

21C

THE COALITION FOR 21ST CENTURY PATENT REFORM

Protecting Innovation to Enhance American Competitiveness

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21C & Patent Reform Top 10 “Myths vs. Facts”

Here are the facts in response to questions that have been raised about 21C and misinformation regarding its position on the patent reform bills currently pending in the House (H.R. 9, the “Innovation Act”) and the Senate (S.1137, the “PATENT Act”).

1. **MYTH: “21C has always opposed the Innovation Act (H.R. 9) and does not want to see a bill move through Congress.”**

FACT: 21C supports balanced legislation to address abuses in the patent system, such as the PATENT Act, while maintaining critical protections for legitimate patent holders.

This myth is belied by 21C’s support of the Senate’s PATENT Act. Like the House’s Innovation Act, the PATENT Act addresses much of the abusive behavior which has no place in patent litigation, including provisions directed to heightened pleadings, discovery, stays of actions against customers, and attorney fee-shifting and recovery. 21C supports these provisions in the PATENT Act because they are drafted in a manner that takes into account many of the concerns of our member companies to ensure balance and fairness are afforded to patent owners seeking to enforce their rights against infringers. Moreover, the PATENT Act includes a robust set of reforms to ensure that PTO reviews of the validity of issued patents – Inter Partes Review (IPR) and Post-Grant Review (PGR) – are fair to patent owners and patent challengers alike.

21C has long been a proponent of reforms to strengthen our patent system for all stakeholders. 21C was created in 2005 to support reform to make the U.S. patent system more objective, transparent and efficient. 21C played a key role in helping to pass the America Invents Act, which was an important step forward to modernize our patent system.

Following passage of the AIA, 21C continued to support legislation to curtail litigation abuse, including supporting fee-shifting legislation authorizing courts to award attorneys’ fees more frequently to prevailing parties in patent cases and proposing the creation of a right to stay patent cases brought against customers and end users. 21C has also been supportive of provisions to restore balance to IPR and PGR proceedings, while retaining the viability of these reviews as alternatives to litigation.

Those Members and staffers closely involved in the patent reform discussions know firsthand that there is simply no truth to this myth. Our member companies have engaged in countless meetings and hours of negotiations with other stakeholders and offices on both sides of the aisle in an effort to develop a strong, comprehensive bill that addresses both patent litigation and AIA review proceedings in an effective and comprehensive fashion.

Unfortunately, the Innovation Act, as reported out of the House Judiciary Committee, was amended in several critical areas and will harm the patent litigation process for mainstream patent holders like the member companies of 21C. We continue to support the PATENT Act passed out of the Senate Judiciary Committee and it is our hope the Innovation Act can be improved in a manner that can garner our support as well.

2. MYTH: “H.R. 9 is the same bill that passed the House in 2013.”

FACT: The bill reported out of the House Judiciary Committee this year differs in several substantive areas from the legislation that was passed by the House in 2013.

Here are two leading examples of the way in which this year’s Innovation Act has been skewed against mainstream patent owners like the member companies of 21C:

Stay of Discovery: The bill passed by the House in 2013 limited discovery until a ruling on claim construction was issued. This provision, which would have unnecessarily prolonged most patent infringement actions, was dropped from the Innovation Act in favor of a more limited provision that would have limited discovery only until certain preliminary motions were decided. However, this provision was amended during the Committee markup to expand the types of preliminary motions that can trigger a stay of discovery, allow them to be made as late as 90 days after service of a complaint, even after responsive pleadings have been filed, provide no meaningful relief in cases of competitive harm, and put a stop to the initial disclosure process that courts across the country use to streamline patent infringement litigation and identify early opportunities to resolve patent cases.

Venue: No provisions related to venue were included in the Innovation Act that passed Congress in 2013. Provisions were first introduced for inclusion in the Manager’s Amendment to the bill, released in June. Then, by further amendment, this new venue provision was skewed against patent owners during the Judiciary Committee markup. This provision now goes far beyond what is needed to ensure that patent cases are not brought in perceived “pro-plaintiff” judicial districts that lack any meaningful connection to the parties and claims involved in the action. The provision now would threaten the ability of patent owners to seek relief from infringement in their home districts, even when they have made enormous R&D and manufacturing investments in their patented technology and products.

3. MYTH: “The stay of discovery provisions in the House and Senate bills are the same, and since 21C supports the Senate bill, any concerns with the House language are unwarranted.”

FACT: The stay of discovery provision in H.R. 9, as reported out of the Judiciary Committee, differs in key areas from the Senate language.

