate parent entities.

Proposals of this sort should prove helpful by helping to clarify the identity and status of parties that have an economic interest in the patents at issue. The proposals should be crafted, however, to avoid excessive burdens on patent holders (excessive burdens might arise, for example, from the required frequent updating of information on third-party interests that may not be easily obtainable) and to avoid upsetting potentially sensitive commercial relationships.

**Case Management and Discovery Limits.** Current proposals provide that if a court determines that patent claims construction (a legal and factual finding as to what specifically a patent covers) is warranted, discovery shall be limited to information necessary to that ruling unless the parties agree to be excluded from these limitations. Some proposals would also stay most discovery during the pendency of a motion to dismiss the case; a motion to transfer venue (the place where a matter will be tried); or a motion to sever accused infringers from the case.

It is desirable to encourage greater, more active case management by the courts, provided that the courts retain appropriate discretion to deal with specific discovery questions. Statutory limits on discovery (e.g., requiring stays if particular conditions are met) need to be weighed carefully to determine whether they are appropriate limits on the exercise of judicial discretion.

**Stays of Suits Against Customers.** Current proposals require that the court shall grant a motion to stay at least a portion of an action against a “covered customer” (the customer of an infringing party that allegedly uses the infringing product or

process) if the manufacturer is a party to the action or to a separate action on the same patent and the covered customer agrees to be bound by any common issues determined in an action involving the covered manufacturer.

Proposals along these lines have considerable merit but need to be crafted with care. Statutory language should be carefully vetted to ensure that complexities raised by multiple vendors, manufacturers, suppliers, and retailers (especially if they are overseas) as potentially responsible parties are adequately addressed so as to avoid the unintended consequence of inappropriately shielding parties that may have played a key role in facilitating infringing activities. The focus should be on protecting non-culpable “end of the line” retailers and end users who cannot reasonably be expected to have been aware of any infringing activities.

**Award of Attorneys’ Fees and Costs to the Prevailing Party.** Current proposals require the court to award such fees unless it determines that the position of the non-prevailing party was “objectively reasonable” in law or in fact. Such proposals are aimed at discouraging meritless suits (or defenses to such suits) that are designed to force costly settlements or license fees.

Overall, fee shifting reform appears to be desirable. It needs to be kept in mind, however, that current proposals inevitably would introduce some litigation uncertainty (and attendant costs) regarding the meaning of “objective reasonableness.” It also bears noting that some small businesses might be deterred from bringing suit to vindicate legitimate patent rights if they feared losing to and having to bear the costs of large “deep pocket” defendants.

**Joinder.** Current proposals provide that when fees and other expenses have been awarded to a party defending against a claim of infringement and the non-prevailing party is unable to pay, a court shall grant a motion by the prevailing party to join an interested party if the prevailing party shows that the interest of the non-prevailing party is limited primarily to asserting the patent in litigation

---

23. The Judicial Conference of the United States has recommended elimination of Form 18, which imposes a lower burden on plaintiffs filing a complaint for relief in patent infringement cases than in other civil cases. If, as expected, Form 18 is eliminated as of December 2015, federal judges will have a greater ability to require more specificity from patent plaintiffs in their initial filings. The elimination of Form 18 would require patent plaintiffs to demonstrate that their claims are plausible (the general civil pleading standard) rather than simply putting the defendant on notice of the claim. See generally, e.g., *Elimination of Rule 84 and Form 18 Could Increase Pleading Standards in Patent Cases* (July 2, 2015), available at <http://www.natlawreview.com/article/elimination-rule-84-and-form-18-could-increase-pleading-standards-patent-cases>. Admittedly, the new “plausibility” requirement will be far less sweeping than proposed legislative changes.

(i.e., the non-prevailing party was acting primarily as a troll).

Joinder reform along these lines could further help to curb abusive troll activities by discouraging companies from selling reams of “bad quality” (likely to be invalidated in litigation) patents to trolls. However, this should be left to the discretion of the trial judge to determine whether joinder is appropriate in particular cases. Congress (and courts) should keep in mind that third parties’ incentive to invest in legitimate patentable research may be undermined if they fear that inappropriate application of new joinder rules may drag them into patent litigation in which they otherwise have no institutional interest.

**Reining in Abusive Demand Letters.** These proposals respond to the concern that certain patent holders—particularly bad trolls (see earlier examples of troll abuses)—have sent scores of abusive letters claiming that a business (often a small business) is violating some patent right while providing literally no relevant information and demanding a payment to avoid litigation. As a result, some innocent but frightened businesses pay up and absorb unwarranted costs. Various proposals (1) would require that demand letters provide great specificity about how a patent allegedly is being infringed and (2) would provide that the widespread dissemination of deceptive demand letters that lack a reasonable basis violates the Federal Trade Commission Act.

Reforms to rein in demand letters appear to be meritorious, provided that references to abuse are phrased carefully to avoid excessive limitations on the right of patent holders, some of whom may be small inventors without the financial wherewithal to hire counsel to advise them, to protect their interests in seeking legitimate licensing opportunities and in protecting their rights short of filing lawsuits.

**Post-Grant Review Reforms.** The AIA established post-grant review procedures to make it easier for third parties to allow early administrative challenges at the PTO to bad patents that should not have been issued. This aims to reduce costly federal litigation and to facilitate the weeding out of patents that might otherwise be asserted abusively by patent trolls. There is a concern, however, that the rules governing these new review procedures differ from federal court standards and make it harder to defend legitimate, soundly based patents.

Responding to this concern, proposed post-grant review reforms would require that PTO post-grant

review tribunals use the same claims construction standards that federal courts use in reviewing patents. To protect the interest of patent challengers, certain proposals would eliminate current statutory language that bars a patent challenger from later asserting in federal court that a patent is invalid on any ground that “reasonably could have been raised” during an earlier administrative proceeding.

Proposed reforms of post-grant review procedures appear to be eminently sound. They would promote desirable consistency in the assessment of patents by post-grant tribunals and federal courts. They would encourage appropriate incentives for early challenges to questionable patents by eliminating the risk that a challenger may be barred from raising a legitimate legal challenge to invalidity in a subsequent lawsuit that it did not immediately identify. They also would eliminate costly litigation uncertainty regarding the meaning of grounds for invalidity that “reasonably could have been raised” previously.

**Minor Miscellaneous Reform Proposals.** The House and Senate are also considering a variety of minor reform proposals. These include, for example:

- Protection of the rights of U.S. patent licensees when foreign licensors holding U.S. patents go bankrupt;
- A requirement that the PTO conduct “outreach effort” to small businesses regarding issues arising from patent infringement;
- A requirement that the PTO carry out various studies on patent transactions, patent quality, and patent examination standards;
- Expansion of the type of “prior art” information that the PTO can consider in post-grant reviews of “business method” patents (this would make it easier to invalidate those patents as insufficiently original);
- A requirement that the Judicial Conference of the United States develop rules and procedures addressing the extent to which each party is entitled to receive “core discovery” (information related to the issue of patent construction) and should be responsible for the costs of producing core documentary evidence;



- An authorization for the Director of the PTO to waive filing fees in post-grant reviews of “covered business method” patents; and
- A number of technical corrections to certain provisions of the AIA to correct drafting errors.

While most of these miscellaneous reforms (especially the technical corrections) appear to be sensible and straightforward, several raise additional questions, such as separation of powers issues (the Judicial Conference is part of the judicial branch)<sup>24</sup> and resource allocation issues (expenditures for required PTO studies and outreach could reduce the resources available for core PTO functions, especially patent examination). The merits and downsides of each of these miscellaneous reforms should be weighed carefully in light of such considerations.

## Conclusion

The U.S. patent system is complex and has given rise to substantial litigation. At the same time, under our patent system, the United States has led the world in innovation.

Congress is considering a large number of reforms that would substantially affect the conduct of patent litigation in the United States. Many of these reforms appear to have significant merit and could prove useful in reducing the costs of the patent litigation system. Nevertheless, there is a serious

concern that certain reform proposals would make it more difficult for holders of legitimate patents to vindicate their rights. In addition, as is the case with all new legislation, there is the risk that novel legislative language might have unintended consequences, including the effects of future court decisions construing the newly adopted language.

Before deciding to take action, Congress should weigh the particular merits of individual reform proposals carefully and meticulously, taking into account their possible harmful effects as well as their intended benefits. Precipitous, unreflective action on legislation is unwarranted, and caution should be the byword, especially since the effects of 2011 legislative changes and recent Supreme Court decisions have not yet been fully absorbed. Taking time is key to avoiding the serious and costly errors that too often are the fruit of omnibus legislative efforts.

In sum, careful, sober, detailed assessment is warranted to ensure that further large-scale changes in U.S. patent law advance the goal of improving the U.S. patent system as a whole with due attention to the rights of inventors and the socially beneficial innovations that they generate.

— *Alden F. Abbott is Deputy Director of and John, Barbara, and Victoria Rumpel Senior Legal Fellow in the Edwin Meese III Center for Legal and Judicial Studies at The Heritage Foundation. John G. Malcolm is Director of and Ed Gilbertson and Sherry Lindberg Gilbertson Senior Legal Fellow in the Meese Center.*

---

24. See *About the Judicial Conference* (2015) (Judicial Conference website that explains that the Conference, which is composed of federal judges, “is the national policy-making body for the federal courts”), available at <http://www.uscourts.gov/about-federal-courts/governance-judicial-conference/about-judicial-conference>.