The new language of the stay of discovery provision that emerged from the House Judiciary Committee markup will make it more costly, burdensome, protracted and uncertain for all patent owners to enforce their rights against infringers. As amended, the provision now permits preliminary motions that can trigger a stay of discovery to be filed as late as 90 days after service of a complaint – and even after responsive pleadings have been filed. This completely changes the timing of patent cases and is a recipe for delay and gamesmanship – an opportunistic defendant could bring a motion that halts discovery three months into a case.

The new language also adds all Rule 12(b) motions to dismiss to the types of motions triggering a stay. This amendment will create the risk that needless motions to dismiss will be brought for tactical purposes. Every defendant will be incited to bring a motion to dismiss in every case, not because the complaint does not put the defendant on fair notice of the claims being asserted, but to avoid the onset of discovery. This risk of opportunistic gamesmanship by defendants is exacerbated in H.R. 9, as reported, for three main reasons: (1) there is no safeguard allowing initial disclosures to proceed while more general discovery is stayed, to ensure that cases do not come to a complete standstill while motions to dismiss are pending; (2) the bill's heightened pleadings requirement of “detailed specificity” is vague and burdensome and thus will provide the basis for motions to dismiss brought for tactical purposes, not because of any actual failure of the complaint to put the defendant on fair notice of the claims being brought; and (3) the provision requires courts to decide preliminary motions filed by defendants, such as motions to dismiss or transfer, before any other substantive motions may be decided, which will incite infringers to file procedural motions to delay decisions on motions for preliminary relief filed by patent owners to protect the status quo at the outset of cases.

The new language also further limits the competitive harm exception in a way that renders it effectively meaningless for legitimate patent owners seeking prompt relief to stop infringement of their rights. As amended, the competitive harm exception applies only when a court actually grants a preliminary injunction, which typically happens only *after* preliminary discovery. Indeed, as amended, the stay of discovery now expressly allows defendants to stay even the discovery needed to rule on a preliminary injunction motion – or any other substantive motion -- by filing a motion to dismiss or transfer the case, thereby giving the defendant “veto” power over a previously-filed motion for extraordinary relief or to preserve the status quo in any case brought by any patent owner seeking to stop infringement by unscrupulous competitors.

4. **MYTH: “The venue provision in the House bill only prevents patent trolls from ‘forum shopping.’”**

FACT: The new House language now threatens the ability of many legitimate patent owners to seek relief from infringement in their home districts.

As amended during the House Judiciary Committee markup, the new venue provision in H.R. 9 goes far beyond what is needed to ensure that patent cases are not brought in perceived “pro-plaintiff” judicial districts that lack any meaningful connection to the parties and claims involved in the action. It creates risk that the majority of patent owners, including operating companies that have made enormous investments in patented technologies, could be precluded from bringing patent infringement actions in their home districts because the venue requirements are tilted to the location of the defendant and/or where specific R&D or manufacturing activities take place, which might not be at the headquarters location for a particular patent or product that the patent owner is seeking to protect against infringement. This would be the case even when the defendant is selling the infringing product in the patent owner’s home district, and even if that is where the patent owner’s witnesses, documents and other evidence are located. None of those facts would support venue under the one-sided venue language that emerged from the House Judiciary Committee markup of H.R. 9. Because H.R. 9 now creates uncertainty and risk to 21C member companies seeking to protect their patented inventions against infringement in their home courts, 21C opposes this provision.

5. **MYTH: “H.R. 9 is only a bill designed to rein-in and address the abusive practices of patent trolls who are harming American jobs.”**

FACT: 21C agrees that abuses of the patent system should be deterred, and we support targeted efforts to do so. However, the current bill is drafted so broadly that it will harm American innovation.

Without modification to reflect more balance and recognition of the rights of mainstream patent owners to bring legitimate claims against infringers, H.R. 9 will have the unintended consequence of making it more difficult, costly, and uncertain for American innovators and manufacturers to prevent infringers from threatening their business investments. For example, the automatic stay of discovery in patent cases created by the Innovation Act is drafted in a way that will unduly delay the ability of patent owners to obtain prompt relief while infringers continue to sell their infringing products. Similarly, the provisions directed to pleading requirements, discovery and case management are not carefully tailored to curb patent litigation abuses without unduly undermining the ability of all patent owners to enforce their patents against infringers.

The litigation reforms set forth in the Innovation Act can be achieved in a way that is more balanced and fair to patent owners. 21C's support of the Senate's PATENT Act proves this point. Like the Innovation Act, the PATENT Act addresses much of the abusive behavior which has no place in patent litigation, including provisions directed to heightened pleadings, discovery, stays of actions against customers, and attorney fee-shifting and recovery. 21C supports these provisions in the PATENT Act because they are drafted in a manner that takes into account many of the concerns of our member companies to ensure balance and fairness to patent owners seeking to enforce their rights against infringers. We urge the House to improve the Innovation Act to add more balance and fairness for mainstream patent owners like the 21C member companies, so that we can lend our support for it as well.

6. MYTH: "This is fundamentally a debate between 'Big Tech' and 'Big PhRMA' and H.R. 9 does not substantively impact other industries."

FACT: To suggest this is simply a fight between two specific industries is not only false, but also misconstrues how our patent system works and the influence it has on virtually every industry sector that drives our economy.

21C alone represents more than 40 companies across 18 different industry sectors, including manufacturing, information technology, consumer products, energy, financial services, medical devices, pharmaceuticals, and biotechnology. Collectively, our member companies invest billions of dollars annually in research and development to create American jobs and improve lives.

Our companies came together as a coalition a decade ago to engage in patent reform discussions because all of these industry segments take an intense interest in a properly-functioning patent system. We approach issues of patent law and policy from a middle-ground perspective, because we are plaintiffs about as often as we are defendants in patent infringement litigation.

Throughout our various industry segments, the member companies of 21C support a balanced approach to patent reforms that will foster investments in innovation and job creation, and promote vigorous competition in bringing new products and services to the market.

7. MYTH: “H.R. 9 adequately addresses abusive demand letters and additional language is not needed.”

FACT: While H.R. 9 includes important provisions to address litigation reforms, additional legislation is needed to specifically target the most egregious activities of patent trolls: bad faith demand letters.

21C supports H.R. 2045, the “Targeting Rogue and Opaque Letters Act of 2014” (TROL Act), sponsored by Congressman Michael Burgess. The TROL Act represents a targeted and balanced approach to solving the problem of bad faith patent demand letters in a manner that reflects widespread input and negotiations among stakeholders representing multiple industries and business models.

This legislation expressly authorizes the United States Federal Trade Commission (FTC), and the attorneys general in each of the 50 states, to seek civil remedies in federal court against any pattern or practice of objectively defined and identifiable unfair or deceptive acts or practices in connection with the sending of patent demand letters in bad faith.

It will provide recipients of patent demand letters and patent holders alike with clear, uniform, nationwide rules governing the content of patent assertion and licensing communications.

We believe that any comprehensive effort to address patent trolls should include passage of the TROL Act.

8. MYTH: “The IPR process is so new that no reliable data have been developed upon which any conclusions may be drawn or further changes justified.”

FACT: There is now nearly three years of experience with AIA review proceedings and this experience demonstrates that, contrary to Congressional intent in establishing the AIA, patent owners have been put at a distinct disadvantage in these proceedings as compared to litigation, leading to high patent invalidation rates and widespread concern that the procedures are tilted against patent owners.

IPR and PGR proceedings should play an important role in a properly-functioning patent system by providing a faster and less expensive alternative to litigation to decide certain issues relating to the validity of issued patents. To achieve this goal, however, these proceedings must be conducted in a way that is fair to all participants. This is not the case today when IPR and PGR proceedings are so skewed against patent owners that they invite gamesmanship and abuse.¹

¹ The latest statistics released by the PTO indicate that, through July 31, 2015, more than 70% of IPR petitions decided have resulted in reviews being instituted. For those patents proceeding to a

Even worse, patents are being invalidated at such high rates in what are widely perceived to be proceedings biased against patent owners that financial speculators have begun to file IPR petitions to manipulate the stock prices of patent owners for financial gain. The mere filing of the petition can drive down the patent owner's stock price and allow a hedge fund that "shorted" the stock before filing an IPR petition to profit from this scheme. For example, one hedge fund in particular has filed 16 IPR petitions challenging 12 patents owned by eight brand pharmaceutical companies.²

Congress intended for the IPR and PGR system to be fair to all parties, and not to create patent "death squads." Reforms are urgently needed to restore balance and fairness to these proceedings.

9. MYTH: "Since most IPR cases involve high tech industry patents, to fix any problems we should just leave everything in IPR as it is now, and give biopharma an exemption from IPR for patents on FDA approved drugs."

FACT: The proposed biopharma exemption – which is justified by the biopharmaceutical sector due to the unique patent challenge procedures adopted by Congress for drugs and biologics, respectively, in the Drug Price Competition and Patent Term Restoration Act of 1984 ("the Hatch-Waxman Act") and the Biologics Price Competition and Innovation Act of 2010 (the "BPCIA") – is no substitute for true reform of the imbalance that currently exists in the IPR/PGR system. The proposed exemption would not even fully address IPR abuses within the life sciences industries, let alone in the other industry segments reflected in 21C's membership that are concerned about the unfairness of IPR and PGR proceedings to all patent owners.

The proposed biopharma exemption is not a substitute for addressing IPR unfairness, but rather a relatively narrow exemption that applies only to patents that cover FDA approved drugs. Since drug patents normally issue long before the drugs are FDA approved, they are susceptible to IPR attacks for many years before any IPR exemption would affect how they could be challenged. Thus, the proposed exemption will not even fully address IPR abuses within the life sciences industries, let alone in the other industry segments reflected in 21C's membership.

final written decision, more than 80% resulted in some or all claims being found unpatentable. Patent Public Advisory Committee Quarterly Meeting, Patent Trial and Appeal Board Update, August 20, 2015; available at http://www.uspto.gov/sites/default/files/documents/20150820_PPAC_PTAB_Update.pdf.

² See "The Kyle Bass pharma patent IPR strategy looks to be a lot more sophisticated and long-term than many think," Richard Lloyd, IAM Blog, July 17, 2015; available at <http://www.iam-media.com/Blog/Detail.aspx?g=167f0df5-ddc9-4d42-b7d6-183d47af62d3>.

Since the formation of 21C a decade ago, one of our core principles has been that Congress should not enact patent legislation that picks winners and losers based upon the differences in their respective business models. Improvements to the procedures governing IPR and PGR proceedings to restore basic fairness to patent owners as well as challengers will ensure that the reviews function as Congress intended when it created them for all stakeholders: as more efficient, faster and less costly ways than litigation to test the validity of issued patents, not as proceedings skewed unfairly against patent owners that make it much easier to invalidate patents in all industries.

10. MYTH: “The PTO’s recently-announced new rules for IPR and PGR proceedings eliminate the need for legislation.”

FACT: While the PTO’s efforts would marginally improve IPR and PGR proceedings, the proposed new rules do not address the fundamental problems with the IPR/PGR system.

Unfortunately, the PTO’s package of proposed rule changes would do little to prevent the growing abuse of IPR and PGR proceedings. 21C has proposed a number of reforms to fix the IPR/PGR system, and many of these proposals are reflected in the PATENT Act. Unfortunately, the PTO’s set of proposed rules reject the majority of those proposals and would make only minor changes. Among other things, the PTO’s proposed rules:

- Fail to require the PTAB to construe patent claims consistently in IPR and PGR proceedings as they are in court actions, as is required in both the Innovation Act and the PATENT Act. Instead, the PTO announced that it will continue to use the “broadest reasonable interpretation” for most patent claims, except for a small subset of claims that are scheduled to expire during the pendency of an IPR or PGR proceeding.
- Fail to require different decision-makers to decide whether to institute the review from the panel that decides the review on the merits, to avoid any perception of improper bias of PTAB panels. Instead, the PTO merely requested comments on a proposed “pilot” program that would involve one judge making the institution decision, but who would continue as a member of the merits panel along with two other judges. There is no commitment from the PTO as to when, or even whether, it might actually adopt this or another approach to remove perceived initial bias from IPR and PGR proceedings.
- Propose to allow patent owners to submit testimonial evidence in their preliminary response, *but* continue to tilt the playing field against patent owners – contrary to the statutory requirements set forth in the AIA – by requiring that if the patent owner’s evidence creates a factual dispute with the petitioner’s evidence, the PTAB must view the evidence in the light most favorable to the petitioner. The result of this

unwarranted imbalance will continue to disadvantage patent owners at the institution stage of review proceedings.

- Fail to secure a patent owner's right to present substitute claims – a right statutorily guaranteed in the AIA that has been effectively nullified by the PTAB's overly-stringent requirements for claim amendments.
- Fail to require that testimony related to material disputes of fact and witness credibility will be heard live by the PTAB at the final hearing.
- Fail to address duplicative proceedings and harassment of patent owners, such as a rule specifying that reviews will not be instituted if they raise the same or substantially the same issue as those previously considered by the PTO or in a court proceeding.
- Propose a new Rule 11 type requirement associated with all papers filed with the PTAB. While 21C appreciates this proposal, it should be coupled with mandatory initial disclosures such as those required by most courts, requiring petitioners to disclose evidence within their control that is inconsistent with or tends to refute positions advanced in their petitions. Because discovery in IPR/PGR proceedings is extremely limited, in the absence of such a disclosure requirement, petitioners will continue to be allowed to suppress evidence that may confirm the validity of the challenged patent.

Overall, the PTO's response to the problems that 21C and other stakeholders have identified based on three years of experience with IPR/PGR proceedings only reinforces the need for Congressional action to restore basic fairness to the system, as Congress intended when it passed the AIA.

The Coalition for 21st Century Patent Reform has more than 40 members from 18 diverse industry sectors and includes many of the nation's leading manufacturers and researchers. The coalition's steering committee includes 3M, Bristol-Myers Squibb, Caterpillar, Eli Lilly, ExxonMobil, General Electric, Johnson & Johnson, and Procter & Gamble. For more information, visit <http://www.patentsmatter.com>.